

SYNCHRONOSS TECHNOLOGIES INC

Form 10-Q

July 02, 2018

Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2018

Or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES

EXCHANGE ACT OF 1934

For the transition period from        to

Commission file number 000-52049

SYNCHRONOSS TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

Delaware	06-1594540
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

200 Crossing Boulevard, 8th Floor	08807
Bridgewater, New Jersey	
(Address of principal executive offices)	(Zip Code)

(866) 620-3940  
(Registrant's telephone number, including area code)

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

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

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

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

Edgar Filing: SYNCHRONOSS TECHNOLOGIES INC - Form 10-Q

Large accelerated filer  Accelerated filer  x  
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller Reporting Company  
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Class	Outstanding at June 05, 2018
Common stock, \$0.0001 par value	42,171,671

Table of Contents

SYNCHRONOSS TECHNOLOGIES, INC.  
FORM 10-Q INDEX

	PAGE NO.
<u>PART I. FINANCIAL INFORMATION</u>	<u>3</u>
<u>Item 1. Condensed Consolidated Financial Statements and Notes</u>	<u>3</u>
<u>Condensed Consolidated Balance Sheets (unaudited)</u>	<u>3</u>
<u>Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) (unaudited)</u>	<u>4</u>
<u>Condensed Consolidated Statements of Cash Flows (unaudited)</u>	<u>6</u>
<u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>	<u>8</u>
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>35</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>45</u>
<u>Item 4. Controls and Procedures</u>	<u>46</u>
<u>PART II. OTHER INFORMATION</u>	<u>47</u>
<u>Item 1. Legal Proceedings</u>	<u>47</u>
<u>Item 1A. Risk Factors</u>	<u>47</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>47</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>47</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>47</u>
<u>Item 5. Other Information</u>	<u>47</u>
<u>Item 6. Exhibits</u>	<u>48</u>
<u>SIGNATURES</u>	<u>49</u>

Table of Contents

## PART I. FINANCIAL INFORMATION

## ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AND NOTES

## SYNCHRONOSS TECHNOLOGIES, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited) (In thousands)

	March 31, 2018	December 31, 2017
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$310,426	\$156,299
Restricted cash	1,312	89,826
Marketable securities	2,028	3,111
Accounts receivable, net of allowances of \$3,235 and \$3,107 at March 31, 2018 and December 31, 2017, respectively	42,033	78,186
Prepaid expenses and other current assets	34,782	43,557
Total current assets	390,581	370,979
Marketable securities	6,272	—
Property and equipment, net	99,701	111,825
Goodwill	240,035	237,303
Intangible assets, net	130,038	132,167
Deferred tax assets	—	—
Other assets	5,130	5,236
Note receivable from related party	80,724	73,984
Equity method investment	30,419	33,917
Total assets	\$982,900	\$965,411
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	14,518	5,959
Accrued expenses	64,660	72,739
Deferred revenues	34,732	75,829
Mandatorily redeemable financial instrument	—	37,959
Total current liabilities	113,910	192,486
Lease financing obligation	10,855	11,183
Convertible debt, net of debt issuance costs	228,057	227,704
Deferred tax liabilities	14,018	13,735
Deferred revenues	41,240	25,241
Other liabilities	6,255	6,195
Commitments and contingencies (Note 13)		
Redeemable noncontrolling interest	12,500	25,280
Series A Convertible Participating Perpetual Preferred Stock, \$0.0001 par value; 10,000 shares authorized; 185 shares issued and outstanding at March 31, 2018	165,246	—
Stockholders' equity:		
Common stock, \$0.0001 par value; 100,000 shares authorized, 52,274 and 52,024 shares issued; 41,220 and 46,965 outstanding at March 31, 2018 and December 31, 2017, respectively	5	5
Treasury stock, at cost (11,054 and 5,059 shares at March 31, 2018 and December 31, 2017, respectively)	(150,414 )	(105,584 )

Edgar Filing: SYNCHRONOSS TECHNOLOGIES INC - Form 10-Q

Additional paid-in capital	615,529	597,553
Accumulated other comprehensive loss	(19,693 )	(23,373 )
Accumulated deficit	(54,608 )	(5,014 )
Total stockholders' equity	390,819	463,587
Total liabilities and stockholders' equity	\$982,900	\$965,411

\*\* See Note 5 -Investments in Affiliates and Related Transactions for related party transactions reflected in this account.

See accompanying notes to condensed consolidated financial statements.

Table of ContentsSYNCHRONOSS TECHNOLOGIES, INC  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except per share data)

	Three Months Ended March 31,	
	2018	2017
Net revenues	\$83,709	\$86,097
Costs and expenses:		
Cost of revenues*	44,549	46,055
Research and development	20,905	25,489
Selling, general and administrative	38,110	38,815
Restructuring charges	1,108	2,998
Depreciation and amortization	23,271	24,087
Total costs and expenses	127,943	137,444
Loss from continuing operations	(44,234 )	(51,347 )
Interest income	3,552	2,857
Interest expense	(1,247 )	(10,617 )
Other expense, net	4,282	4,186
Equity method investment (loss) income	(205 )	748
Loss from continuing operations, before taxes	(37,852 )	(54,173 )
(Provision) benefit for income taxes	(125 )	8,721
Net loss from continuing operations	(37,977 )	(45,452 )
Net loss from discontinued operations, net of tax	—	(16,134 )
Net loss	(37,977 )	(61,586 )
Net loss attributable to redeemable noncontrolling interests	1,285	2,889
Preferred stock dividend	(3,353 )	—
Net loss attributable to Synchronoss common shareholders	(40,045 )	(58,697 )
Basic:		
Continuing operations	\$(0.95 )	\$(0.96 )
Discontinued operations	—	(0.37 )
	\$(0.95 )	\$(1.33 )
Diluted:		
Continuing operations	\$(0.95 )	\$(0.96 )
Discontinued operations	—	(0.37 )
	\$(0.95 )	\$(1.33 )
Weighted-average common shares outstanding:		
Basic	42,181	44,212
Diluted	42,181	44,212

---

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

See accompanying notes to condensed consolidated financial statements.



Table of ContentsCONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS)  
(Unaudited) (In thousands)

	Three Months Ended March 31,	
	2018	2017
Net loss	\$(37,977)	\$(61,586)
Other comprehensive income, net of tax:		
Foreign currency translation adjustments	2,872	3,660
Unrealized (loss) gain on available for sale securities	(21	) 8
Net income on intra-entity foreign currency transactions	829	193
Total other comprehensive income, net of tax	3,680	3,861
Comprehensive loss	(34,297	) (27,264 )
Comprehensive loss attributable to redeemable noncontrolling interests	1,285	2,889
Comprehensive loss attributable to Synchronoss	\$(33,012)	\$(24,375)



Table of Contents

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

	Three months ended March 31,	
	2018	2017
Operating activities:		
Net Income (Loss) - SNCR	\$(37,977)	\$(45,452)
Net Income (Loss) - IL	—	(16,134 )
Adjustments to reconcile Net Income (Loss) - SNCR to net cash provided by operating activities:		
Depreciation and amortization expense	23,272	24,087
Change in fair value of financial instruments	(3,849 )	—
Amortization of debt issuance costs	353	1,870
Accrued PIK interest	(3,447 )	(2,752 )
Earnings (loss) from equity method investments	205	(748 )
Gain on disposals	—	(4,947 )
Assets of discontinued operations	—	26,183
Amortization of bond premium	17	91
Deferred income taxes	191	5,119
Non-cash interest on leased facility	275	269
Stock-based compensation	7,184	8,112
Contingent consideration obligation	—	(2 )
Changes in operating assets and liabilities:		
Accounts receivable, net of allowance for doubtful accounts	36,153	9,320
Prepaid expenses and other current assets	9,402	(21,055 )
Other assets	710	(4,925 )
Accounts payable	8,646	11,082
Accrued expenses	(10,873 )	(18,821 )
Other liabilities	(137 )	(39 )
Lease obligation interest payment	—	—
Deferred revenues	(39,514 )	16,143
Net cash used in operating activities	(9,389 )	(12,599 )
Investing activities:		
Purchases of fixed assets	(1,093 )	(4,402 )
Purchases of intangible assets and capitalized software	(7,047 )	(5,353 )
Proceeds from the sale of Speechcycle	—	13,500
Purchases of marketable securities available for sale	(6,676 )	(219 )
Maturity of marketable securities available for sale	1,450	3,975
Investing in discontinued operations	—	(2,704 )
Business acquired, net of cash	—	(815,094)
Net cash used in investing activities	(13,366 )	(810,297)

Table of Contents

## Financing activities:

Share-based compensation-related proceeds, net of taxes paid on withholding shares	2,142	2,406
Debt issuance costs related to the Credit Facility	—	(3,692 )
Debt issuance costs related to long term debt	—	(19,887 )
Proceeds from issuance of long term debt	—	900,000
Repayment of revolving line of credit	—	(29,000 )
Proceeds from sale of Treasury Shares	—	1,047
Proceeds from issuance of preferred stock	86,220	—
Payments on capital obligations	(369 )	(664 )
Net cash provided by financing activities	87,993	850,210
Effect of exchange rate changes on cash	374	2,010
Net increase in cash, restricted cash and cash equivalents	65,612	29,324
Cash, restricted cash and cash equivalents, beginning of period	246,126	211,433
Cash, restricted cash and cash equivalents, end of period	\$311,738	\$240,757

## Supplemental disclosures of non-cash investing and financing activities:

Issuance of common stock in connection with Intralinks acquisition	\$—	\$4,700
--	-----	---------

Cash and cash equivalents per the Consolidated Balance Sheets	310,426	221,178
Restricted cash per the Consolidated Balance Sheets	\$1,312	\$19,579
Total cash, cash equivalents and restricted cash	\$311,738	\$240,757

See accompanying notes to condensed consolidated financial statements.

Table of Content

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED

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

1. Description of Business

General

Synchronoss Technologies, Inc. (“Synchronoss” or the “Company”) is a global software and services company that provides essential technologies for the mobile transformation of business. The Company’s portfolio, which is targeted at the Consumer and Enterprise markets, contains offerings such as personal cloud, secure-mobility, identity management and scalable messaging platforms, products and solutions. These essential technologies create a better way of delivering the transformative mobile experiences that service providers and enterprises need to help them stay ahead of the curve in competition, innovation, productivity, growth and operational efficiency.

Synchronoss’ products and platforms are designed to be carrier-grade, flexible and scalable, enabling multiple converged communication services to be managed across a range of distribution channels including e-commerce, m-commerce, telesales, customer stores, indirect and other retail outlets. This business model allows the Company to meet the rapidly changing converged services and connected devices offered by their customers. Synchronoss’ products, platforms and solutions enable its enterprise and service provider customers to acquire, retain and service subscribers and employees quickly, reliably and cost-effectively with white label and custom-branded solutions. Synchronoss customers can simplify the processes associated with managing the customer experience for procuring, activating, connecting, backing-up, synchronizing and 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 their customers through new subscriber acquisitions, sale of new devices, accessories and new value-added service offerings in the Cloud. By using the Company’s technologies, Synchronoss customers can optimize their cost of operations while enhancing their customer experience.

The Company currently operates in and markets their solutions and services directly through their sales organizations in North America, Europe, the Middle East and Africa (“EMEA”), and the Asia-Pacific region. Synchronoss delivers essential technologies for mobile transformation to two primary types of customers: service provider and enterprise customers in regulated verticals and use cases.

Service Providers, Retailers, OEMs, Re-sellers and Service Integrators

The Company’s 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. Synchronoss’ customers rely on these solutions and technology to automate the process of activation and content and settings management for their subscribers’ devices while delivering additional communication services. Synchronoss’ portfolio includes: cloud-based sync, backup, storage and content engagement capabilities, broadband connectivity solutions, analytics, white label messaging, identity/access 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, as well as other customers to accelerate and monetize value-add services for secure and broadband networks and connected devices.

## 2. Basis of Presentation and Consolidation

### Basis of Presentation and Consolidation

The condensed consolidated financial statements as of March 31, 2018 and for the three months ended March 31, 2018 and 2017 are unaudited, but in the opinion of management, include all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the Company's financial position, results of operations and cash flows 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 Company's audited consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017. The results of operations for the three months ended March 31, 2018 are not necessarily indicative of the results to be expected for the year ending December 31, 2018.

Table of Content

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED

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

The condensed consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries and variable interest entities (“VIE”) in which the Company is the primary beneficiary and entities in which the Company has a controlling interest. Investments in less than majority-owned companies in which the Company does not have a controlling interest, but does have significant influence, are accounted for as equity method investments. Investments in less than majority-owned companies in which the Company does not have the ability to exert significant influence over the operating and financial policies of the investee are accounted for using the cost method. All material intercompany transactions and accounts are eliminated in consolidation.

For further information about the Company’s basis of presentation and consolidation or its significant accounting policies, refer to the consolidated financial statements and footnotes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017.

## Recently Issued Accounting Standards

## Recent accounting pronouncements adopted

Standard	Description	Effect on the financial statements
Date of adoption: January 1, 2020.		
ASU 2017-09 Stock Compensation (Topic 718), Scope of Modification	In May 2017, FASB issued guidance which clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. Entities will apply the modification accounting guidance if the value, vesting conditions or classification of the award changes. The guidance also clarifies that a modification to an award could be significant and therefore require disclosure, even if modification accounting is not required. ASU 2017-09 is effective for fiscal years, and interim periods within those years, beginning after December 31, 2017. Early adoption is permitted as of the beginning of an annual period for which financial statements have not been issued. ASU 2017-09 should be applied prospectively to an award modified on or after the adoption date.	This ASU did not have a material effect on our condensed consolidated financial statements.
Date of adoption: January 1, 2018.		

Table of Content

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED

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

## Standards issued not yet adopted

Standard	Description	Effect on the financial statements
ASU 2017-09 Stock Compensation (Topic 718), Scope of Modification	In January 2016, the FASB issued ASU 2016-01, Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities (ASU 2016-01), which addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. ASU 2016-01 is effective for us in our first quarter of fiscal 2019, and earlier adoption is not permitted except for certain provisions.	The Company does not expect that our pending adoption of this ASU will have a material effect on our condensed consolidated financial statements.
Date of adoption: January 1, 2019.		
ASU 2016-13 Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments	In June 2016, the FASB issued ASU 2016-13 which replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The ASU is effective for public companies in annual periods beginning after December 15, 2019, and interim periods within those years. Early adoption is permitted beginning after December 15, 2018 and interim periods within those years.	The Company is currently evaluating the impact of the adoption of this ASU on its condensed consolidated financial statements.
Date of adoption: January 1, 2020.		
ASU 2016-02 Leases (Topic 842)	In February 2016, the FASB issued ASU 2016-02 which requires lessees to recognize, for all leases of 12 months or more, a liability to make lease payments and a right-of-use asset representing the right to use the underlying asset for the lease term. Additionally, the guidance requires improved disclosures to help users of financial statements better understand the nature of an entity's leasing activities. This ASU is effective for public reporting companies for interim and annual periods beginning after December 15, 2018, with early adoption permitted, and must be adopted using a modified retrospective approach.	The Company is in the process of evaluating the effect of the new guidance on its condensed consolidated financial statements and disclosures.
Date of adoption: January 1, 2019.		
In May 2014, the FASB issued a new accounting standard related to revenue recognition, ASU 2014-09, "Revenue from Contracts with Customers," ("ASC 606" or "Topic 606"). The new standard supersedes the existing revenue recognition requirements under U.S. GAAP and requires entities to recognize revenue when they transfer control of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. It also requires increased disclosures regarding the nature, amount, timing, and uncertainty of revenues and cash flows arising from contracts with customers.		

On January 1, 2018, we adopted Topic 606 applying the modified retrospective method to all contracts that were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported under the accounting standards in effect for the prior period. We recorded a net reduction to opening retained earnings of approximately \$10.1 million as of January 1, 2018 due to the cumulative impact of adopting Topic 606. The impact to revenues for the three months ended March 31, 2018 was an increase of \$11.0 million as a result of adopting Topic 606. The impact to costs is not material.

The impact of adoption primarily relates to (1) the delayed pattern of recognition under Topic 606 for certain professional services revenue when such professional services involve the customization of features and functionality for subscription services customers, (2) the earlier pattern of recognition under Topic 606 for license revenue when the Company provides hosting services for on-premise license customers. In the case of professional services that involve the customization of features and functionality for subscription services, under historic accounting policies the professional services were considered to have standalone value, and as a result were recognized as the services were performed. Under Topic 606, such professional services are not considered to be a distinct performance obligation within the context of the subscription services contract, and as such each month's customization services revenue is recognized over the shorter of the estimated remaining life of the subscription software (typically three years) or the remaining term of the subscription services contract. In the case of license contracts sold in association with hosting, under historic accounting policies the license revenue was recognized over the hosting term due to the lack of vendor specific objective evidence ("VSOE") of fair value for the hosting services. Under Topic 606, VSOE is no longer required in order

Table of Content

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED

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

separate revenue between the license and the hosting elements, and the license revenue is generally recognized upon delivery of the software based on the relative allocation of the contract price based on the established standalone selling price (“SSP”).

Additional impacts of adoption include (1) in certain cases changes in the amount allocated to the various performance obligations in accordance with the relative standalone selling price method required by Topic 606 compared to the amount allocated to the various elements in accordance with the residual method or the relative selling price method, as applicable, under historic accounting policies, (2) the capitalization and subsequent amortization of certain sales commissions as costs to obtain a contract under ASC 340-40, whereas under historic accounting policies all such amounts were expensed as incurred (3) the timing and amount of revenue recognition for certain sales contracts that are considered to involve variable consideration under Topic 606, but were considered to either not be fixed or determinable or to involve contingent revenue features under historic accounting policies, (4) in certain limited cases, the accounting for discounted customer options to purchase future software or services as material rights under Topic 606, as well as (5) the income tax impact of the above items, as applicable.

Changes in accounting policies as a result of adopting Topic 606 and nature of goods

The following is a description of principal activities from which we generate revenue. Revenues are recognized when control of the promised goods or services are transferred to our customers, in an amount that reflects the consideration that we expect to receive in exchange for those goods or services. We generate all of our revenue from contracts with customers.

Subscription and Transaction 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. We generate revenue from Subscription services from monthly active user fees, software as a service (“SaaS”) fees, hosting and storage fees, and fees for the related maintenance support for those services. In most cases, the subscription or transaction arrangement is a single performance obligation comprised of a series of distinct services that are substantially the same and that have the same pattern of transfer (i.e., distinct days of service). The Company applies a measure of progress (typically time-based) to any fixed consideration and allocates variable consideration to the distinct periods of service based on usage. When the Company does not allocate variable consideration to distinct periods of service, the total estimated transaction price is recognized ratably over the term of the contract.

Transaction service arrangements include services such as processing equipment orders, new account set up and activation, number port requests, credit checks and inventory management.

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.

Many of the Company’s contracts guarantee minimum volume transactions from the customer. In these instances, if the customer’s total estimated transaction volume for the period is expected to be less than the contractual amount, the Company records revenues at the minimum guaranteed amount on a straight line based over the period covered by the minimum. Set up fees for transactional service arrangements are deferred until set up activities are completed and recognized on a straight line basis over remaining expected customer relationship period. 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. We recognize revenues from support and maintenance performance obligations over the service delivery period.

The Company's software licenses typically provide for a perpetual or term right to use the Company's software. The Company has concluded that in most cases its software license is distinct as the customer can benefit from the software on its own. Software revenue is typically recognized when the software is delivered to the customer. Contracts that include software customization or specified upgrades may result in the combination of the customization services with the software license as one performance obligation.

The Company's professional services include software development and customization. The contracts generally include project deliverables specified by each customer. The performance obligations in the agreements are generally combined into one deliverable and generally result in the transfer of control over time. The underlying deliverable is owned and controlled by the customer and

Table of Content

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED

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

does not create an asset with an alternative use to us. We recognize revenue on fixed fee contracts on the proportion of labor hours expended to the total hours expected to complete the contract performance obligation.

Most of the Company's contracts with customers contain multiple performance obligations which generally include either 1) a perpetual software license with support and maintenance and sometimes a hosting agreement or 2) a term SaaS agreement, in many cases these are sold along with professional services. For these contracts, the Company accounts for individual goods and services separately if they are distinct performance obligations, this often requires significant judgment based upon knowledge of the products, the solution provided and the structure of the sales contract. In SaaS agreements we provide a service to the customer which combines the software functionality, maintenance and hosting into a single performance obligation when the customer doesn't have the ability to take possession of the underlying software license. We may also sell the same three goods and services in a contract, but they may be three performance obligations, where the customer has the right to take possession of the software license without significant penalty.

The transaction price is allocated to the separate performance obligations on a relative standalone selling price basis. The Company estimates standalone selling prices of software based on observable inputs of past transactions to similarly situated customers. When such observable data is not available for certain software licenses because there is a limited number of transactions or prices are highly variable, the Company will estimate the standalone selling price using the residual approach. Standalone selling prices of services are typically determined based on observable transactions when these services are sold on a standalone basis to similarly situated customers or estimated using a cost plus margin approach.

Estimating the transaction price of variable consideration including the variable quantity subscription or transaction contracts in a multiple performance obligation arrangement requires significant judgment. We generally estimate this variable consideration at the most likely amount to which we expect to be entitled and in certain cases based on the expected value. We include estimated amounts in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. Our estimates of variable consideration and determination of whether to include estimated amounts in the transaction price are based largely on an assessment of our anticipated performance and all information (historical, current and forecasted) that is reasonably available to us. We review and update these estimates on a quarterly basis.

Table of Content

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED

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

The Company's typical performance obligations include the following:

Performance Obligation	When Performance Obligation is Typically Satisfied	When Payment is Typically Due	How Standalone Selling Price is Typically Estimated
Software License			
Software License	Upon shipment or made available for download (point in time)	Within 90 days of delivery	Observable transactions or residual approach when prices are highly variable or uncertain
Software License with significant customization	Over the performance of the customization and installation of the software (over time)	Within 90 days of services being performed	Residual approach
Hosting Services	As hosting services are provided (over time)	Within 90 days of services being provided	Estimated using a cost-plus margin approach
Professional Services			
Consulting	As work is performed (over time)	Within 90 days of services being performed	Observable transactions
	SaaS: Over the remaining term of the SaaS agreement		
Customization	License: Over the performance of the customization and installation of the software (over time)	Within 90 days of services being performed	Observable transactions
Transaction Services	As transaction is processed (over time)	Within 90 days of transaction	Observable transactions
Subscription Services			
Customer Support	Ratably over the course of the support contract (over time)	At the beginning of the contract period	Observable transactions
SAAS	Over the course of the SaaS service once the system is available for use (over time)	Within 90 days of services being performed	Estimated using a cost-plus margin approach

## Disaggregation of revenue

The Company disaggregates revenue from contracts with customers into the nature of the products and services and geographical regions. Our geographic regions are the Americas (United States, Canada, Latin America), EMEA (Europe, Middle East, Africa) and APAC (Australia, Japan, Southeast Asia, China). The majority of our revenue is from TM&T (Technology-Media-Telcom) sector.

Three Months Ended March 31,  
2018

Geography	Cloud	Digital	Messaging	Total
AMERICAS	\$35,860	\$20,879	\$ 2,611	\$59,350
APAC	—	1,684	15,923	17,607

EMEA	2,444	448	3,860	6,752
Total	\$38,304	\$23,011	\$ 22,394	\$83,709

Service Line

Professional Services	\$3,444	\$5,708	\$ 4,559	\$13,711
Transaction Services	2,343	1,779	—	4,122
Subscription Services	32,129	15,077	8,779	55,985
License	388	447	9,056	9,891
Total	\$38,304	\$23,011	\$ 22,394	\$83,709

Table of Content

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED

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

## Trade Accounts Receivable and Contract balances

We classify our right to consideration in exchange for deliverables as either a receivable or a contract asset. A receivable is a right to consideration that is unconditional (i.e. only the passage of time is required before payment is due). For example, we recognize a receivable for revenues related to our time and materials and transaction or volume-based contracts. We present such receivables in Trade accounts receivable, net in our consolidated statements of financial position at their net estimated realizable value. We maintain an allowance for doubtful accounts to provide for the estimated amount of receivables that may not be collected. The allowance is based upon an assessment of customer creditworthiness, historical payment experience, the age of outstanding receivables and other applicable factors.

A contract asset is a right to consideration that is conditional upon factors other than the passage of time. For example, we would record a contract asset if we record revenue on a professional services engagement, but are not entitled to bill until we achieve specified milestones. Contract asset balance at March 31, 2018 was immaterial.

Amounts collected in advance of services being provided are accounted for as contract liabilities, which are presented a deferred revenue on the accompanying balance sheet and are realized with the associated revenue recognized under the contract. Nearly all of the Company's contract liabilities balance is related to services revenue, primarily subscription ("SaaS") services contracts.

Our contract assets and liabilities are reported in a net position on a customer basis at the end of each reporting period.

Significant changes in the contract liabilities balance (current and noncurrent) during the period are as follows (in thousands):

Three Months Ended March 31, 2018

	Contract Liabilities*
Balance - January 1, 2018	\$ 115,009
Revenue recognized in the period	(53,157 )
Amounts billed but not recognized as revenue	14,120
Balance - March 31, 2018	\$ 75,972

\* Comprised of Deferred Revenue

Revenues recognized during the three months ended March 31, 2018 for performance obligations satisfied or partially satisfied in previous periods were immaterial.

## Contract acquisition costs

In connection with the adoption of Topic 606 and the related cost accounting guidance under ASC 340, we are required to capitalize certain contract acquisition costs consisting primarily of commissions and bonuses paid when contracts are signed. As of January 1, 2018, the date we adopted Topic 606, we capitalized \$0.7 million in contract acquisition costs related to contracts that were not completed. For contracts that have a duration of less than one year, we follow a Topic 606 practical expedient and expense these costs over the estimated customer life, because we do not

pay commissions upon renewals that are commensurate with the initial contract. In the three months ended March 31, 2018, the amount of amortization was immaterial and there was no impairment loss in relation to costs capitalized.

#### Contract Fulfillment Costs

Under ASC 340-40 we evaluate whether or not we should capitalize the costs of fulfilling a contract. Such costs would be capitalized when they are not within the scope of other standards and: (1) are directly related to a contract; (2) generate or enhance resources that will be used to satisfy performance obligations, and (3) are expected to be recovered. No such costs were capitalized as of March 31, 2018.

Table of Content

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED

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

Transaction price allocated to the remaining performance obligations

ASC 606 requires that we disclose the aggregate amount of transaction price that is allocated to performance obligations that have not yet been satisfied as of March 31, 2018. The Company has elected not to disclose transaction price allocated to remaining performance obligations for:

1. Contracts with an original duration of one year or less, including contracts that can be terminated for convenience without a substantive penalty,
2. Contracts for which we recognize revenues based on the right to invoice for services performed,  
Variable consideration allocated entirely to a wholly unsatisfied performance obligation or to a wholly unsatisfied
3. promise to transfer a distinct good or service that forms part of a single performance obligation in accordance with ASC 606-10-25-14(b), for which the criteria in ASC 606-10-32-40 have been met.

Many of our performance obligations meet one or more of these exemptions. As of March 31, 2018, the aggregate amount of transaction price allocated to remaining performance obligations, other than those meeting the exclusion criteria above, was \$415.1 million, of which approximately 68% is expected to be recognized as revenues within 2 years, and the remainder thereafter.

Estimates of revenue expected to be recognized in future periods also exclude unexercised customer options to purchase services that do not represent material rights to the customer. Customer options that do not represent a material right are only accounted for in accordance with Topic 606 when the customer exercises its option to purchase additional goods or services.

Table of Content

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED

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

In accordance with Topic 606, the disclosure of the impact of adoption to our Condensed Consolidated Balance Sheet and Condensed Consolidated Statement of Operations was as follows:

	March 31, 2018		
	As Reported	Impacts of the New Revenue Standard	Adjusted amounts under prior GAAP
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 310,426	\$ —	\$ 310,426
Restricted cash	1,312	—	1,312
Marketable securities	2,028	—	2,028
Accounts receivable, net of allowances of \$3,235 and \$3,107 at March 31, 2018 and December 31, 2017, respectively <sup>(1)</sup>	42,033	1,808	40,225
Prepaid expenses and other current assets <sup>(2)</sup>	34,782	99	34,683
Total current assets	390,581	1,907	388,674
Marketable securities	6,272	—	6,272
Property and equipment, net	99,701	—	99,701
Goodwill	240,035	—	240,035
Intangible assets, net	130,038	—	130,038
Deferred tax assets	—	—	—
Other assets <sup>(2)</sup>	5,130	479	4,651
Note receivable from related party	80,724	—	80,724
Equity method investment	30,419	—	30,419
Total assets	\$ 982,900	\$ 2,386	\$ 980,514
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Current liabilities:			
Accounts payable	\$ 14,518	\$ —	\$ 14,518
Accrued expenses	64,660	(8,747)	73,407
Deferred revenues <sup>(3)</sup>	34,732	(8,161)	42,893
Total current liabilities	113,910	(16,908)	130,818
Lease financing obligation	10,855	—	10,855
Convertible debt, net of debt issuance costs	228,057	—	228,057
Deferred tax liabilities	14,018	—	14,018
Deferred revenues <sup>(3)</sup>	41,240	18,607	22,633
Other liabilities	6,255	—	6,255
Redeemable noncontrolling interest	12,500	—	12,500
Commitments and contingencies (Note 13)			
Series A Convertible Participating Perpetual Preferred Stock, \$0.0001 par value; 10,000 shares authorized; 185 shares issued and outstanding at March 31, 2018	165,246	—	165,246
Stockholders' equity:			
Common stock, \$0.0001 par value; 100,000 shares authorized, 52,274 and 52,024 shares issued; 41,220 and 46,965 outstanding at March 31, 2018 and December 31,	5	—	5



Edgar Filing: SYNCHRONOSS TECHNOLOGIES INC - Form 10-Q

2017, respectively			
Treasury stock, at cost (11,054 and 5,059 shares at March 31, 2018 and December 31, 2017, respectively)	(150,414 )	—	(150,414 )
Additional paid-in capital	615,529	—	615,529
Accumulated other comprehensive loss <sup>(4)</sup>	(19,693 )	32	(19,725 )
Accumulated deficit	(54,608 )	655	(55,263 )
Total stockholders' equity	390,819	687	390,132
Total liabilities and stockholders' equity	\$982,900	\$ 2,386	\$980,514

16

---

Table of Content

## SYNCHRONOSS TECHNOLOGIES, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED

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

	Three Months Ended March 31,		
	As Reported	Impacts of the New Revenue Standard	Adjusted amounts under prior GAAP
Net revenues <sup>(3)</sup>	\$83,709	\$10,982	\$72,727
Costs and expenses:			
Cost of revenues* <sup>(5)</sup>	44,549	108	44,441
Research and development	20,905	—	20,905
Selling, general and administrative <sup>(2)</sup>	38,110	50	38,060
Restructuring charges	1,108	—	1,108
Depreciation and amortization	23,271	—	23,271
Total costs and expenses	127,943	158	127,785
Loss from continuing operations	(44,234 )	10,824	(55,058 )
Interest income	3,552	—	3,552
Interest expense	(1,247 )	(39 )	(1,208 )
Other Income, net	4,282	—	4,282
Equity method investment income	(205 )	—	(205 )
Loss from continuing operations, before taxes	(37,852 )	10,785	(48,637 )
(Provision) benefit for income taxes	(125 )	—	(125 )
Net loss from continuing operations	(37,977 )	10,785	(48,762 )
Net loss	(37,977 )	10,785	(48,762 )
Net loss attributable to redeemable noncontrolling interests	1,285	—	1,285
Preferred stock dividend	(3,353 )	—	(3,353 )
Net loss attributable to Synchronoss common shareholders	\$(40,045)	\$10,785	\$(50,830)
Basic:			
Continuing operations	\$(0.95 )	\$0.26	\$(1.21 )
Discontinued operations	—	—	—
	\$(0.95 )	\$0.26	\$(1.21 )
Diluted:			
Continuing operations	\$(0.95 )	\$0.26	\$(1.21 )
Discontinued operations	—	—	—
	\$(0.95 )	\$0.26	\$(1.21 )
Weighted-average common shares outstanding:			
Basic	42,181		42,181
Diluted	42,181		42,181

(1) Reflects the impact of changes to the contract term as defined by the new revenue recognition standard.

(2) Reflects capitalization of costs to obtain a contract.

Reflects the impact of changes in the delayed pattern of recognition on our professional services, timing of revenue

(3) recognition and allocation of purchase price on our software license contracts and legally enforceable rights and obligations prior to when persuasive evidence of an arrangement exists.

(4) Reflects the impact of foreign currency translation related to the above impacts.

(5) Reflects the impact of amortization of third party costs over the term of the contract.

Cumulative catch up ASC 606 adjustment as of January 1, 2018 \$(10,130)

Net loss from continued operations 10,785

Retained Earnings at 3/31/18 \$655

Table of Content

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED

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

3. Acquisitions and Divestitures

Acquisition-Related Costs

Total acquisition-related costs recognized during the three months ended March 31, 2018 and 2017 including transaction costs such as legal, accounting, valuation and other professional services, were \$0.7 million and \$11.8 million, respectively, and are included in selling, general and administrative expense in the Condensed Consolidated Statements of Operations.

Divestitures

2018 Transactions

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, which would include integration of 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.

During the fourth quarter of 2017, we entered into a termination agreement with Goldman to terminate the venture, and provide a perpetual, irrevocable license of the venture’s intellectual property for use in Goldman’s back-office. As part of the agreement, the Company was relieved of any future obligations to support Goldman’s use of the software. The venture formally ended in the first quarter of 2018 resulting in the elimination of our associated Noncontrolling Interest balance and an increase to Additional Paid In Capital balance of \$12.8 million.

2017 Transactions

Intralinks

On January 19, 2017, the Company purchased all outstanding shares of Intralinks Holdings, Inc. (“Intralinks”) for approximately \$815 million, net of cash acquired. In connection with the acquisition, the Company entered into a \$900.0 million senior secured term loan (the “2017 Term Facility”), as of the date of acquisition. Intralinks is a global technology provider of SaaS solutions for secure enterprise content collaboration within and among organizations. Intralinks’ cloud-based solutions enable organizations to securely manage, control, track, search, exchange and collaborate on sensitive information inside and outside the firewall. The total purchase price consideration consisted of the repayment of existing Intralinks indebtedness, and non-cash consideration for services rendered on unvested Intralinks equity awards that were converted into the Company equity awards on the acquisition date. The acquisition was primarily funded from the proceeds of the \$900.0 million credit agreement as of the date of acquisition.

Subsequently, on November 14, 2017, the Company sold Intralinks to Impala Private Holdings II, LLC, an affiliate of Siris Capital LLC (“Impala”), for approximately \$991.0 million in cash, subject to post-closing adjustments for changes in cash, debt and working capital. As a result of the sale, the Company prepaid the remaining balance on the 2017 Term Facility. If, in the future, Impala receives net cash proceeds in excess of \$440.0 million from any sale of equity

or assets of Intralinks, or a dividend or distribution in respect of the shares of Intralinks, then Impala is required to pay the Company up to an additional \$25.0 million in cash or publicly traded securities. Immediately following the consummation of the Intralinks Transaction, the Company paid to Impala \$5.0 million as partial reimbursement of the out-of-pocket fees and expenses incurred by Impala, Siris and their respective affiliates in connection with the execution of the Share Purchase Agreement and the Intralinks Transaction. Amounts reimbursed were recorded as a reduction in the gain on sale. The operations of Intralinks were presented as discontinued operations in 2017.

#### SpeechCycle

On February 1, 2017 the Company completed a divestiture of its SpeechCycle business, to an unrelated third party, for consideration of \$13.5 million.

Table of Content

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED

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

As part of the divestiture, the Company entered into a one year transition services agreement with the acquirer to support various indirect activities such as customer software support, technical support services and maintenance and support services. The Company recorded a pre-tax gain of \$4.9 million as a result of the divestiture which is included in other income (expense), net in the Condensed Consolidated Statement of Operations.

## 4. Fair Value Measurements of Assets and Liabilities

In accordance with accounting principles generally accepted in the United States, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A three level hierarchy prioritizes the inputs used to measure fair value 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.

The following is a summary of assets, liabilities and redeemable noncontrolling interests and their related classifications under the fair value hierarchy:

	March 31, 2018			
	Total	(Level 1)	(Level 2)	(Level 3)
Assets				
Cash, cash equivalents and restricted cash <sup>(1)</sup>	\$311,738	\$311,738	\$—	\$—
Marketable securities-short term <sup>(2)</sup>	2,028	—	2,028	—
Marketable securities-long term <sup>(2)</sup>	6,272	—	6,272	—
Total assets	\$320,038	\$311,738	\$8,300	\$—
Liabilities				
Contingent interest derivative <sup>(3)</sup>	\$136	\$—	\$—	\$136
Total liabilities	\$136	\$—	\$—	\$136
Temporary Equity				
Redeemable noncontrolling interests <sup>(4)</sup>	\$12,500	\$—	\$—	\$12,500
Total temporary equity	\$12,500	\$—	\$—	\$12,500
December 31, 2017				
	Total	(Level 1)	(Level 2)	(Level 3)
Assets				
Cash, cash equivalents and restricted cash <sup>(1)</sup>	\$246,125	\$246,125	\$—	\$—
Marketable securities-short term <sup>(2)</sup>	3,111	—	3,111	—
Total assets	\$249,236	\$246,125	\$3,111	\$—
Liabilities				
Contingent interest derivative <sup>(3)</sup>	\$193	\$—	\$—	\$193

Edgar Filing: SYNCHRONOSS TECHNOLOGIES INC - Form 10-Q

Mandatorily redeemable financial instrument <sup>(5)</sup>	\$37,959	\$—	\$—	\$37,959
Total liabilities	\$38,152	\$—	\$—	\$38,152
Temporary Equity				
Redeemable noncontrolling interests <sup>(4)</sup>	\$25,280	\$—	\$—	\$25,280
Total temporary equity	\$25,280	\$—	\$—	\$25,280

<sup>(1)</sup> Cash equivalents primarily included money market funds.

Table of Content

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED

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

- (2) Marketable securities is comprised of municipal bonds and certificates of deposit.
- (3) Contingent interest derivative related to convertible debt is included in accrued expenses, for further details see Note 6 - Debt.
- (4) Put arrangements held by the noncontrolling interests in certain of the Company's joint ventures. Mandatorily redeemable financial instruments comprise of the Company's contractual obligation to deliver a set number of preferred shares at a time in less than twelve months and the option for the Company to receive a set number of common shares. In Q1 2018 this was exchanged as partial consideration in connection with issuance of the Company's Series A Convertible Participating Perpetual Preferred Stock.
- (5) number of preferred shares at a time in less than twelve months and the option for the Company to receive a set number of common shares. In Q1 2018 this was exchanged as partial consideration in connection with issuance of the Company's Series A Convertible Participating Perpetual Preferred Stock.

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 three months ended March 31, 2018.

Unrealized gains and losses are reported as a component of accumulated other comprehensive income in stockholders' equity. There were no sales of marketable securities during the quarters ended March 31, 2018 and 2017. 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 March 31, 2018 and 2017 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.

## Available-for-Sale Securities

At March 31, 2018 and December 31, 2017, the estimated fair value of investments classified as available-for-sale, were as follows:

	March 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Marketable securities:				
Certificates of deposit	\$3,126	\$	—\$ (9 )	\$3,117
Municipal bonds	5,200	—	(17 )	5,183
Total marketable securities	\$8,326	\$	—\$ (26 )	\$8,300

As of March 31, 2018, there were no accumulated unrealized losses related to investments that have been in a continuous unrealized loss position for 12 months or longer. The aggregate related fair value of investment with unrealized losses was approximately \$7.8 million.

	December 31, 2017			
	Amortized Cost	Gross Unrealized	Gross Unrealized	Fair Value



	Gains		Losses		
Marketable securities:					
Certificates of deposit	\$250	\$	—\$	—	\$250
Municipal bonds	2,867	—	(6	)	2,861
Total marketable securities	\$3,117	\$	—\$	(6 )	\$3,111

As of December 31, 2017, an insignificant amount of accumulated unrealized losses related to investments that have been in a continuous unrealized loss position for 12 months or longer. The aggregate related fair value of investment with unrealized losses was approximately \$2.9 million.

Table of Content

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED

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

The contractual maturities of marketable debt securities were as follows:

	March 31, 2018	
	Amortized Cost	Fair Value
Due within one year	\$2,031	\$2,028
Due after 1 year through 5 years	5,811	5,791
Due after 5 years through 10 years	—	—
Due after 10 years	484	481
Total available-for-sale securities	\$8,326	\$8,300

## Redeemable Noncontrolling Interests

The redeemable noncontrolling interests recorded at fair value are put arrangements held by the noncontrolling interests in certain of the Company's joint ventures. The Company recognizes changes in the redemption value immediately as they occur and adjusts the carrying value of the noncontrolling interest to the greater of the estimated redemption value, which approximates fair value, at the end of each reporting period or the initial carrying amount.

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

The changes in fair value of the Company's Level 3 redeemable noncontrolling interests during the three months ended March 31, 2018 were as follows:

Balance at December 31, 2017	\$25,280
Fair value adjustment	(11,495 )
Net loss attributable to redeemable noncontrolling interests	(1,285 )
Balance at March 31, 2018	\$12,500

## 5. Investments Affiliates and Related Transactions

## Sequential Technology International, LLC

The Company includes investments which are accounted for using the equity method, under the caption equity method investments on the Company's Condensed Consolidated Balance Sheets. As of March 31, 2018, the Company's investments in equity interests was comprised of \$30.4 million related to a 30% equity interest in Sequential Technology International, LLC ("STIN").

Sequential Technology International Holdings LLC ("STIH"), which holds a 70% equity interest in STIN, also holds a senior note issued by a Third Party ("Third-Party Note" or "Seller Note"). The Third-Party Note is secured against STIH's equity interest in STIN and is senior to the Company's equity interest in STIN. Under the arrangement, the recognition of cash dividends received by the Company from STIN, other than required cash distributions made for tax purposes,

are deferred until the Third-Party Note is paid in full. Under the terms of the paid-in-kind (“PIK”) note issued by STIH, deferred distributions are added to the amounts outstanding under the PIK note.

During March 31, 2018 and 2017, the Company recorded \$0.2 million and \$0.7 million equity loss and income, respectively in the Condensed Consolidated Statement of Operations related to its investment in STIN.

In connection with the divestiture of the exception handling business of the Company, Synchronoss entered into a three-year Cloud Telephony and Support services agreement to grant STIN access to certain Synchronoss software and private branch exchange systems to facilitate exception handling operations required to support STIN customers.

Table of Content

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED

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

The Company recognized \$6.4 million and nil in revenue related to these services during three months ended March 31, 2018 and 2017, respectively.

The following is a summary of the PIK note related balances as of March 31:

	Seller Note	Impairment	Unamortized Discount	Loan Accrued Interest	Distribution Note	Distribution interest	Total
12/31/2017	\$83,000	\$ (14,562 )	\$ (12,162 )	\$ 11,096	\$ 6,187	\$ 425	\$73,984
Activity	—	—	272	2,935	3,293	240	6,740
March 31, 2018	\$83,000	\$ (14,562 )	\$ (11,890 )	\$ 14,031	\$ 9,480	\$ 665	\$80,724

During the three months ended March 31, 2018, STIN distributed approximately \$3.3 million to the Company, which was recognized as reduction in our equity investment in STIN and a corresponding adjustment to increase the PIK Note. Amounts were used by STIH to facilitate accelerated payment on the Third-Party Note held by STIH.

The STIN affiliate balances and their classification in the Condensed Consolidated Balance Sheet as of March 31, 2018 were as follows:

Restricted cash <sup>(A)</sup>	\$25
Accounts receivable <sup>(B)</sup>	14,404
Total assets	\$14,429

Accrued expenses <sup>(A)</sup>	\$25
Total liabilities	\$25

<sup>(A)</sup> The Company collected less than \$0.1 million from STIN customers, on behalf of STIN, which remained outstanding as of March 31, 2018. This amount has been classified in short term restricted cash and in accrued expenses on the Condensed Consolidated Balance Sheets.

<sup>(B)</sup> These amounts principally included revenues generated from the Cloud and Telephony Support Services agreement and pass-through of vendor expenses incurred during the transition and assignment of vendor contracts.

## 6. Debt

Total debt consists of the following:

	March 31, 2018	December 31, 2017
Convertible Senior Notes	\$230,000	\$230,000
Unamortized debt issuance costs <sup>(1)</sup>	(1,943 )	(2,296 )
Total debt, carrying value	\$228,057	\$227,704
Total short term debt, carrying value	\$—	\$—
Total long-term debt, carrying value	\$228,057	\$227,704

<sup>(1)</sup> Unamortized debt issuance costs is related to Convertible Senior Notes.



Table of Content

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED

(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 \$230.0 million face value of the debt as a liability and capitalized approximately \$7.1 million of financing fees, related to the issuance which are presented net of the face value of the 2019 Notes on the Condensed Consolidated Balance Sheets.

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 notes being repurchased, plus accrued and unpaid interest, if any. As of March 31, 2018, none of these conditions existed with respect to the 2019 Notes and as a result, the 2019 Notes are classified as long term.

Included in the definition of a fundamental change is whether the Company’s common stock ceases to be listed or quoted on Nasdaq. In May 2018, trading of the Company’s common stock has been suspended on Nasdaq, however, it has not been delisted (see Note 13 - Subsequent Events Review).

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.

Interest expense for the Company’s 2019 Notes related to the contractual interest coupon is \$0.4 million.

At March 31, 2018, the carrying amount of the liability was \$228.1 million and the outstanding principal of the 2019 Notes was \$230.0 million, with an effective interest rate of approximately 1.38%. The fair value of the 2019 Notes was \$220.4 million at March 31, 2018. 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 Company is required to meet all SEC filing requirements and deadlines in order to be in compliance with the 2019 Notes. In the event that the Company does not meet the filing requirements, the noteholders are entitled to receive additional interest of 0.25% up to 180 days from the date of the notice of default and 0.50% thereafter up to 360 days. The Company may agree to pay additional interest to the holders by notifying holders and the trustee within 90 days from the notice of default. If the Company decides to pay that interest, but has not remedied the event within 360 days from the notice of default, it will be in default. If the Company fails to elect to pay that additional interest, it

will be in default if it does not remedy the event within the 90 days period.

The Company received a notice of default from holders of more than 25% of the outstanding principal amount of the 2019 Notes on October 13, 2017. Based on the terms of the 2019 Notes, the Company will be obligated to begin paying additional interest starting January 11, 2018 (the 90th day following the Company's receipt of the notice of default). The Company is required to record a derivative related to this contingent interest as a liability and expense in its financial statements due to the late filings of the Company's quarterly reports on Form 10-Q in 2017. At March 31, 2018, the recorded contingent interest derivative liability within accrued expenses and corresponding interest expense was approximately \$0.1 million.

Table of Content

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED

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

## Interest expense

The following table summarizes the Company's interest expense:

	Three Months Ended March 31, 2018 2017	
Amended Credit Facility		
Amortization of debt issuance costs	\$—	\$748
Commitment fee	—	25
Interest on borrowings	—	24
2017 Term Facility		
Amortization of debt issuance costs	—	616
Interest on borrowings	—	7,348
Revolving Facility		
Amortization of debt issuance costs	—	154
Commitment fee	—	147
Interest on borrowings	—	—
Convertible Senior Notes		
Amortization of debt issuance costs	353	353
Interest on borrowings	431	431
Additional interest on default	129	288
Capital leases	242	243
Other	92	240
Total	\$1,247	\$10,617

## 7. Accumulated Other Comprehensive Income/ (Loss)

The changes in accumulated other comprehensive (loss) during the three months ended March 31, 2018, were as follows:

	Foreign Currency Translation Adjustment	Unrealized (Loss) Income on Intra-Entity Foreign Currency Transactions	Unrealized Holding Gains (Losses) on Available-for-Sale Securities	Total
Balance at December 31, 2017	\$ (20,284 )	\$ (3,085 )	\$ (4 )	\$ (23,373)
Other comprehensive (income)	2,872	786	(21)	3,637
Tax effect	—	43	—	43
Total comprehensive (income)	2,872	829	(21)	3,680
Balance at March 31, 2018	\$ (17,412 )	\$ (2,256 )	\$ (25 )	\$ (19,693)

## 8. Stockholders' Equity



There were no significant changes to Company's authorized capital stock and preferred stock during the period of March 31, 2018 from December 31, 2017.

#### 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.

Table of Content

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED

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

Preferred Stock

There were no shares of preferred stock outstanding as of December 31, 2017. 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.

On February 15, 2018, the Company issued Series A Convertible Participating Perpetual Preferred Stock (the “Series A Preferred Stock”), par value \$0.0001 per share. As of March 31, 2018, there were 185 shares of Series A Preferred Stock outstanding. Prior to or contemporaneously with the consummation of the Preferred Transaction, Synchronoss agreed to file the Series A Certificate and enter into the Investor Rights Agreement with Silver setting forth certain registration, governance and preemptive rights of Silver with respect to Synchronoss discussed below.

In accordance with the terms of the PIPE Purchase Agreement with Silver on February 15, 2018, the Company exercised its option to complete the Preferred Transaction. In connection with the issuance of the Series A Preferred Stock, the Company (i) filed the Series A Certificate and (ii) entered into the Investor Rights Agreement. Pursuant to the PIPE Purchase Agreement, at the closing, the Company paid to Siris \$5.0 million as a reimbursement of Silver’s reasonable costs and expenses incurred in connection with the Preferred Transaction. In connection with execution of the Preferred Transaction, Silver delivered 5,994,667 shares of Synchronoss common stock, which have been recorded as Treasury shares as of March 31, 2018.

Certificate of Designation of the Series A Preferred Stock

The rights, preferences, privileges, qualifications, restrictions and limitations of the shares of Series A Preferred Stock are set forth in the Series A Certificate. Under the Series A Certificate, the holders of the Series A Preferred Stock are entitled to receive, on each share of Series A Preferred Stock on a quarterly basis, an amount equal to the dividend rate of 14.5% divided by four and multiplied by the then-applicable Liquidation Preference (as defined in the Series A Certificate) per share of Series A Preferred Stock (collectively, the “Preferred Dividends”). The Preferred Dividends are due on January 1, April 1, July 1 and October 1 of each year (each, a “Series A Dividend Payment Date”). The Company may choose to pay the Preferred Dividends in cash or in additional shares of Series A Preferred Stock. In the event the Company does not declare and pay a dividend in-kind or in cash on any Series A Dividend Payment Date, the unpaid amount of the Preferred Dividend will be added to the Liquidation Preference. In addition, the Series A Preferred Stock participates in dividends declared and paid on shares of the Company’s common stock.

Each share of Series A Preferred Stock is convertible, at the option of the holder, into the number of shares of common stock equal to the “Conversion Price” (as that term is defined in the Series A Certificate) multiplied by the then applicable “Conversion Rate” (as that term is defined in the Series A Certificate). Each share of Series A Preferred Stock is initially convertible into 55.5556 shares of common stock, representing an initial “conversion price” of approximately \$18.00 per share of common stock. The Conversion Rate is subject to equitable proportionate adjustment in the event of stock splits, recapitalizations and other events set forth in the Series A Certificate.

On and after the fifth anniversary of February 15, 2018, holders of shares of Series A Preferred Stock have the right to cause the Company to redeem each share of Series A Preferred Stock for cash in an amount equal to the sum of the current liquidation preference and any accrued dividends. Each share of Series A Preferred Stock is also redeemable at the option of the holder upon the occurrence of a “Fundamental Change” (as that term is defined in the Series A Certificate) at a specified premium. In addition, the Company is also permitted to redeem all outstanding shares of the

Series A Preferred Stock at any time (i) within the first 30 months of the date of issuance for the sum of the then-applicable Liquidation Preference, accrued but unpaid dividends and a make whole amount and (ii) following the 30-month anniversary of the date of issuance for the sum of the then-applicable Liquidation Preference and the accrued but unpaid dividends.

The holders of a majority of the Series A Preferred Stock, voting separately as a class, are entitled at each of the Company's annual meetings of stockholders or at any special meeting called for the purpose of electing directors (or by written consent signed by the holders of a majority of the then-outstanding shares of Series A Preferred Stock in lieu of such a meeting): (i) to nominate and elect two members of the Company's Board of Directors for so long as the Preferred Percentage (as defined in the Series A Certificate) is equal to or greater than 10%; and (ii) to nominate and elect one member of the Company's Board of Directors for so long as the Preferred Percentage is equal to or greater than 5% but less than 10%.

For so long as the holders of shares of Series A Preferred Stock have the right to nominate at least one director, the Company is required to obtain the prior approval of Silver prior to taking certain actions, including: (i) certain dividends, repayments and

Table of Content

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED

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

redemptions; (ii) any amendment to the Company's certificate of incorporation that adversely effects the rights, preferences, privileges or voting powers of the Series A Preferred Stock; (iii) issuances of stock ranking senior or equivalent to shares of Series A Preferred Stock (including additional shares of Series A Preferred Stock) in the priority of payment of dividends or in the distribution of assets upon any liquidation, dissolution or winding up of us; (iv) changes in the size of the Company's Board of Directors; (v) any amendment, alteration, modification or repeal of the charter of the Company's Nominating and Corporate Governance Committee of the Board of Directors and related documents; and (vi) any change in the Company's principal business or the entry into any line of business outside of the Company's existing lines of businesses. In addition, in the event that the Company is in EBITDA Non-Compliance (as defined in the Series A Certificate) or the undertaking of certain actions would result in the Company exceeding a specified pro forma leverage ratio, then the prior approval of Silver would be required to incur indebtedness (or alter any debt document) in excess of \$10.0 million, enter or consummate any transaction where the fair market value exceeds \$5.0 million individually or \$10.0 million in the aggregate in a fiscal year or authorize or commit to capital expenditures in excess of \$25.0 million in a fiscal year.

Each holder of Series A Preferred Stock has one vote per share on any matter on which holders of Series A Preferred Stock are entitled to vote separately as a class, whether at a meeting or by written consent. The holders of Series A Preferred Stock are permitted to take any action or consent to any action with respect to such rights without a meeting by delivering a consent in writing or electronic transmission of the holders of the Series A Preferred Stock entitled to cast not less than the minimum number of votes that would be necessary to authorize, take or consent to such action at a meeting of stockholders. In addition to any vote (or action taken by written consent) of the holders of the shares of Series A Preferred Stock as a separate class provided for in the Series A Certificate or by the General Corporation Law of the State of Delaware, the holders of shares of the Series A Preferred Stock are entitled to vote with the holders of shares of common stock (and any other class or series that may similarly be entitled to vote on an as-converted basis with the holders of common stock) on all matters submitted to a vote or to the consent of the stockholders of the Company (including the election of directors) as one class.

Under the Series A Certificate, if Silver and certain of its affiliates have elected to effect a conversion of some or all of their shares of Series A Preferred Stock and if the sum, without duplication, of (i) the aggregate number of shares of the Company's common stock issued to such holders upon such conversion and any shares of the Company's common stock previously issued to such holders upon conversion of Series A Preferred Stock and then held by such holders, plus (ii) the number of shares of the Company's common stock underlying shares of Series A Preferred Stock that would be held at such time by such holders (after giving effect to such conversion), would exceed the 19.9% of the issued and outstanding shares of the Company's voting stock on an as converted basis (the "Conversion Cap"), then such holders would only be entitled to convert such number of shares as would result in the sum of clauses (i) and (ii) (after giving effect to such conversion) being equal to the Conversion Cap (after giving effect to any such limitation on conversion). Any shares of Series A Preferred Stock which a holder has elected to convert but which, by reason of the previous sentence, are not so converted, will be treated as if the holder had not made such election to convert and such shares of Series A Preferred Stock will remain outstanding. Also, under the Series A Certificate, if the sum, without duplication, of (i) the aggregate voting power of the shares previously issued to Silver and certain of its affiliates held by such holders at the record date, plus (ii) the aggregate voting power of the shares of Series A Preferred Stock held by such holders as of such record date, would exceed 19.99% of the total voting power of the Company's outstanding voting stock at such record date, then, with respect to such shares, Silver and certain of its affiliates are only entitled to cast a number of votes equal to 19.99% of such total voting power. The limitation on conversion and voting ceases to apply upon receipt of the requisite approval of holders of the Company's common stock under the applicable listing standards.

Form of Investor Rights Agreement

Concurrently with the closing of the Preferred Transaction, Synchronoss and Silver entered into an Investor Rights Agreement. Under the terms of the Investor Rights Agreement, Silver and Synchronoss have agreed that, effective as of the closing of the Preferred Transaction, the Board of Directors of Synchronoss will consist of ten members. From and after the closing of the Preferred Transaction, so long as the holders of Series A Preferred Stock have the right to nominate a member to the Board of Directors pursuant to the Series A Certificate, the Board of Directors of Synchronoss will consist of (i) two directors nominated and elected by the holders of shares of Series A Preferred Stock; (ii) four directors who meet the independence criteria set forth in the applicable listing standards (each of whom will be initially agreed upon by Synchronoss and Silver); and (iii) four other directors, two of whom shall satisfy the independence criteria of the applicable listing standards and, as of the closing of the Preferred Transaction, one of whom shall be the individual then serving as chief executive officer of Synchronoss and one of whom shall be the current chairman of the Board of Directors of Synchronoss as of the date of execution of the Investors Rights Agreement. Following the closing of the Preferred Transaction, so long as the holders of Series A Preferred Stock have the right to nominate

Table of Content

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED

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

at least one director to the Board of Directors of Synchronoss pursuant to the Series A Certificate, Silver will have the right to designate two members of the Nominating and Corporate Governance Committee of the Board of Directors.

Pursuant to the terms of the Investor Rights Agreement, neither Silver nor its affiliates may transfer any shares of Series A Preferred Stock subject to certain exceptions (including transfers to affiliates that agree to be bound by the terms of the Investor Rights Agreement).

For so long as Silver has the right to appoint a director to the Board of Directors of Synchronoss, without the prior approval by a majority of directors voting who are not appointed by the holders of shares of Series A Preferred Stock, neither Silver nor its affiliates will directly or indirectly purchase or acquire any debt or equity securities of Synchronoss (including equity-linked derivative securities) if such purchase or acquisition would result in Silver's Standstill Percentage (as defined in the Investor Rights Agreement) being in excess of 30%. However, the foregoing standstill restrictions would not prohibit the purchase of shares pursuant to the PIPE Purchase Agreement or the receipt of shares of Series A Preferred Stock issued as Preferred Dividends pursuant to the Series A Certificate, shares of Common Stock received upon conversion of shares of Series A Preferred Stock or receipt of any shares of Series A Preferred Stock, Common Stock or other securities of the Company otherwise paid as dividends or as an increase of the Liquidation Preference (as defined in the Series A Certificate) or distributions thereon. Silver will also have preemptive rights with respect to issuances of securities of Synchronoss in order to maintain its ownership percentage.

Under the terms of the Investor Rights Agreement, Silver will be entitled to (i) three demand registrations, with no more than two demand registrations in any single calendar year and provided that each demand registration must include at least 10% of the shares of Common Stock held by Silver, including shares of Common Stock issuable upon conversion of shares of Series A Preferred Stock and (ii) unlimited piggyback registration rights with respect to primary issuances and all other issuances.

Registration Rights

There were no significant changes to Company's registration rights during the period of March 31, 2018 from December 31, 2017.

Stock Plans

There were no significant changes to Company's Stock Plans during the period of March 31, 2018 from December 31, 2017. As of March 31, 2018, there were 1.9 million shares available for grant or award under the Company's 2015 Plan and 1.3 million shares available for the grant or award under the Company's new hire equity incentive plan.

Stock-Based Compensation

The following table summarizes stock-based compensation expense related to all of the Company's stock awards included in operating expense categories, as follows:

	Three Months Ended March 31, 2018	
	2018	2017
Cost of revenues	\$1,112	\$1,737

Edgar Filing: SYNCHRONOSS TECHNOLOGIES INC - Form 10-Q

Research and development	1,540	2,027
Selling, general and administrative	4,534	4,347
Total stock-based compensation expense	\$7,186	\$8,111

27

---

Table of Content

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED

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

The following table summarizes information about stock-based compensation:

	Three Months Ended March 31,	
	2018	2017
Stock options	\$1,760	\$1,453
Restricted stock awards	5,426	6,395
Employee Stock Purchase Plan	—	263
Total stock-based compensation before taxes	\$7,186	\$8,111
Tax benefit	\$2,423	\$1,207

The total stock-based compensation cost related to unvested equity awards as of March 31, 2018 was approximately \$46.7 million. The expense is expected to be recognized over a weighted-average period of approximately 2.42 years.

## Replacement Awards

On January 19, 2017, certain equity awards granted under the Intralinks Holdings, Inc. 2010 Equity Incentive Plan and the Intralinks Holdings, Inc. 2007 Stock Option and Grant Plan (together, the “Intralinks Plans”) were assumed by the Company’s 2015 Equity Incentive Plan (the “2015 Plan”). The assumed awards are subject to the vesting and service conditions of the 2015 Plan. Subsequently, these were accelerated as part of the Intralinks Transaction.

Among the equity awards assumed were restricted stock units subject to market-based performance targets in order for them to vest. Vesting is subject to continued service requirements through the vesting date. The grant date fair value for such unvested restricted stock units was estimated using a Monte Carlo simulation that incorporates option-pricing inputs covering the period from the grant date through the end of the performance period. Stock-based compensation expense for such unvested restricted stock units is recognized on a straight-line basis over the vesting period, regardless of whether the market condition is satisfied. All of these awards were canceled during 2017 pursuant to termination of related employees.

## Stock Options

There were no significant changes to Company’s Stock Option Plans during the period of March 31, 2018 from December 31, 2017.

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

	Three Months Ended March 31,			
	2018		2017	
Expected stock price volatility	64.5	%	42.8	%
Risk-free interest rate	2.5	%	1.7	%
Expected life of options (in years)	4.09		4.00	
Expected dividend yield	0.0	%	0.0	%



Weighted-average fair value (grant date) of the options \$4.17 \$9.28

Table of Content

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED

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

The following table summarizes information about stock options outstanding as of March 31, 2018:

Options	Number of Options	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2017	3,950	\$ 21.54		
Options Granted	84	8.15		
Options Exercised	—	—		
Options Cancelled	(76 )	29.17		
Outstanding at March 31, 2018	3,958	\$ 21.11	5.25	\$ 971
Vested at March 31, 2018	1,287	\$ 32.35	3.51	\$ —
Exercisable at March 31, 2018	1,287	\$ 32.35	3.51	\$ —

The below table summarizes additional information related to the Company's awards:

	Three Months Ended March 31, 2018
Total intrinsic value for stock options exercised	\$—997

## Awards of Restricted Stock and Performance Stock

There were no significant changes to Company's restricted stock award ("Restricted Stock") and performance stock plan during the period of March 31, 2018 from December 31, 2017.

A summary of the Company's unvested restricted stock at March 31, 2018, and changes during the three months ended March 31, 2018, is presented below:

Unvested Restricted Stock	Number of Awards	Weighted- Average Grant Date Fair Value
Unvested at December 31, 2017	2,064	\$ 22.75
Granted	229	8.23
Vested	(381 )	31.68
Forfeited	(57 )	25.55
Unvested at March 31, 2018	1,855	\$ 17.77

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.

### 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 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 or with a value greater than \$25 thousand in any calendar year. The Plan was suspended indefinitely as of July 27, 2017.

Table of Content

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED

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

## Share Repurchase Program

There were no repurchases in 2018.

## 9. Restructuring

In March 2016 and December 2016, the Company initiated a work-force reduction as part of a corporate restructuring, with reductions occurring across all levels and departments within the Company, primarily in an effort to reduce costs subsequent to an acquisition or divestiture. These measures were intended to reduce costs and to align the Company's resources with its key strategic priorities. The Company authorized additional work force reduction initiatives throughout 2017 and in period ending March 2018. As of March 31, 2018, there were \$1.0 million of accrued restructuring charges on the Condensed Consolidated Balance Sheets.

A summary of the Company's restructuring accrual at March 31, 2018 and changes during the three months ended March 31, 2018, are presented below:

	Balance at December 31, 2017	Charges	Payments	Balance at March 31, 2018
Employment termination costs	\$ 474	\$ 1,108	\$ (612 )	\$ 970
Facilities consolidation	24	—	(4 )	20
Total	\$ 498	\$ 1,108	\$ (616 )	\$ 990

## 10. Income Taxes

The Company recognized approximately \$0.1 million and \$8.7 million in related income tax expense and benefit during the three months ended March 31, 2018 and 2017, respectively. The effective tax rate was approximately (0.3)% for the three months ended March 31, 2018, which was lower than the U.S. federal statutory rate primarily due to the full valuation allowances recorded in the fourth quarter of 2017. The Company considered all available evidence, including historical profitability and projections of future taxable income together with new evidence, both positive and negative, that could affect the view of the future realization of deferred tax assets. As a result of the assessment, no change was recorded by the Company to the valuation allowance during the three months ended March 31, 2018.

## 11. Earnings per Common Share

Basic EPS is computed based upon the weighted average number of common shares outstanding for the year. Diluted EPS is computed based upon the weighted average number of common shares outstanding for the year plus the dilutive effect of common stock equivalents using the treasury stock method and the average market price of our common stock for the year. We include participating securities (Redeemable Convertible Preferred Stock - Participation with Dividends on Common Stock that contain preferred dividend) in the computation of EPS pursuant to the two-class method. The two-class method of computing earnings per share is an allocation method that calculates earnings per share for common stock and participating securities. During periods of net loss, no effect is given to the

participating securities because they do not share in the losses of the Company.

30

---

Table of Content

## SYNCHRONOSS TECHNOLOGIES, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED

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

The following table provides a reconciliation of the numerator and denominator used in computing basic and diluted net income attributable to common stockholders per common share from continued and discontinued operations.

	Three Months Ended March 31,	
	2018	2017
Numerator - Basic:		
Net loss from continuing operations	\$(37,977)	\$(45,452)
Net loss attributable to redeemable noncontrolling interests	1,285	2,889
Preferred stock dividend	(3,353)	—
Net (loss) income from continuing operations attributable to Synchronoss	(40,045)	(42,563)
Income from discontinued operations, net of taxes	\$—	\$(16,134)
Net (loss) income attributable to Synchronoss	(40,045)	(58,697)
Numerator - Diluted:		
Net (loss) income from continuing operations attributable to Synchronoss	(40,045)	(42,563)
Income effect for interest on convertible debt, net of tax	—	—
Net loss from continuing operations adjusted for the convertible debt	(40,045)	(42,563)
Income from discontinued operations, net of taxes	\$—	\$(16,134)
Net loss attributable to Synchronoss	(40,045)	(58,697)
Denominator:		
Weighted average common shares outstanding — basic	42,181	44,212
Dilutive effect of:		
Shares from assumed conversion of convertible debt <sup>1</sup>	—	—
Shares from assumed conversion of preferred stock <sup>2</sup>	—	—
Options and unvested restricted shares	—	—
Weighted average common shares outstanding — diluted	42,181	44,212
Basic EPS		
Continuing operations	\$(0.95)	\$(0.96)
Discontinued operations	\$—	\$(0.37)
	\$(0.95)	\$(1.33)
Diluted EPS		
Continuing operations	\$(0.95)	\$(0.96)
Discontinued operations	—	(0.37)
	\$(0.95)	\$(1.33)
Anti-dilutive stock options excluded	2,441	1,698

<sup>1</sup> The calculation for each period does not include the effect of assumed conversion of convertible debt of 4,325,646 shares, which is based on 18.8072 shares per \$1,000 principal amount of the 2019 Notes.

<sup>2</sup> The calculation for each period does not include the effect of assumed conversion of preferred stock of 10,277,786 shares, which is based on 55.5556 shares per \$1,000 principal amount of the preferred stock, because the effect would

have been anti-dilutive.

31

---

Table of Content

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED

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

12. Commitments and Contingencies

In the ordinary course of business, the Company is regularly subject to various claims, suits, regulatory inquiries and investigations. The Company records a liability for specific legal matters when it determines that the likelihood of an unfavorable outcome is probable and the loss can be reasonably estimated. Management has also identified certain other legal matters where they believe an unfavorable outcome is not probable and, therefore, no reserve is established. Although management currently believes that resolving claims against the Company, including claims where an unfavorable outcome is reasonably possible, will not have a material impact on the Company's business, financial position, results of operations, or cash flows, these matters are subject to inherent uncertainties and management's view of these matters may change in the future. The Company also evaluates other contingent matters, including income and non-income tax contingencies, to assess the likelihood of an unfavorable outcome and estimated extent of potential loss. It is possible that an unfavorable outcome of one or more of these lawsuits or other contingencies could have a material impact on the liquidity, results of operations, or financial condition of the Company.

Legal Matters

On May 1, 2017, May 2, 2017, June 8, 2017 and June 14, 2017, four putative class actions were filed against the Company and certain of its officers and directors in the United States District Court for the District of New Jersey (the "Securities Law Action"). After these cases were consolidated, the court appointed as lead plaintiff Employees' Retirement System of the State of Hawaii, which filed, on November 20, 2017, a consolidated amended complaint purportedly on behalf of purchasers of our common stock between February 3, 2016 and June 13, 2017. The consolidated amended complaint asserts claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, and it alleges, among other things, that the defendants made false and misleading statements of material information concerning the Company's financial results, business operations, and prospects. The plaintiff seeks unspecified damages, fees, interest, and costs. On February 2, 2018, the defendants filed a motion to dismiss the consolidated amended complaint in its entirety, with prejudice, which remains pending. We believe that the asserted claims lack 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 we can give no assurance that the asserted claims will not have a material adverse effect on our financial position or results of operations.

On September 15, 2017, October 24, 2017, October 27, 2017 and October 30, 2017, Synchronoss shareholders filed derivative lawsuits against certain of the Company's officers and directors and the Company (as nominal defendant) in the United States District Court for the District of New Jersey (the "Derivative Suits"). These lawsuits purport to allege claims related to breaches of fiduciary duties and unjust enrichment. The allegations in the Derivative Suits relate to substantially the same facts as those underlying the Securities Law Action described above. The plaintiffs seek unspecified damages and for the Company to take steps to improve its corporate governance and internal procedures. The plaintiffs in the Derivative Suits in which service of the complaints was effectuated have agreed to stay proceedings pending the court's decision on the defendants' motion to dismiss in the Securities Laws Action. The Company believes that the asserted claims lack merit, and we intend to defend against all of the claims vigorously. Due to the inherent uncertainties of litigation, the Company cannot predict the outcome of the Derivative Suits at this time, and the Company can give no assurance that the asserted claims will not have a material adverse effect on the Company's financial position or results of operations.



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, claiming that F-Secure has infringed, and continues to infringe, several of the Company's patents. In February 2015, the Company 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 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 ("Miyowa") provided that former shareholders of Miyowa 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 filed a complaint against the Company in the Commercial Court of Paris, France claiming that they are entitled to certain earn-out payments under the acquisition agreement. The Company was served with a copy of this complaint in January 2014. On December 3, 2015, the Court dismissed all claims in the complaint against the Company. On December 19, 2015, the former shareholders of Miyowa filed an appeal with the Court of Appeal of Paris, France, appealing the Court's decision. On January 11, 2018, the Court of Appeal of Paris, France, dismissed the appeal. The plaintiffs have informed us that they will not be appealing this decision.

Table of Content

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED

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

On July 11, 2017, Shareholder Representative Services LLC, on behalf of the persons entitled to receive merger consideration (the “Sellers”) in connection with our acquisition of Razorsight, commenced arbitration against us with respect to a dispute over the amount due to the Sellers as additional consideration. Under the Razorsight purchase agreement, the Sellers are entitled to a percentage of any revenue recognized by us generated from the sale or licensing of Razorsight products in 2016 after a specific revenue threshold is obtained. The parties disagreed over the determination of the amount of revenue we recognized in 2016. The parties entered into an agreement resolving the arbitration in May 2018.

Except as set forth above, 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.

Nasdaq Compliance

On May 16, 2017, we received notice from the Listing Qualifications Department of The Nasdaq Stock Market (“Nasdaq”) indicating that we were not in compliance with Nasdaq Listing Rule 5250(c)(1) (the “Rule”), which requires timely filing of periodic reports with the SEC, because we had not yet filed our Form 10-Q for the quarterly period ended March 31, 2017. The notice indicated that we had until July 17, 2017 to submit a plan to regain compliance with Nasdaq’s continued listing requirements. On July 17, 2017, we timely submitted our plan to Nasdaq detailing how we plan to regain compliance with Nasdaq’s continued listing requirements.

On July 26, 2017, the Nasdaq granted us an exception from its continued listing requirements until November 13, 2017 to file all delinquent periodic reports, including our delinquent Form 10-Q for the quarterly period ended March 31, 2017. In connection with our delinquency in filing our Form 10-Q for the quarterly period ended June 30, 2017, Nasdaq has requested an update to our original plan to regain compliance with Nasdaq’s continued listing requirements.

On August 16, 2017, we received notice from the Nasdaq indicating that we were not in compliance with the Rule because we had not yet filed our Form 10-Q for the quarterly period ended June 30, 2017.

On November 15, 2017, we received a letter from the Staff of the Nasdaq notifying us that since we remain delinquent in filing our Form 10-Q for the quarterly periods ended March 31, 2017, June 30, 2017 and September 30, 2017, we have not regained compliance with the Rule. Previously, Nasdaq granted us an extension until November 13, 2017 to file all delinquent periodic reports. As described in the letter, as a result of the continued delinquency, our common stock is subject to being delisted unless we timely request a hearing before a Nasdaq Hearings Panel (the “Panel”).

On December 6, 2017, the Company received a letter from the Nasdaq granting the Company’s request to extend the stay of suspension pending a hearing before the Panel, in late January 2018. In early February 2018, the Nasdaq granted us an extension until May 10, 2018 to regain compliance with Nasdaq’s listing requirements.

On February 6, 2018, the Company received a notification letter from a Hearings Advisor from the Nasdaq Office of General Counsel informing the Company that the Panel granted the Company's request for an extension until May 10, 2018 to become current with its filings with the SEC. Additionally, the extension was subject to the Company providing the Panel with periodic updates regarding its ongoing restatement of its financial statements and providing the Panel with an update issued to investors on or before March 31, 2018. The Panel granted the Company the maximum possible extension until the expiration of the Panel's discretion to allow continued listing while the Company remained out of compliance with Nasdaq's continued listing requirements. To comply with the Nasdaq extension requirements, the Company issued an update to investors on March 28, 2018.

### 13. Subsequent Events Review

#### Nasdaq Compliance

On May 4, 2018, the Company informed the Panel of its determination that it would be unable to satisfy the May 10, 2018 deadline. On May 11, 2018, the Company received a notification letter from the Panel indicating that trading in the Company's

Table of Content

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED

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

common stock was suspended effective at the open of business on May 14, 2018. The Panel also determined to delist the Company's shares from Nasdaq after applicable appeal periods have lapsed. The Company has appealed the decision to the Nasdaq Listing and Hearing Review Council. During the appeal process, the Company's stock remains listed however trading in the Company's common stock on Nasdaq remains suspended. While the Company's common stock is suspended from trading on Nasdaq, the Company's shares are currently quoted on the OTC Markets under the trading symbol SNCR.

Acquisition of honeybee

In May 2018, the Company completed the acquisition of the honeybee software business, a provider of digital solutions targeted at optimizing the customer experience from Dixons Carphone plc. honeybee offers a digital transformation platform that makes it easier for companies to design and launch omni-channel customer journeys. The Company paid cash consideration of approximately \$10.7 million. Customers of the honeybee platform, such as mobile operators and other communication service providers, can rapidly create and adapt digital sales processes for contact centers, retail stores, and online channels. This reduces complexity for the end-user as well as internal employees, while delivering a single customer experience at all touch-points and improved business outcomes such as reduced cost and increased revenue.

2019 Notes Notice

On June 13, 2018, The Bank of New York Mellon, in its capacity as trustee (the "Trustee") under the indenture dated as of August 12, 2014 (the "Indenture") governing for the Company's 2019 Notes, filed a verified complaint with the Court of Chancery of the State of Delaware, captioned The Bank of New York Mellon, as Indenture Trustee v. Synchronoss Technologies, Inc. (the "BNY Action"). The BNY Action complaint alleges that a "Fundamental Change" has occurred under the Indenture as a result of the Company's Common Stock ceasing to be listed or quoted on Nasdaq and that an event of default under the Indenture has occurred as a result of our failure to provide a notice of such Fundamental Change which, if true, following notice from holders of more than 25% of the outstanding principal under the Notes would trigger the acceleration of the principal and interest outstanding under the 2019 Notes. The Company intends to defend against all of the claims vigorously. Due to the inherent uncertainties of litigation, the Company cannot predict the outcome of the BNY Action at this time, and the Company can give no assurance that the asserted claims will not have a material adverse effect on the Company's financial position or results of operations.

Table of Contents

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

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to provide a reader of our financial statements with a narrative from the perspective of our management on our financial condition, results of operations, liquidity and certain other factors that may affect our future results. The discussions give effect to the restatement adjustments made to the previously reported Consolidated Financial Statements for the years ended December 31, 2016 and December 31, 2015. For additional information and a detailed discussion of the restatement, see "Note 15 - Restatement of Previously Issued Consolidated Financial Statements" of the Notes to Condensed Consolidated Financial Statements in Item 1 of this Form 10-Q. The following discussion and analysis should be read in conjunction with our Condensed Consolidated Financial Statements and the related notes included in Item 1 "Financial Information" of this Form 10-Q.

The words "Synchronoss," "we," "our," "ours," "us," and the "Company" refer to Synchronoss Technologies, Inc. and its consolidated subsidiaries. This quarterly report contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to risks and uncertainties and are based on the beliefs and assumptions of our management based on information currently available to our management. Use of words such as "believes," "expects," "anticipates," "intends," "plans," "hopes," "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 quarterly report. These statements speak only as of the date of this quarterly report, 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

Synchronoss Technologies, Inc. ("Synchronoss" or the "Company") is a global software and services company that provides essential technologies for the mobile transformation of business. The Company's portfolio, which is targeted at the Consumer and Enterprise markets, contains offerings such as personal cloud, secure-mobility, identity management and scalable messaging platforms, products and solutions. These essential technologies create a better way of delivering the transformative mobile experiences that service providers and enterprises need to help them stay ahead of the curve in competition, innovation, productivity, growth and operational efficiency.

Synchronoss' products and platforms are designed to be carrier-grade, flexible and scalable, enabling multiple converged communication services to be managed across a range of distribution channels including e-commerce, m-commerce, telesales, customer stores, indirect and other retail outlets. This business model allows the Company to meet the rapidly changing converged services and connected devices offered by their customers. Synchronoss' products, platforms and solutions enable its enterprise and service provider customers to acquire, retain and service subscribers and employees quickly, reliably and cost-effectively with white label and custom-branded solutions. Synchronoss customers can simplify the processes associated with managing the customer experience for procuring, activating, connecting, backing-up, synchronizing and 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 their customers through new subscriber acquisitions, sale of new devices, accessories and new value-added service offerings in the Cloud. By using the Company's technologies, Synchronoss customers can optimize their cost of operations while enhancing their customer experience.

The Company currently operates in and markets their solutions and services directly through their sales organizations in North America, Europe, the Middle East and Africa (“EMEA”), and the Asia-Pacific region. Synchronoss delivers essential technologies for mobile transformation to two primary types of customers: service provider and enterprise customers in regulated verticals and use cases.

#### Revenues

We generate a majority of our revenues on a per transaction or subscription basis, which is derived from contracts that extend up to 60 months from execution.

During the three months ended March 31, 2018, the Company made significant changes in its accounting policies over revenue recognition, to align with the adoption of ASU 2014-09, “Revenue from Contracts with Customers” (“ASC 606” or “Topic 606”). These updates are described in Note 2 - Basis of Presentation and Consolidation.

## Table of Contents

The future success of our business depends on the continued growth of Business to Business and Business to Business to Consumer driving customer transactions, and continued expansion of our platforms into the TMT Market globally through Digital Transformation, Messaging, Cloud and IoT markets. As such, the volume of transactions and our ability to expand our footprint in TMT and globally may result in revenue fluctuations on a quarterly basis.

Most of our revenues are recorded in U.S. dollars but as we continue to expand our footprint with international carriers we will become subject to currency translation that could affect our future net sales as reported in U.S. dollars.

Verizon and AT&T together represent our largest customers and account for the majority of our net revenues for the quarters ended March 31, 2018 and 2017, respectively. These contracts typically run for three to five years. The loss of either Verizon or AT&T as a customer would have a material negative impact on our company. However, we believe that the costs incurred to replace Synchronoss' solutions would be substantial.

## Key Developments

### Intralinks Acquisition and Divestiture

On January 19, 2017, we completed the acquisition of Intralinks. In connection with the acquisition, we entered into a \$900 million credit agreement with the lending institutions from time to time parties thereto and Goldman Sachs Bank USA ("Goldman"), as administrative agent, collateral agent, swingline lender and a letter of credit issuer (the "2017 Credit Agreement"). Intralinks is a global technology provider of SaaS solutions for secure enterprise content collaboration within and among organizations. Intralinks' cloud-based solutions enable organizations to securely manage, control, track, search, exchange and collaborate on sensitive information inside and outside the firewall. The total purchase price consideration consisted of the repayment of existing Intralinks indebtedness, and non-cash consideration for services rendered on unvested Intralinks equity awards that were converted into Synchronoss equity awards on the acquisition date. The acquisition was primarily funded from the proceeds of the 2017 Credit Agreement entered into on the date of acquisition.

On June 23, 2017, we received a non-binding indication of interest from Siris to acquire the Company. In light of the indication of interest, our Board of Directors decided to explore a broad range of strategic alternatives that would have the potential to unlock shareholder value. In October 2017, we concluded our review of strategic alternatives and determined that the best approach for us to achieve our goal of maximizing shareholder value was to focus on our core TMT business, divest non-core assets and improve our balance sheet strength, cash position and potential profitability. Under the terms of certain definitive agreements, investment funds affiliated with Siris acquired all of the stock of our wholly-owned subsidiary, Intralinks, for consideration of cash and an investment in convertible preferred equity of the Company.

On October 17, 2017, we announced our entry into definitive agreements for the sale of Intralinks, and the right to purchase a newly created series of preferred stock of Synchronoss to affiliates of Siris. Subject to the terms and conditions set forth in a share purchase agreement, dated as of October 17, 2017 (the "Share Purchase Agreement"), among Synchronoss, Intralinks and Impala Private Holdings II, LLC, an affiliate of Siris ("Impala"), Impala agreed to acquire from us the issued and outstanding shares of common stock of Intralinks for approximately \$977.3 million in cash plus a potential contingent payment of up to \$25.0 million, subject to an adjustment for cash, debt and working capital (the "Intralinks Transaction"). The total amount of funds used to complete the Intralinks Transaction and related transactions and pay related fees and expenses was approximately \$1.0 billion, which was funded through a combination of equity and debt financing obtained by Impala.

On November 14, 2017, we completed the sale of Intralinks and on February 15, 2018, we completed the issuance of shares of a newly created series of preferred stock of Synchronoss to affiliates of Siris. In connection with the

consummation of the Intralinks divestiture, we utilized a portion of the proceeds from the Intralinks divestiture to repay all outstanding obligations under our previously existing 2017 Credit Agreement, effective as of November 14, 2017. The aggregate payoff amount was approximately \$898 million and included all accrued interest, fees and prepayment penalties. The operations of Intralinks were presented as discontinued operations in 2017.

For further details, see Note 3 - Acquisitions and Divestitures of the Notes to Condensed Consolidated Financial Statements in Item 1 of this Form 10-Q.

#### Other Recent Divestitures

On February 1, 2017, we completed the divestiture of our SpeechCycle business for consideration of \$13.5 million to an unrelated third party. The net proceeds, exclusive of amounts placed in escrow, were approximately \$12.5 million. As part of the divestiture, we entered into a one-year transition services agreement with the acquirer to support various indirect activities such



## Table of Contents

as customer software support, technical support services and maintenance and support services. We recorded a pre-tax gain of \$4.9 million as a result of the divestiture which is included in other income (expense), net in the Condensed Consolidated Statement of Operations.

For further details, see Note 3 - Acquisitions and Divestitures of the Notes to Condensed Consolidated Financial Statements in Item 1 of this Form 10-Q.

### Current Trends Affecting Our Results of Operations

Business from our Synchronoss Personal Cloud solution has been driven by the growth in mobile devices globally that are becoming content rich. As these devices replace 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 family, friends and business associates have become essential needs and subscriber expectations. Such devices include smartphones, connected cars, personal health and wellness devices and connected home devices. The need for the contents of these devices to be stored in a common cloud are also expected to be drivers of our business in the longer term.

Business from our traditional Synchronoss Messaging business (Email) has been driven by a resurgence in the need for white label secure messaging platforms that favor the MNO's business objectives and are not beholden to the objectives of a sponsoring OTT platform. Messaging drives higher subscriber engagement than any other application in the market today and holds the potential to stimulate new revenue from traditional services and third party brands. OTT global success has driven MNO'S to look at opportunities to preempt and compete with the OTT'S which has potential opportunity for Synchronoss. Future growth will be driven by the need of TMT companies including (and especially) MNO's to embrace MaaP to converse with subscribers in an efficient, automated way (streamlining the costs and increasing the effectiveness of self-care, as well as the yield of cross-sell upselling of service plans, devices, bundles, etc). The Synchronoss Advanced Messaging Platform provides state of the art RCS-driven features including the ability to support advanced Peer to Peer communications and introduce new revenue streams driven by commerce and advertising via Application to Person capabilities.

Companies in the TMT market all face the dilemma of attempting to pivot their businesses to digital execution in order to create experiences that meet the expectations of their subscribers, generate new revenues and streamline costs creating healthier margins at a faster time to market than they have ever operated before. Their challenges feature the lack of skill set to conceptualize and run day to day digital operations and the lack of resources to integrate their legacy back end systems to enact digital experiences that achieve their business objectives. The growth of Synchronoss Digital Platforms will be driven by the ability to provide TMT companies' desire to obtain digital transformation solutions as quickly as possible while educating them on the ability to operate a digital business efficiently. Our Platform as a Service ("PaaS") model provides a desirable alternative to heavy CAPEX spending options often tried internally. The ability for our platforms to create low/no code, new customer digital journeys, virtually on the fly, give TMT Companies the ability to operate new experiences and businesses without heavily investing in development resources.

Synchronoss Advanced Messaging, Cloud and Digital Platforms are poised to bring Internet of Things initiatives to life across MNO and TMT companies creating new use cases that will help stimulate the commercial growth of the robust potential of the IoT market. As new devices and sensors come online in connected cities, Synchronoss, partnering with carriers like AT&T, has technology to unify and harness data from legacy systems; provide analytic insights that fuel automated communications, via our Advanced Messaging Platform between sensors, devices and people; and create a common storage reservoir with our secure cloud. There is opportunity in many areas of the IoT ecosystem for Synchronoss to support utilizing our Activation, Cloud and Analytics tools.

To support our growth, which will be driven by these favorable industry trends mentioned above, we will 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 for future revenue growth. We are also making investments in 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 expand our platforms into the converging TMT, MNO, Digital and IoT spaces to enable connected devices to do more things across multiple networks, brands and communities. Our initiatives with AT&T, Verizon, Sprint, British Telecom, Softbank and other CSPs continue to grow both with regard to our current business as well as our new product offerings. We are also exploring additional opportunities through merger and acquisition activities to support our customer, product and geographic diversification strategies.

Table of Contents

Results of operations for the three months ended March 31, 2018 compared to the three months ended March 31, 2017

The following table presents an overview of our results of operations for the three months ended March 31, 2018 and 2017:

	Three months ended March 31,		
	2018	2017	2018 vs 2017
	\$	\$	\$ Change
	(in thousands)		
Net revenues	\$83,709	\$86,097	\$(2,388 )
Cost of revenues*	44,549	46,055	(1,506 )
Research and development	20,905	25,489	(4,584 )
Selling, general and administrative	38,110	38,815	(705 )
Restructuring charges	1,108	2,998	(1,890 )
Depreciation and amortization	23,271	24,087	(816 )
Total costs and expenses	127,943	137,444	(9,501 )
Loss from continuing operations	\$(44,234)	\$(51,347)	\$ 7,113
Cost of revenues excludes depreciation and amortization which is shown separately.			

Net revenues decreased \$2.4 million to \$83.7 million for the three months ended March 31, 2018, compared to the same period in 2017. This was due to an \$16.0 million decrease in Cloud revenues primarily resulting from a change in the business model related to one of our largest personal cloud customers and a decrease in subscription and professional services of \$5.0 million; a decrease of \$4.4 million in Digital Transformation due to a reduction in professional services revenue; offset by an increase in Messaging revenue of \$12.8 million primarily due to the delivery of an advanced messaging solution to a customer in the Japanese market. In addition, revenues increased by \$10.2 million as a result of the company's implementation of ASC 606. This resulted in an increase in Digital Transformation revenues of \$5.9 million; Cloud revenue of \$4.9 million and a decrease in Messaging revenue of \$0.6 million.

Cost of revenues decreased \$1.5 million to \$44.5 million for the three months ended March 31, 2018, compared to the same period in 2017, due primarily to a \$3.9 million decrease maintenance costs related as the company moves to a less capital intensive strategy; which was partially offset by a \$2.5 million increase in personnel costs driven by growth in personnel to support our business.

Research and development expense decreased \$4.6 million to \$20.9 million for the three months ended March 31, 2018, compared to the same period in 2017 primarily due to a decrease in personnel related costs of \$1.6 million driven by growth in personnel to support our business, and a \$3.2 million reduction in professional fees due to higher prior year costs as a result of integration activities.

Selling, general and administrative expense decreased \$0.7 million to \$38.1 million for the three months ended March 31, 2018, compared to the same period in 2017 primarily due to a \$12 million decrease in merger and acquisition costs driven by the prior year acquisition of Intralinks; partially offset by a \$10 million increase in professional fees related to our financial restatement process.

Restructuring charges were \$1.1 million for the three months ended March 31, 2018 related to employment termination of contracted employees with termination benefits.

Depreciation and amortization expense decreased \$0.8 million to \$23.3 million for the three months ended March 31, 2018, compared to the same period in 2017 primarily due to decreased acquisition activity combined with the expiration of amortizable assets.

Interest income increased \$0.7 million to \$3.6 million for the three months ended March 31, 2018, compared to the same period in 2017. Interest income increased primarily due to higher PIK note balance compared to the respective prior year period.

Interest expense decreased \$9.4 million to \$1.2 million for the three months ended March 31, 2018, compared to the same period in 2017 primarily due to a \$7.6 million decrease related to the prior year increase in borrowings outstanding from a \$900 million senior secured term loan (the "2017 Term Facility"), which was raised to fund the purchase of Intralinks, as well as

## Table of Contents

\$0.7 million decrease related to the prior year write off of unamortized debt issuance costs due to the decrease in the borrowing capacity of our revolving credit facility of up to \$200 million (the “Revolving Facility”).

Other income (expense), net increased \$0.1 million to a net other expense of \$4.3 million for the three months ended March 31, 2018, compared to a net other income of \$4.2 million in the same period in 2017. Other net income increased primarily due to \$3.8 million income from the remeasurement of mandatorily redeemable financial instrument, \$1.1 million related to foreign currency exchange rate fluctuations; partially offset by the prior year \$4.9 million pre-tax gain recognized on the divestiture of our SpeechCycle business.

Income tax. The Company recognized approximately \$0.1 million and \$8.7 million in related income tax expense and benefit during the three months ended March 31, 2018 and 2017, respectively. The effective tax rate was approximately 0.3% for the three months ended March 31, 2018, which was lower than the U.S. federal statutory rate primarily due to the recording of a non-cash income tax provision of \$2.9 million in income tax expense to establish a valuation allowance. The Company considered all available evidence, including historical profitability and projections of future taxable income together with new evidence, both positive and negative, that could affect the view of the future realization of deferred tax assets. As a result of the assessment, a \$2.8 million valuation allowance was recorded by the Company during the three months ended March 31, 2018.

The Company’s effective tax rate was approximately 16% for the three months ended March 31, 2017, which was lower than the U.S. federal statutory rate primarily due to the impact of losses in foreign jurisdictions which have lower tax rates than the U.S. The Company reviews the expected annual effective income tax rate and make changes on a quarterly basis as necessary based on certain factors such as changes in forecasted annual operating income, changes to the actual and forecasted permanent book-to-tax differences, and changes resulting from the impact of tax law changes.

## Liquidity and Capital Resources

As of March 31, 2018, our principal sources of liquidity have been cash provided by operations and proceeds from divestitures. Our cash, cash equivalents, marketable securities and restricted cash balance was \$320.0 million at March 31, 2018. We anticipate that our principal uses of cash in the future will be to fund the expansion of our business through both organic growth and acquisition activities and the expansion of our customer base. Uses of cash will also include facility and technology expansion, significant integration and restructuring activities, capital expenditures, and working capital.

At March 31, 2018, our non-U.S. subsidiaries held approximately \$41.4 million of cash and cash equivalents that are available for use by all of our operations around the world. At this time, we believe the funds held by all non-U.S. subsidiaries will be permanently reinvested outside of the U.S. However, if these funds were repatriated to the U.S. or used for U.S. operations, certain amounts could be subject to U.S. tax for the incremental amount in excess of the foreign tax paid. Due to the timing and circumstances of repatriation of these earnings, if any, it is not practical to determine the unrecognized deferred tax liability related to the amount.

We believe that our existing cash, cash equivalents, marketable securities, expected positive cash flows generated from operations will be sufficient to fund our operations for the next twelve months based on our current business plans. Our liquidity plans are subject to a number of risks and uncertainties, including those described in the "Forward-Looking Statements" section of this MD&A and Part I, Item 1A. “Risk Factors”, some of which are outside of our control.

## Convertible Senior Notes

On August 12, 2014, we issued 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 \$230.0 million face value of the debt as a liability and capitalized approximately \$7.1 million of financing fees, related to the issuance. At March 31, 2018, the carrying amount of the liability was \$228.1 million and the outstanding principal of the 2019 Notes was \$230.0 million, with an effective interest rate of approximately 1.38%. For further details, see Note 7 - Debt of the Notes to Condensed Consolidated Financial Statements in Item 1 of this Form 10-Q.

#### Share Repurchase Program

There were no repurchases in 2017 or 2018.

## Table of Contents

### Redeemable Shares

Under the terms of the Share Purchase Agreement, the Company issued Series A Preferred to Siris for consideration totaling \$185.0 million, of which \$97.7 million was paid in cash, with the remainder settled by Siris' delivery of 5,994,667 shares of Synchronoss common stock. The Share Purchase Agreement also provided Siris with an option to put those shares to Synchronoss at price of \$14.56 per share, or \$87.3 million in the aggregate, if the Share Purchase Agreement was terminated. The Share Purchase Agreement required the Company to establish an escrow account of \$87.3 million on the earlier date of the sale of Intralinks to Siris or the termination of the Share Purchase Agreement to fund our obligation under the put option. The option was exercised within five days of the termination of the Share Purchase Agreement.

### Shares of Preferred Stock

In accordance with the terms of the Share Purchase Agreement dated as of October 17, 2017 (the "PIPE Purchase Agreement"), with Silver, on February 15, 2018, we issued to Silver 185,000 shares of our newly issued Series A Preferred Stock, par value \$0.0001 per share, with an initial liquidation preference of \$1,000 per share, in exchange for \$97.7 million in cash and the transfer from Silver to us of the 5,994,667 shares of our common stock held by Silver (the "Preferred Transaction"). In connection with the issuance of the Series A Preferred Stock, we (i) filed the Series A Certificate and (ii) entered into an Investor Rights Agreement with Silver setting forth certain registration, governance and preemptive rights of Silver with respect to us (the "Investor Rights Agreement"). Pursuant to the PIPE Purchase Agreement, at the closing, we paid to Siris \$5.0 million as a reimbursement of Silver's reasonable costs and expenses incurred in connection with the Preferred Transaction.

### Certificate of Designation of the Series A Preferred Stock

The rights, preferences, privileges, qualifications, restrictions and limitations of the shares of Series A Preferred Stock are set forth in the Series A Certificate. Under the Series A Certificate, the holders of the Series A Preferred Stock are entitled to receive Preferred Dividends. The Preferred Dividends are due on each Series A Dividend Payment Date. We may choose to pay the Preferred Dividends in cash or in additional shares of Series A Preferred Stock. In the event we do not declare and pay a dividend in-kind or in cash on any Series A Dividend Payment Date, the unpaid amount of the Preferred Dividend will be added to the Liquidation Preference. In addition, the Series A Preferred Stock participates in dividends declared and paid on shares of our common stock.

Each share of Series A Preferred Stock is convertible, at the option of the holder, into the number of shares of common stock equal to the "Conversion Price" (as that term is defined in the Series A Certificate) multiplied by the then applicable "Conversion Rate" (as that term is defined in the Series A Certificate). Each share of Series A Preferred Stock is initially convertible into 55.5556 shares of common stock, representing an initial "conversion price" of approximately \$18.00 per share of common stock. The Conversion Rate is subject to equitable proportionate adjustment in the event of stock splits, recapitalizations and other events set forth in the Series A Certificate.

On and after the fifth anniversary of February 15, 2018, holders of shares of Series A Preferred Stock have the right to cause us to redeem each share of Series A Preferred Stock for cash in an amount equal to the sum of the current liquidation preference and any accrued dividends. Each share of Series A Preferred Stock is also redeemable at the option of the holder upon the occurrence of a "Fundamental Change" (as that term is defined in the Series A Certificate) at a specified premium. In addition, we are also permitted to redeem all outstanding shares of the Series A Preferred Stock at any time (i) within the first 30 months of the date of issuance for the sum of the then-applicable Liquidation Preference, accrued but unpaid dividends and a make whole amount and (ii) following the 30-month anniversary of the date of issuance for the sum of the then-applicable Liquidation Preference and the accrued but unpaid dividends.

The holders of a majority of the Series A Preferred Stock, voting separately as a class, are entitled at each of our annual meetings of stockholders or at any special meeting called for the purpose of electing directors (or by written consent signed by the holders of a majority of the then-outstanding shares of Series A Preferred Stock in lieu of such a meeting): (i) to nominate and elect two members of our Board of Directors for so long as the Preferred Percentage (as defined in the Series A Certificate) is equal to or greater than 10%; and (ii) to nominate and elect one member of our Board of Directors for so long as the Preferred Percentage is equal to or greater than 5% but less than 10%.

For so long as the holders of shares of Series A Preferred Stock have the right to nominate at least one director, we are required to obtain the prior approval of Silver prior to taking certain actions, including: (i) certain dividends, repayments and redemptions; (ii) any amendment to our certificate of incorporation that adversely effects the rights, preferences, privileges or voting powers of the Series A Preferred Stock; (iii) issuances of stock ranking senior or equivalent to shares of Series A Preferred Stock (including additional shares of Series A Preferred Stock) in the priority of payment of dividends or in the distribution of assets upon any



## Table of Contents

liquidation, dissolution or winding up of us; (iv) changes in the size of our Board of Directors; (v) any amendment, alteration, modification or repeal of the charter of our Nominating and Corporate Governance Committee of the Board of Directors and related documents; and (vi) any change in our principal business or the entry into any line of business outside of our existing lines of businesses. In addition, in the event that we are in EBITDA Non-Compliance (as defined in the Series A Certificate) or the undertaking of certain actions would result in us exceeding a specified pro forma leverage ratio, then the prior approval of Silver would be required to incur indebtedness (or alter any debt document) in excess of \$10.0 million, enter or consummate any transaction where the fair market value exceeds \$5.0 million individually or \$10.0 million in the aggregate in a fiscal year or authorize or commit to capital expenditures in excess of \$25.0 million in a fiscal year.

Each holder of Series A Preferred Stock has one vote per share on any matter on which holders of Series A Preferred Stock are entitled to vote separately as a class, whether at a meeting or by written consent. The holders of Series A Preferred Stock are permitted to take any action or consent to any action with respect to such rights without a meeting by delivering a consent in writing or electronic transmission of the holders of the Series A Preferred Stock entitled to cast not less than the minimum number of votes that would be necessary to authorize, take or consent to such action at a meeting of stockholders. In addition to any vote (or action taken by written consent) of the holders of the shares of Series A Preferred Stock as a separate class provided for in the Series A Certificate or by the General Corporation Law of the State of Delaware, the holders of shares of the Series A Preferred Stock are entitled to vote with the holders of shares of common stock (and any other class or series that may similarly be entitled to vote on an as-converted basis with the holders of common stock) on all matters submitted to a vote or to the consent of the stockholders of the Company (including the election of directors) as one class.

Under the Series A Certificate, if Silver and certain of its affiliates have elected to effect a conversion of some or all of their shares of Series A Preferred Stock and if the sum, without duplication, of (i) the aggregate number of shares of our common stock issued to such holders upon such conversion and any shares of our common stock previously issued to such holders upon conversion of Series A Preferred Stock and then held by such holders, plus (ii) the number of shares of our common stock underlying shares of Series A Preferred Stock that would be held at such time by such holders (after giving effect to such conversion), would exceed the 19.9% of the issued and outstanding shares of our voting stock on an as converted basis (the "Conversion Cap"), then such holders would only be entitled to convert such number of shares as would result in the sum of clauses (i) and (ii) (after giving effect to such conversion) being equal to the Conversion Cap (after giving effect to any such limitation on conversion). Any shares of Series A Preferred Stock which a holder has elected to convert but which, by reason of the previous sentence, are not so converted, will be treated as if the holder had not made such election to convert and such shares of Series A Preferred Stock will remain outstanding. Also, under the Series A Certificate, if the sum, without duplication, of (i) the aggregate voting power of the shares previously issued to Silver and certain of its affiliates held by such holders at the record date, plus (ii) the aggregate voting power of the shares of Series A Preferred Stock held by such holders as of such record date, would exceed 19.99% of the total voting power of our outstanding voting stock at such record date, then, with respect to such shares, Silver and certain of its affiliates are only entitled to cast a number of votes equal to 19.99% of such total voting power. The limitation on conversion and voting ceases to apply upon receipt of the requisite approval of holders of our common stock under the applicable listing standards.

## Form of Investor Rights Agreement

Concurrently with the closing of the Preferred Transaction, Synchronoss and Silver entered into an Investor Rights Agreement. Under the terms of the Investor Rights Agreement, Silver and Synchronoss have agreed that, effective as of the closing of the Preferred Transaction, the Board of Directors of Synchronoss will consist of ten members. From and after the closing of the Preferred Transaction, so long as the holders of Series A Preferred Stock have the right to nominate a member to the Board of Directors pursuant to the Series A Certificate, the Board of Directors of Synchronoss will consist of (i) two directors nominated and elected by the holders of shares of Series A Preferred

Stock; (ii) four directors who meet the independence criteria set forth in the applicable listing standards (each of whom will be initially agreed upon by Synchronoss and Silver); and (iii) four other directors, two of whom shall satisfy the independence criteria of the applicable listing standards and, as of the closing of the Preferred Transaction, one of whom shall be the individual then serving as chief executive officer of Synchronoss and one of whom shall be the current chairman of the Board of Directors of Synchronoss as of the date of execution of the Investors Rights Agreement. Following the closing of the Preferred Transaction, so long as the holders of Series A Preferred Stock have the right to nominate at least one director to the Board of Directors of Synchronoss pursuant to the Series A Certificate, Silver will have the right to designate two members of the Nominating and Corporate Governance Committee of the Board of Directors.

Pursuant to the terms of the Investor Rights Agreement, neither Silver nor its affiliates may transfer any shares of Series A Preferred Stock subject to certain exceptions (including transfers to affiliates that agree to be bound by the terms of the Investor Rights Agreement).

For so long as Silver has the right to appoint a director to the Board of Directors of Synchronoss, without the prior approval by a majority of directors voting who are not appointed by the holders of shares of Series A Preferred Stock, neither Silver nor its

Table of Contents

affiliates will directly or indirectly purchase or acquire any debt or equity securities of Synchronoss (including equity-linked derivative securities) if such purchase or acquisition would result in Silver's Standstill Percentage (as defined in the Investor Rights Agreement) being in excess of 30%. However, the foregoing standstill restrictions would not prohibit the purchase of shares pursuant to the PIPE Purchase Agreement or the receipt of shares of Series A Preferred Stock issued as Preferred Dividends pursuant to the Series A Certificate, shares of Common Stock received upon conversion of shares of Series A Preferred Stock or receipt of any shares of Series A Preferred Stock, Common Stock or other securities of the Company otherwise paid as dividends or as an increase of the Liquidation Preference (as defined in the Series A Certificate) or distributions thereon. Silver will also have preemptive rights with respect to issuances of securities of Synchronoss in order to maintain its ownership percentage.

Under the terms of the Investor Rights Agreement, Silver will be entitled to (i) three demand registrations, with no more than two demand registrations in any single calendar year and provided that each demand registration must include at least 10% of the shares of Common Stock held by Silver, including shares of Common Stock issuable upon conversion of shares of Series A Preferred Stock and (ii) unlimited piggyback registration rights with respect to primary issuances and all other issuances.

## Discussion of Cash Flows

A summary of net cash flows follows (in thousands):

	Three months ended	
	March 31,	
	2018	2017
Net cash provided by (used in):		
Operating activities	\$(9,389)	\$(12,599)
Investing activities	(13,366)	(810,297)
Financing activities	87,993	850,210

Cash flows from operating activities for the three months ended March 31, 2018 was a \$9.4 million use of cash, as compared to \$12.6 million of cash used by operating activities for the same period in 2017. The decrease of cash used in operating activities of \$3.2 million was primarily due to favorable changes in working capital of \$12.7 million being partially offset by unfavorable changes in cash earnings of \$9.5 million.

Cash flows from investing for the three months ended March 31, 2018 was a use of cash of \$13.4 million, as compared to \$810.3 million in cash used for investing activities during the same period in 2017. The decrease of \$796.9 million in cash used in investing activities was due primarily to cash used for the acquisition of Intralinks in 2017.

Cash flows from financing for three months ended March 31, 2018 was \$88.0 million, as compared to \$850.2 of cash provided by financing activities for the same period in 2017. The decrease of \$762.2 million in cash provided from financing activities was primarily due to proceeds from the issuance of debt in relation to our acquisition of Intralinks in 2017, partially offset related debt issuance costs, the repayment of previously existing debt in 2017 and proceeds from the issuance of preferred stock in 2018.

## 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 March 31, 2018 and 2017.



Table of Contents

## Contractual Obligations

Our contractual obligations consist of principal and interest related to our Convertible Senior Notes and 2017 Term Facility, contingent consideration, non-cancelable capital leases, operating leases or long-term agreements for office space, automobiles, office equipment and colocation services and contractual commitments under third-party hosting, software licenses and maintenance agreements. The following table summarizes our long term contractual obligations as of March 31, 2018 (in thousands).

	Payments Due by Period				
	Total	Remainder of 2018	2019 - 2021	2022 - 2023	Thereafter
Capital lease obligations <sup>(1)</sup>	\$ 15,077	\$ 2,220	\$ 4,420	\$ 2,563	\$ 5,874
Convertible Senior Notes	230,000	—	230,000	—	—
Interest <sup>(2)</sup>	2,372	1,294	1,078	—	—
Operating lease obligations	83,184	7,795	20,273	18,187	36,929
Purchase obligations <sup>(3)</sup>	16,020	6,672	9,348	—	—
Other long-term liabilities <sup>(4)</sup>	5,307	171	5,136	—	—
<b>Total</b>	<b>\$ 351,960</b>	<b>\$ 18,152</b>	<b>\$ 270,255</b>	<b>\$ 20,750</b>	<b>\$ 42,803</b>

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

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

(3) Amount represents obligations associated with colocation agreements and other customer delivery related purchase obligations.

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

## Uncertain Tax Positions

Unrecognized tax benefits of \$9.3 million at March 31, 2018 are excluded from the table above as we are not able to reasonably estimate when we would make any cash payments required to settle these liabilities, but we do not believe that the ultimate settlement of our obligations will materially affect our liquidity. We do not expect that the balance of unrecognized tax benefits will significantly increase or decrease over the next twelve months.

## Critical Accounting Policies and Estimates

Our condensed consolidated financial statements and accompanying notes have been prepared in accordance with U.S. GAAP. The preparation of these condensed 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 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, 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. 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 Part II, "Item 1A. Risk Factors" in this Form 10-Q for certain matters bearing risks on our future results of operations.

During the three months ended March 31, 2018, the Company made significant changes in its accounting policies over revenue recognition, to align with the adoption of ASU 2014-09, “Revenue from Contracts with Customers,” (“ASC 606” or “Topic 606”). These updates are described in detail in Note 2 - Basis of Presentation and Consolidation. Aside from the adoption of ASC 606, there were no significant changes in our critical accounting policies and estimates discussed in our Form 10-K during the three months ended March 31, 2018. Please refer to Management’s Discussion and Analysis of Financial Condition and Results of Operations contained in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2017 for a more complete discussion of our critical accounting policies and estimates.

Table of Contents

Recently Issued Accounting Standards

For a discussion of recently issued accounting standards see Note 2, “Basis of Presentation and Consolidation” included in Part I, Item 1. “Notes to Condensed Consolidated Financial Statements (unaudited)” of this Quarterly Report on Form 10-Q.

Off-Balance Sheet Arrangements

We had no off-balance sheet arrangements as of March 31, 2018 and December 31, 2017 that have, or are reasonably likely to have, a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

Table of Contents

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 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 March 31, 2018 and December 31, 2017 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 are exposed to translation risk because certain of our foreign operations utilize the local currency as their functional currency and those financial results must be translated into U.S dollars. As currency exchange rates fluctuate, translation of the financial statements of foreign businesses into U.S. dollars affects the comparability of financial results between years.

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 and services. As a result, we are subject to foreign currency transaction risk. Further, changes in exchange rates between foreign currencies and the U.S. dollar could affect our future net sales, cost of sales and expenses and could result in foreign currency transaction gains or losses.

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

Interest Rate Risk

We are exposed to the risk of interest rate fluctuations on the interest income earned on our cash and cash equivalents. A hypothetical 100 basis point movement in interest rates applicable to our cash and cash equivalents outstanding at March 31, 2018 would increase interest income by less than \$0.3 million on an annual basis.

As of March 31, 2018, we held a contingent derivative interest fair valued at \$0.1 million.



Table of Contents

ITEM 4. CONTROLS AND PROCEDURES

Background

In connection with the preparation of the Company's Form 10-Q for the first quarter of 2017 and a related internal investigation commenced by the Audit Committee, certain errors related to the Company's accounting treatment for software license revenue were identified. The Company subsequently completed additional accounting review procedures and identified other errors discussed further below.

The accounting errors referenced above resulted from certain material weaknesses in our internal control over financial reporting. These material weaknesses were identified after the Company's filing of its Form 10-K for the year ended December 31, 2016. Management determined these material weaknesses and other control deficiencies were primarily the result of an ineffective control environment. As a result, the Company lacked effective control activities necessary to prepare accurate financial statements and ensure compliance with regulatory filing requirements applicable to public companies. These material weaknesses are further described in subsection "Evaluation of Disclosure Controls and Procedures" in Part II, Item 9A of our Annual Report on Form 10-K for the year ended December 31, 2017

In addition to the foregoing, beginning in the second quarter of 2017, the Audit Committee authorized an investigative review by its independent counsel and a third-party forensic consulting firm acting at the direction of independent counsel. The need for this investigation arose from allegations brought to the attention of management and the Audit Committee. The investigation related to potential accounting errors in the areas of revenue recognition and asset impairment. This investigation and the related findings are further described in subsection "Evaluation of Disclosure Controls and Procedures" in Part II, Item 9A of our Annual Report on Form 10-K for the year ended December 31, 2017. The errors and misstatements identified as part of these investigations were corrected, as appropriate, in the Company's prior period financial statements.

Please refer to subsection "Evaluation of Disclosure Controls and Procedures" in Part II, Item 9A, as well as, Note 2 - Restatement of Previously Issued Financial Statements of the Notes to Consolidated Financial Statements in Item 8 contained in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2017 for a more complete discussion of the findings.

Table of Contents

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

For a discussion of our material pending legal proceedings that could impact our results of operations, financial condition or cash flows see Note 12, “Commitments and Contingencies” included in Part I, Item 1. “Notes to Condensed Consolidated Financial Statements (unaudited)” of this Quarterly Report on Form 10-Q.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2017, 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 adversely affected. In that case, the trading price of our stock could decline, and our stockholders may lose part or all of their investment.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

ITEM 5. OTHER INFORMATION

None.

Table of Contents

ITEM 6. EXHIBITS

Exhibit No.	Description
3.1	<u>Restated Certificate of Incorporation of the Registrant, incorporated by reference to Registrant's Registration Statement on Form S-1 (Commission File No. 333-132080).</u>
3.2	<u>Amended and Restated Bylaws of the Registrant, incorporated by reference to Registrant's Registration Statement on Form S-1 (Commission File No. 333-132080).</u>
3.3	<u>Certificate of designations of series A convertible participating perpetual preferred stock</u>
4.1	<u>Reference is made to Exhibits 3.1, 3.2 and 3.3.</u>
4.2	<u>Form of Common Stock Certificate, incorporated by reference to Registrant's Registration Statement on Form S-1 (Commission File No. 333-132080)</u>
4.3	<u>Form of Indenture for Convertible Senior Notes, incorporated by reference to Registrant's Registration Statement on Form S-3 (Commission File No. 333-197871)</u>
4.4	<u>Investor Rights Agreement by and between Synchronoss Technologies, Inc. and Silver Private Holdings I, LLC dated as of February 15, 2018, incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed on February 20, 2018.</u>
10.1	<u>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).</u>
10.2†	<u>Cingular Master Services Agreement, effective September 1, 2005 by and between the Registrant and Cingular Wireless LLC, incorporated by reference to Registrant's Annual Report on Form 10-K for the year ended December 31, 2008.</u>
10.3†	<u>Subordinate Material and Services Agreement No. SG021306.S.025 by and between the Registrant and AT&amp;T Services, Inc. dated as of August 1, 2013, incorporated by reference to Registrant's Annual Report on Form 10-K for the year ended December 31, 2013.</u>
10.4†	<u>Employment Agreement dated as of January 1, 2017 between the Registrant and Stephen G. Waldis.</u>
10.5†	<u>Tier One Executive Employment Plan effective March 24, 2017.</u>
10.6†	<u>Employment Agreement dated as of April 27, 2017 between the Registrant and Lawrence R. Irving.</u>
10.7†	<u>Employment Agreement dated as of May 1, 2017 between the Registrant and Robert Garcia.</u>
10.8†	<u>Executive Employment Letter dated as of May 5, 2017 between the Registrant and Daniel Rizer.</u>
10.9†	<u>Executive Employment Letter dated as of May 5, 2017 between the Registrant and Christopher Putnam.</u>
10.10†	<u>Employment Agreement dated as of November 13, 2017 between the Registrant and Glenn Lurie, incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on November 17, 2017.</u>
10.11†	<u>2017 New Hire Equity Incentive Plan, incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on December 21, 2017.</u>
10.12†	<u>Application Service Provider Agreement retroactively effective as of April 1, 2013 by and between the Registrant and Verizon Sourcing LLC.</u>
10.13†	<u>Change Request No 8 effective January 1, 2018 to SOW No.1 Application Service Provider Agreement to effective as of April 1, 2013 by and between the Registrant and Verizon Sourcing LLC.</u>
31.1	<u>Certification of Principal 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</u>
31.2	<u>Certification of Principal 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</u>
32.1	<u>Certification of Principal 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</u>
32.2	<u>Certification of Principal 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</u>

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.

Table of Contents

SIGNATURES

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

Synchronoss Technologies, Inc.

/s/ Glenn Lurie  
Glenn Lurie  
Chief Executive Officer  
(Principal Executive Officer)

/s/ Lawrence R. Irving  
Lawrence R. Irving  
Chief Financial Officer & Treasurer

June 29, 2018