

SYNCHRONOSS TECHNOLOGIES INC

Form 10-K

February 26, 2014

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**Form 10-K**

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

For the fiscal year ended December 31, 2013

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number 000-52049

**SYNCHRONOSS TECHNOLOGIES, INC.**

(Exact name of registrant as specified in its charter)

**Delaware** **06-1594540**  
(State of incorporation) (IRS Employer Identification No.)  
**200 Crossing Boulevard, 8<sup>th</sup> Floor, Bridgewater, New Jersey 08807**  
(Address of principal executive offices, including ZIP code)

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

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

| <b>Title of each class</b>                | <b>Name of each exchange on which registered</b> |
|---|--|
| Common Stock, par value \$.0001 par value | The NASDAQ Stock Market, LLC                     |

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

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

The aggregate market value of the common stock held by non-affiliates of the Registrant as of June 28, 2013, the last business day of the Registrant's last completed second quarter, based upon the closing price of the common stock as reported by The NASDAQ Stock Market on such date was approximately \$857 million. Shares of common stock held by each executive officer, director and stockholders known by the Registrant to own 10% or more of the outstanding stock based on public filings and other information known to the Registrant have been excluded since such persons may be deemed affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of February 11, 2014, a total of 40,859,294 shares of the Registrant's common stock were outstanding. The exhibit index as required by Item 601(a) of Regulation S-K is included in Item 15 of Part IV of this report on Form 10-K.

**DOCUMENTS INCORPORATED BY REFERENCE**

Information required by Part III (Items 10, 11, 12, 13 and 14) is incorporated by reference to portions of the Registrant's definitive Proxy Statement for its 2014 Annual Meeting of Stockholders (the "Proxy Statement"), which is to be filed pursuant to Regulation 14A within 120 days after the end of the Registrant's fiscal year ended December 31, 2013. Except as expressly incorporated by reference, the Proxy Statement shall not be deemed to be a part of this report on Form 10-K.

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FORM 10-K  
DECEMBER 31, 2013

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**PART I**

**ITEM 1. BUSINESS**

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

**General**

We are a mobile innovation company that provides cloud solutions and software-based activation for connected devices globally. Such services include intelligent connectivity management and content synchronization, backup and sharing, as well as device and service procurement, provisioning, activation, and support, that enable communications service providers (CSPs), cable operators/multi-services operators (MSOs), original equipment manufacturers (OEMs) with embedded connectivity (e.g. smartphones, laptops, tablets and mobile Internet devices, such as automobiles, wearables for personal health and wellness, and connected homes), multi-channel retailers and other customers to accelerate and monetize their go-to-market strategies for connected devices. This includes automating subscriber activation, order management, upgrades, service provisioning and connectivity and content management from any sales channel to any communication service (wireless or wireline), across any connected device type and managing the content transfer, synchronization and share. Our global solutions touch all aspects of connected devices on the mobile Internet.

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

Our Activation Services, Synchronoss Personal Cloud, Synchronoss WorkSpace and Synchronoss Integrated Life platforms provide end-to-end seamless integration between customer-facing channels/applications, communication services, or devices and "back-office" infrastructure-related systems and processes. Our customers rely on our solutions and technology to automate the process of activation and content and settings management for their customers' devices while delivering additional communication services. Our Synchronoss Integrated Life platform brings together the capabilities of device/service activation with content and settings management to provide a seamless experience of activating and managing non-traditional devices. Our platforms also support automated customer care processes through use of accurate and effective speech processing technology and enable our customers

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to offer their subscribers the ability to store in and retrieve from the Cloud their personal and work content and data which resides on their connected mobile devices, such as personal computers, smartphones and tablets. Our platforms are designed to be carrier-grade, highly available, flexible and scalable to enable multiple converged communication services to be managed across multiple distribution channels, including e-commerce, m-commerce, telesales, customer stores, indirect and other retail outlets, etc., allowing us to meet the rapidly changing and converging services and connected devices offered by our customers. We enable our customers to acquire, retain and service subscribers quickly, reliably and cost-effectively by enabling backup, restore, synchronization and sharing of subscriber content. Through the use of our platforms, our customers can simplify the processes associated with managing the customer experience for procuring, activating, connecting, backing-up, synchronizing and social media and enterprise-wide sharing/collaboration with connected devices and contents from these devices and associated services. The extensibility, scalability, reliability and relevance of our platforms enable new revenue streams and retention opportunities for our customers through new subscriber acquisitions, sale of new devices, accessories and new value-added service offerings in the Cloud, while optimizing their cost of operations and enhancing customer experience.

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

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

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

**Synchronoss' Platforms**

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

Our Activation Services and Integrated Life platforms orchestrate the complex and different back-end systems of communication service providers to provide a best-in-class ordering system by orchestrating the workflow and consolidated automated customer care services. This allows CSPs using our platforms to realize the full benefits of their offerings and analyze customer buying behavior. The platforms also support, among other automated transaction areas, credit card billing, inventory

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management, and trouble ticketing. In addition to this, the platform supports the physical transactions involved in customer activation and service such as managing access service requests, local service requests, local number portability, and directory listings. Our Integrated Life platform also enables our customers to activate non-traditional devices, such as wearables and automobiles, where activations could take place in environments totally out of a mobile operator's control, such as at an OEM or in the hands of an end-consumer in a car, as an example.

Our Synchronoss Personal Cloud and Synchronoss WorkSpace platforms extend features from our core platform into more transaction areas required to enable subscriber management for connected devices including directly on the device itself. In addition, the Synchronoss Personal Cloud platform is specifically designed to support connected devices, such as smartphones, mobile Internet devices (MIDs), laptops, tablets and wirelessly enabled consumer electronics such as wearables for health and wellness, cameras, tablets, e-readers, personal navigation devices, and global positioning system (GPS) enabled devices, as well as connected automobiles.

Our Synchronoss Personal Cloud platform is designed to deliver an operator-branded experience for subscribers to backup, restore, synchronize and share their personal content across smartphones, tablets, computers and other connected devices from anywhere at any time. A key element of the Synchronoss Personal Cloud platform is that it extends a carrier's or OEM's visibility and reach into all aspects of a subscriber's use of a connected device. It introduces the notion of Connect-Sync-Activate for all devices. Through our Activation Services platform, a device is activated via a variety of different channels; once activated, our solution enables the device to be connected to the best available network by enforcing policies that are managed from the Cloud by a carrier. Once connected, most users of mobile devices avail themselves of content synchronization from the Cloud using policies that are appropriate and applicable to each specific device.

Our Synchronoss WorkSpace platform is designed to deliver an operator branded or enterprise co-branded experience for employees of small and medium businesses to share and collaborate with documents and files through the use of any device from any place without violating corporate enterprise policies and adhering to compliance policies.

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

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

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customers the opportunity to improve performance and efficiencies for activation, content migration and connectivity management for connected devices.

Our platforms are designed to be:

*Carrier Grade:* We designed our platforms to handle high-volume transactions from carriers (such as the launch of the new iPhone 5) rapidly and efficiently, with virtually no down-time. Our platforms are also capable of simultaneously handling millions of device content related transactions on a daily basis to ensure that personal content on all subscriber devices stays fresh and synchronized with the Cloud.

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

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

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

*Scalable:* Our platforms are designed to process expanding transaction volumes reliably and cost effectively. While our transaction volume has increased rapidly since our inception, we anticipate substantial future growth in transaction volumes, and we believe our platforms are capable of scaling their output commensurately, requiring principally routine computer hardware and software updates. Our synchronization and activation platforms routinely support our customers' transactions at the highest level of demands when needed with our current production deployments. We continue to see the number of transactions for connected devices, such as smartphones, mobile Internet devices (MIDs), laptops, tablets and wirelessly enabled consumer

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electronics such as cameras, tablets, e-readers, personal navigation devices, global positioning system (GPS) enabled devices, and other connected consumer electronics, to be one of the fastest growing transaction types across all our platforms, products and services. Our Synchronoss Personal Cloud platform is deployed across more than 65 million devices, managing 10 billion entities in the Cloud and performing more than 7 million synchronizations per day.

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

*Build Consumer Loyalty:* Our synchronization services help drive consumers to the CSPs, OEM or multi-channel retailers by presenting them with a branded application and fully-integrated Web portal that provides convenience, security, and continuity for end user customers, which we believe helps our customers by further building the loyalty of their subscribers. Our Synchronoss Personal Cloud solution helps reduce subscriber churn by making it easy for subscribers to migrate smartphone content from an old device to a new device.

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

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

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

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

**Demand Drivers for Our Business**

Our products and services are capable of managing a wide variety of transactions across multiple customer delivery channels and services, which we believe enables us to benefit from increased growth, complexity and technological change in the communications technology industry. As the communications technology industry evolves, new access networks, connected devices and applications with multiple services and modes are emerging. This proliferation of services and advancement of



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technologies, combined with their bundling, are accelerating subscriber growth, significantly expanding the types and volume of rich content accessed and stored by consumers, and increasing the number of transactions between our customers and their subscribers. In addition to this dynamic, we believe our core electronic transaction management business is further being driven by the following factors:

A proliferation of connected devices led by a) new and richer operating systems that challenge the status quo, b) increasing connected devices adoption, c) broadband networks experiencing critical mass and d) enhanced cloud computing enabling access to rich content

New and evolving business models by North American carriers encouraging more frequent device upgrades by subscribers

Wireless ecosystem continues to experience a paradigm shift in its buying patterns

Continued growth of the online channel for the communications marketplace

Expansion of communication service bundles to be utilized across multiple devices

Pressure on operators to improve efficiency while delivering a superior subscriber experience

Growth of the on-demand delivery model

Mobile Network Operators' shift in focus from new subscriber additions to new connections added, as well as an increasing concentration adding new non-traditional devices to family share plans

We continue to see embedded connectivity technology within a vast array of common electronic devices. ABI Research's latest data on the Internet of Everything (IoE) shows that there are more than 10 billion wirelessly connected devices in the market today; with over 30 billion devices expected by 2020.

We see the following drivers behind this development:

*New and Richer Operating Systems:* In many ways, device operating systems like the iOS for the iPhone/iTouch/iPad portfolio, the Android produced by Google, Windows® mobile devices, and BlackBerry OS for the BlackBerry portfolio have accelerated the adoption and usage of smartphones. For the full calendar year 2013, worldwide tablet shipments totaled 217.1 million units, which is up from 144.2 million units for the full year 2012 and represents a year-over-year growth rate of 50.6%.

*Increasing Mobile Adoption Worldwide:* According to estimates by the International Telecommunication Union (ITU), there are 2.1 billion active mobile-broadband subscriptions in the world (this is people with a 3G or 4G connection). That is 29.5 percent of the global population. Citing a separate market report by the GSMA titled, "The Mobile Economy 2013," the GSMA conveyed confidence that the next few years will see continued growth with a further 700 million (mobile) subscribers expected to be added by 2017 and the 4 billion mark to be passed in 2018.

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

*4G-LTE Networks:* The emergence of 4G-LTE networks is expected to improve the connected devices customer experience with higher data speeds and reduced latency. In addition, devices such as



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mobile routers and tablets can generate mobile hotspots. With fixed mobile broadband, mobile carriers and MSOs can also offer bundled services. As well, these networks are also focused on enhancing Machine to Machine (M2M) communications.

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

Continued Growth of the Online Channel for the Communications Space: Cloud-based commerce provides our customers with the opportunity to cost-effectively gain new subscribers, provide service and interact more effectively. Specifically, we estimate that the cost per gross add (CPGA) for a customer obtained via e-commerce can be up to 50% less than those obtained via traditional means. With the dramatic increase in Internet usage and desire to directly connect with end users over the course of the customer lifecycle, service providers are increasingly focusing on e-commerce as a channel for customer acquisition and delivery of ongoing services. According to the market research firm Forrester, the growth of e-commerce, which already accounts for about 8% of total retail sales in the U.S., is expected to outpace sales growth at brick-and-mortar stores over the next five years reaching \$370 billion in sales by 2017. As online channels continue to experience growth, we expect that there will be an increasing need to automate the activation and provisioning process of mobile devices, and provide a best-in-class customer experience over the Internet.

Expansion of Communication Service Bundles: By 2016, thirteen percent of U.S. households will take a "Quad Play" service a bundled offering of fixed voice, broadband, television and mobile voice from the same provider in 2016, according to a report just published by Strategy Analytics. This represents a four-fold increase compared to 2011 levels. With subscribers expecting CSPs to offer all services under one contract, communications companies continue the development of bundled style offerings of their available services. In this environment, more CSPs are utilizing an array of communication delivery technologies to become all-in-one providers of communication services. For example, MSOs are increasingly creating true quad-play's (i.e., voice, video, high speed data and wireless) with the creation, acquisition and/or development of their own wireless networks. As wireless technology proliferates further into the consumer device market, we believe we will see an emergence of service bundling that surpasses the traditional perception of a quad-play, where the wireless component will encompass an added array of wireless enabled devices. As quad-play offerings gain more traction and service bundles begin encompassing emerging devices and technologies, we believe that the level of complexity in seamlessly delivering these services will increase significantly and that CSPs will need transaction management systems that can effectively handle those delivery challenges.

Smartphone Sales and Diversification: Worldwide sales of smartphones to end users totaled 968 million units in 2013, an increase of 42.3 percent from 2012, according to Gartner, Inc. Sales of smartphones accounted for 53.6 percent of overall mobile phone sales in 2013, and exceeded annual sales of feature phones for the first time. Despite a number of mature markets nearing smartphone saturation, the demand for low-cost computing in emerging markets continues to drive the smartphone market forward. By 2017, total smartphone shipments are expected to approach 1.7 billion units, resulting in an expected compound annual growth rate (CAGR) of 18.4% from 2013 to 2017. These smartphones, tablets and other connected devices have a need to store, synchronize and share content across multiple devices which drive the need for personal cloud solutions in the marketplace.

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Faster Upgrade Cycles for Smartphones: In 2013, Yankee Group valued the market for mobile and connected devices at \$485 billion. By 2017, that number will have increased to surpass \$919 billion growing at a much quicker pace than previously thought. Two key areas of our business are involved in this process. Subscribers placing their orders on-line with our operator customers, transparently use our Activation systems for these upgrades resulting in growth of transactions for us. Secondly, subscribers who upgrade need to back up their data from old phones and restore that data on their new devices, which increases need for our cloud solutions. With the storage capacity of Smartphones increasing each year, we anticipate that the requirements for storage to back up the data on these devices will also increase.

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

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

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

**Our Growth Strategy**

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

Key elements of this strategy are:

*Expand our Product Portfolio to Communication Service Providers.* Given the explosive growth of connected mobile broadband devices and the increasing need to backup, restore and share content across those devices, our objective is to play a vital role in monetizing those devices with our connect-sync-activate strategy. Methods of monetization may include licenses per device, maintenance fees, professional service fees, active user fees as well as data storage fees. The

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acquisition of Newbay Software, Limited, has enabled us to expand the functionality of our Synchronoss Personal Cloud platform and improve the scalability of the existing NewBay platform to offer a more robust solution to our customers. Once our Synchronoss Personal Cloud solution deployment reaches critical mass, we believe we will be able to integrate the solution with other potential revenue generating offers from service providers and other customers.

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

*Expand Into New Geographic Markets.* Although the majority of our revenue has traditionally been generated in North America, we continue to expand globally. Today, we have several instances of our platforms deployed in Europe and new customer engagements with a variety of carriers in Europe, including Vodafone and Telefonica, to support their customers. In addition, our recent acquisitions of Miyowa SA, SpeechCycle, Inc., Spatial Systems Nominees PTY Limited and Newbay Software Limited have helped expand our operations and customer engagements in Europe and the Asia-Pacific region. We believe that the growth of connected devices will further drive opportunities to penetrate new geographic markets within the coming years. Asia/Pacific and Latin America are of particular interest, as these markets experience similar trends to those that have driven growth in North America.

*Expand through Strategic Partnerships or Acquisitions.* We are in the process of integrating our various acquisitions and we will continue to assimilate the synergies and efficiencies that these acquisitions may afford us. As we explore additional new opportunities, we continue to look for strategic partnership or acquisition candidates that may enable us to enter new markets or enhance our offerings.

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

*Expand into Emerging Devices Space.* Various forecasts from industry leading sources have cited explosive growth in the non-traditional connected devices space. Such devices include connected cars, connected homes, health and wellness and health care domains. We plan on expanding both our activation platforms (focused on the new activation needs emerging from such devices on the service provider networks) as well as our cloud platforms (focused on storing data from the varying devices to be stored securely in the Cloud) in an effort to capitalize on the growth emerging from these new opportunities.

*Maintain Technology Leadership.* We strive to continue to build upon our technology leadership by continuing to invest in research and development to increase the automation of processes and workflows and develop complementary product modules that leverage our platforms

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and competitive strengths, thus driving increased interest by making it more economical for customers to use us as a third-party solutions provider. In addition, we believe our close relationships with our Tier 1 customers will continue to provide us with valuable insights into the dynamics that are creating demand for next-generation solutions.

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

**Customers**

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

We maintain strong and collaborative relationships with our customers, which we believe to be one of our core competencies and critical to our success. We are generally the only provider of the services we offer to our customers. Contracts extend up to 60 months from execution and include minimum transaction or revenue commitments from our customers. All of our significant customers may terminate their contracts for convenience upon written notice and in many cases payment of contractual penalties. Contract penalties received by us were immaterial to our Statements of Income for the years ended December 31, 2013, 2012, and 2011.

Our top five customers accounted for 77%, 76% and 86% of net revenues for 2013, 2012 and 2011, respectively. Our top five customers accounted for 76% and 67% of accounts receivable at December 31, 2013 and 2012, respectively. Of these customers, AT&T and Verizon Wireless each accounted for more than 10% of our revenues in 2013. The loss of either AT&T or Verizon as a customer would have a material negative impact on our company. We believe that if either AT&T or Verizon terminated their relationships with us, AT&T and Verizon would encounter substantial costs in replacing Synchronoss' transaction management solutions.

**Sales and Marketing**

*Sales*

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

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***Marketing***

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

**Operations and Technology**

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

***Exception Handling Services***

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

***Locations***

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

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***Data Center Facilities***

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

***Network***

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

***Disaster Recovery Facility***

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

***Customer Support***

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

**Competition**

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

Breadth and depth of our transaction and content management solutions, including our exception handling technology

Carrier grade nature and scalability of our solutions

Quality and performance of our products

High-quality customer service



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Ability to implement and integrate solutions

Overall value of our platforms

References of our customers

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

**Government Regulation**

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

**Intellectual Property**

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

**Employees**

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

As of December 31, 2013, we had 1,401 full-time employees. None of our employees are covered by any collective bargaining agreements.

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The following sets forth certain information regarding our Executive Officers as of February 15, 2014:

| <b>Name</b>          | <b>Age</b> | <b>Position</b>  |
|----------------------|------------|--|
| Stephen G. Waldis    | 46         | Chairman of the Board of Directors and Chief Executive Officer             |
| Robert Garcia        | 45         | President and Chief Operating Officer                                      |
| Lawrence R. Irving   | 57         | Executive Vice President, Chief Financial Officer and Treasurer(1)         |
| Ronald J. Prague     | 50         | Executive Vice President, Chief Legal Officer, General Counsel & Secretary |
| Nicholas Lazzaro     | 44         | Executive Vice President and President of Emerging Markets                 |
| Mark Mendes          | 51         | Executive Vice President and President of North America                    |
| Patrick J. Doran     | 40         | Executive Vice President and Chief Technology Officer                      |
| Daniel Rizer         | 50         | Executive Vice President of Product Management and Business Development    |
| Biju Nair            | 48         | Executive Vice President and Chief Corporate Strategy Officer              |
| David Berry          | 48         | Executive Vice President and Chief Innovation Officer                      |
| Paula J. Hilbert     | 58         | Executive Vice President and Chief Human Resources Officer                 |
| Karen L. Rosenberger | 48         | Senior Vice President and Chief Accounting Officer(2)                      |

(1) Mr. Irving has informed us that he intends to step down as Chief Financial Officer and Treasurer effective as of April 1, 2014 and remain with the Company in an advisory role to assist with the transition through December 31, 2014.

(2) Effective as of April 1, 2014, our Board of Directors has elected Ms. Rosenberger to replace Mr. Irving as Executive Vice President, Chief Financial Officer and Treasurer.

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

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

*Lawrence R. Irving* has served as Chief Financial Officer and Treasurer of Synchronoss since 2001. Before joining Synchronoss, from 1998 to 2001, Mr. Irving served as Chief Financial Officer and Treasurer at CommTech Corporation, a telecommunications software provider that was acquired by ADC Telecommunications. From 1995 to 1998, Mr. Irving served as Chief Financial Officer of Holmes Protection Group, a publicly traded company which was acquired by Tyco International. Mr. Irving is a

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certified public accountant and a member of the New York State Society of Certified Public Accountants. Mr. Irving received a degree in accounting from Pace University.

*Ronald J. Prague* was promoted to Executive Vice President and Chief Legal Officer in December 2011. Mr. Prague joined Synchronoss in 2006 as General Counsel, and has served as Secretary since October 2006. Before joining Synchronoss, Mr. Prague held various senior positions with Intel Corporation from 1998 to 2006, including as Group Counsel for Intel's Communications Infrastructure Group. Prior to joining Intel, Mr. Prague practiced law with the law firms of Haythe & Curley (now Torys LLP) and Richards & O'Neil (now Bingham McCutchen). Mr. Prague is a graduate of Northwestern University School of Law and earned a degree in business administration and marketing from Cornell University.

*Nicholas Lazzaro* joined Synchronoss in May 2013. Prior to joining Synchronoss, from 2009 to May 2013, Mr. Lazzaro served as Senior Vice President, Product Development and Information Technology at Vonage Systems, Inc. and from 2008 to 2009 served as Division President at AmDocs, Inc. Mr. Lazzaro received a degree in Finance from the State University of New York, Buffalo.

*Mark Mendes* has served as President of North America since February 2014. Prior to that position, Mr. Mendes held various senior positions since he joined Synchronoss in 2008 in connection with Synchronoss' acquisition of Wisor Telecom Corp., where Mr. Mendes was Chief Executive Officer since 2001. Prior to joining Wisor, from 1997 to 2001, Mr. Mendes was Chief Operating Officer and Chief Technology Officer of NET2000 Communications, Inc. Mr. Mendes received an Engineering degree and MBA Finance/MIS from Syracuse University.

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

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

*Paula J. Hilbert* has served as Executive Vice President and Chief Human Resources Officer since January 2013. Prior to that position, Ms. Hilbert served as Executive Vice President of Global Operations and Chief Service Officer since she joined Synchronoss in 2010. Before joining Synchronoss, Ms. Hilbert was an independent consultant from 2008 to 2010. Prior to that position, Ms. Hilbert served as a Managing Director/Global Client Service and Offshoring at JP Morgan Chase Treasury and Securities Services from 2003 to 2008. Prior to JP Morgan Chase, Ms. Hilbert held senior positions at AT&T from 1979 to 2003, including Vice President Customer Relationship Management. Ms. Hilbert holds a Bachelor of Science degree in Business Administration from Clarion University.

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

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*Biju Nair* has served as Executive Vice President of Product Management and Chief Strategy Officer of Synchronoss since the acquisition of Sapience Knowledge Systems, Inc. ("Sapience") in 2011, where he was Chairman and Chief Executive Officer. Prior to founding Sapience in 2009, Mr. Nair was Senior Vice President & General Manager of the Connectivity and Security Group at Smith Micro Software, Inc. (NASDAQ: SMSI), a position he held since Mobility Solutions Group, a division of PCTEL, Inc., the company where he was Corporate Vice President & General Manager and founder, was acquired by Smith Micro in 2008. Mr. Nair also held senior executive positions at SAFCO Technologies and Agilent Technologies. Mr. Nair holds a Master of Science degree in Electronic and Computer Engineering from Politechnika Warszawska and a Master of Science degree in Computer Science from Illinois Institute of Technology.

*Karen L. Rosenberger* has served as Senior Vice President and Chief Accounting Officer of Synchronoss since 2012 and served as Controller from 2000 until January 2014. Before joining Synchronoss, Ms. Rosenberger held various management positions with Medical Broadcasting Company and CoreTech Consulting Group. Ms. Rosenberger received a degree in accounting from Cedar Crest College and a Master of Business Administration from Saint Joseph's University. Ms. Rosenberger is a certified public accountant and a member of the American Institute of Certified Public Accountants and the New Jersey Society of Certified Public Accountants.

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**ITEM 1A. RISK FACTORS**

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

**Risks Related to Our Business and Industry**

***We Have Substantial Customer Concentration, with a Limited Number of Customers Accounting for a Substantial Portion of our 2013 Revenues.***

Our five largest customers, AT&T, Verizon Wireless, Comcast, NBN Co Limited and Vodafone, accounted for approximately 77% of our revenues for the year ended December 31, 2013, as compared to our five largest customers, AT&T, Level 3 Communications, Time Warner Cable, Verizon Wireless and Vodafone, which accounted for 76% of our revenues for the year ended December 31, 2012. Of these customers, AT&T and Verizon Wireless each accounted for more than 10% of our revenues in 2013. There are inherent risks whenever a large percentage of total revenues are concentrated with a limited number of customers. It is not possible for us to predict the future level of demand for our services that will be generated by these customers or the future demand for the products and services of these customers in the end-user marketplace. In addition, revenues from these larger customers may fluctuate from time to time based on the commencement and completion of projects, the timing of which may be affected by market conditions or other facts, some of which may be outside of our control. Further, some of our contracts with these larger customers permit them to terminate our services at any time (subject to notice and certain other provisions). If any of these customers experience declining or delayed sales due to market, economic or competitive conditions, we could be pressured to reduce the prices we charge for our services or we could lose a major customer. Any such development could have an adverse effect on our margins and financial position, and would negatively affect our revenues and results of operations and/or trading price of our common stock.

***The Communications Industry is Highly Competitive, and if We Do Not Adapt to Rapid Technological Change, We Could Lose Customers or Market Share.***

Our industry is characterized by rapid technological change and frequent new service offerings and is highly competitive with respect to the need for innovation. Significant technological changes could make our technology and services obsolete, less marketable or less competitive. We must adapt to our rapidly changing market by continually improving the features, functionality, reliability and responsiveness of our transaction management services, and by developing new features, services and applications to meet changing customer needs. Our ability to take advantage of opportunities in the market may require us to invest in development and incur other expenses well in advance of our ability to generate revenues from these offerings or services. We may not be able to adapt to these challenges or respond successfully or in a cost-effective way. Our failure to do so would adversely affect our ability to compete and retain customers and/or market share. Further, we may experience delays in the development of one or more features of our offerings, which could materially reduce the potential benefits to us providing these services. In addition, our present or future service offerings may not satisfy the evolving needs of the industry in which we operate. If we are unable to anticipate or respond adequately to such needs, due to resource, technological or other constraints, our business and results of operations could be harmed.

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***The Success of Our Business Depends on the Continued Growth of Consumer and Business Transactions Related to Communications Services on the Internet.***

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

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

***The Success of Our Business Depends on the Continued Growth in Demand for Connected Devices.***

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

***The Success of Our Business Depends on our Ability to Achieve or Sustain Market Acceptance of Our Services and Solutions at Desired Pricing Levels.***

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

***Our Cloud Strategy, Including our Synchronoss Personal Cloud , Synchronoss WorkSpace , and Synchronoss Integrated Life Offerings, May Not be Successful.***

Our cloud strategy, including our Synchronoss Personal Cloud , Synchronoss WorkSpace , and Synchronoss Integrated Life offerings, may not be successful. We offer customers the ability to offer their subscribers the ability to backup, restore and share content across multiple devices through a cloud-based environment in the Cloud. The success of our Synchronoss Personal Cloud and Synchronoss WorkSpace offerings is dependent upon continued acceptance by and growth in subscribers of cloud-based services in general and there can be no guarantee of the adoption rate by these subscribers. In addition to this, the success of our Synchronoss Integrated Life offering is

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

***Our Revenue, Earnings And Profitability Are Affected By The Length Of Our Sales Cycle, And A Longer Sales Cycle Could Adversely Affect Our Results Of Operations And Financial Condition.***

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

***If We Do Not Meet Our Revenue Forecasts, We May Be Unable To Reduce Our Expenses To Avoid Or Minimize Harm To Our Results Of Operations.***

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

In the course of our sales to customers, we may encounter difficulty collecting accounts receivable and could be exposed to risks associated with uncollectible accounts receivable. In the event we are unable to collect on our accounts receivable, it could negatively affect our cash flows, operating results and business.

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***Compromises to Our Privacy Safeguards or Disclosure of Confidential Information Could Impact Our Reputation.***

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

***Fraudulent Internet Transactions Could Negatively Impact Our Business.***

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

***If the Wireless Services Industry Experiences a Decline in Subscribers, Our Business May Suffer.***

The wireless services industry has faced an increasing number of challenges, including a slowdown in new subscriber growth. Revenues from services performed for customers in the wireless services industry accounted for 48% of our revenues in 2013 and 2012. A continued slowdown in subscriber growth in the wireless services industry could adversely affect our business growth.

***The Consolidation in the Communications Industry Can Reduce the Number of Actual and Potential Customers and Adversely Affect Our Business.***

The communications industry continues to experience consolidation and an increased formation of alliances among CSPs and between CSPs and other entities. Should one or more of our significant customers consolidate or enter into an alliance with an entity or decide to either use a different service provider or to manage its transactions internally, this could have a negative material impact on our business. Any such consolidations, alliances or decisions to manage transactions internally may cause us to lose customers or require us to reduce prices as a result of enhanced customer leverage, which



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would have a material adverse effect on our business. We may not be able to offset the effects of any price reductions. We may not be able to expand our customer base to make up any revenue declines if we lose customers or if our transaction volumes decline.

***If We Fail to Compete Successfully With Existing or New Competitors, Our Business Could Be Harmed.***

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

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

***Failures or Interruptions of Our Systems and Services Could Materially Harm Our Revenues, Impair Our Ability to Conduct Our Operations and Damage Relationships with Our Customers.***

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

damage to or failure of our computer software or hardware or our connections and outsourced service arrangements with third parties;

errors in the processing of data by our system;

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computer viruses or software defects;

physical or electronic break-ins, sabotage, intentional acts of vandalism and similar events;

fire, cyber-attack, terrorist attack or other catastrophic event;

increased capacity demands or changes in systems requirements of our customers; or

errors by our employees or third-party service providers.

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

***If We Fail to Meet Our Service Level Obligations Under Our Service Level Agreements, We Would Be Subject to Penalties and Could Lose Customers.***

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

***Economic, Political and Market Conditions Can Adversely Affect Our Business, Results of Operations and Financial Condition.***

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

***We are Exposed to Our Customers' Credit Risk.***

We are subject to the credit risk of our customers and customers with liquidity issues may lead to bad debt expense for us. Most of our sales are on an open credit basis, with typical payment terms of between 45 and 60 days in the United States and, because of local customs or conditions, longer payment terms in some markets outside the United States. We use various methods to screen potential customers and establish appropriate credit limits, but these methods cannot eliminate all potential bad credit risks and may not prevent us from approving applications that are fraudulently completed. Moreover, businesses that are good credit risks at the time of application may become bad credit risks over time and we may fail to detect this change. We maintain reserves we believe are adequate to cover exposure for doubtful accounts. If we fail to adequately assess and monitor our credit risks, we could experience longer payment cycles, increased collection costs and higher bad debt expense. A decrease in accounts receivable resulting from an increase in bad debt expense could adversely affect our liquidity. Our exposure to credit risks may increase if our customers are adversely affected by a difficult

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macroeconomic environment, or if there is a continuation or worsening of the economic environment. Although we have programs in place that are designed to monitor and mitigate the associated risk, including monitoring of particular risks in certain geographic areas, there can be no assurance that such programs will be effective in reducing our credit risks or the incurrence of additional losses. Future and additional losses, if incurred, could harm our business and have a material adverse effect on our business operating results and financial condition. Additionally, to the degree that the current or future credit markets makes it more difficult for some customers to obtain financing, those customers' ability to pay could be adversely impacted, which in turn could have a material adverse impact on our business, operating results, and financial condition.

***The Financial and Operating Difficulties in the Telecommunications Sector May Negatively Affect Our Customers and Our Company.***

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

***Our Reliance on Third-Party Providers for Communications Software, Services, Hardware and Infrastructure Exposes Us to a Variety of Risks We Cannot Control.***

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

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

***Our Failure to Protect Confidential Information and Our Network Against Security Breaches Could Damage Our Reputation and Substantially Harm Our Business and Results of Operations.***

Security threats are a particular challenge to companies like us whose business is technology products and services. The encryption and authentication technology licensed from third parties on which we rely to securely transmit confidential information, including credit card numbers, may not adequately protect customer transaction data. A cyber-attack or any other security incident that allows

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unauthorized access to or modification of our customers' data or our own data or our IT systems or if the services we provide to our customers were disrupted, or if our products or services are perceived as having security vulnerabilities, could damage our reputation and expose us to risk of loss or litigation and possible liability or fines which could substantially harm our business and results of operations. In addition, anyone who is able to circumvent our security measures could misappropriate proprietary information or cause interruptions in our operations. Although we carry general liability insurance, our insurance may not cover potential claims of this type or may not be adequate to cover all costs incurred in defense of potential claims or to indemnify us for all liability that may be imposed. As a result, we may need to expend significant resources to protect against security breaches or to address problems caused by breaches.

***If We Are Unable to Protect Our Intellectual Property Rights, Our Competitive Position Could Be Harmed or We Could Be Required to Incur Significant Expenses to Enforce Our Rights.***

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

***Claims By Others That We Infringe Their Proprietary Technology Could Harm Our Business.***

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

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If anyone asserts a claim against us relating to proprietary technology or information, while we might seek to license their intellectual property, we might not be able to obtain a license on commercially reasonable terms or on any terms. In addition, any efforts to develop non-infringing technology could be unsuccessful. Our failure to obtain the necessary licenses or other rights or to develop non-infringing technology could prevent us from offering our services and could therefore seriously harm our business.

***We May Seek to Acquire Companies or Technologies, Which Could Disrupt Our Ongoing Business, Disrupt Our Management and Employees and Adversely Affect Our Results of Operations.***

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

diversion of management's attention from other operational matters;

inability to identify acquisition candidates on terms acceptable to us or at all, or inability to complete acquisitions as anticipated or at all;

inability to realize anticipated benefits;

failure to commercialize purchased technologies;

inability to capitalize on characteristics of new markets that may be significantly different from our existing markets;

exposure to operational risks, rules and regulations to the extent such activities are located in countries where we have not historically done business;

inability to obtain and protect intellectual property rights in key technologies;

ineffectiveness of an acquired company's internal controls;

impairment of acquired intangible assets as a result of technological advancements or worse-than-expected performance of the acquired company or its product offerings;

unknown, underestimated and/or undisclosed commitments or liabilities;

excess or underutilized facilities; and

ineffective integration of operations, technologies, products or employees of the acquired companies.

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

*Our Expansion into International Markets May Be Subject to Uncertainties That Could Increase Our Costs to Comply with Regulatory Requirements in Foreign Jurisdictions, Disrupt Our Operations and Require Increased Focus from Our Management.*

Our growth strategy includes the growth of our operations in foreign jurisdictions. International operations and business expansion plans are subject to numerous additional risks, including economic

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and political risks in foreign jurisdictions in which we operate or seek to operate, difficulty in enforcing contracts and collecting receivables through some foreign legal systems, unexpected changes in legal and regulatory requirements, differing technology standards and pace of adoption, fluctuations in currency exchange rates, varying regional and geopolitical business conditions and demands, and the difficulties associated with managing a large organization spread throughout various countries and the differences in foreign laws and regulations, including foreign tax, data privacy requirement, anti-competition, intellectual property, labor, contract, trade and other laws. Additionally, compliance with international and U.S. laws and regulations that apply to our international operational may increase our cost of doing business in foreign jurisdictions. Violation of these laws and regulations could result in fines, criminal sanctions against us, our officers or our employees, or prohibitions on the conduct of our business. As we continue to expand our business globally, our success will depend, in large part, on our ability to anticipate and effectively manage these and other risks associated with our international operations. However, any of these factors could adversely affect our international operations and, consequently, our operating results.

***Our Expansion into International Markets May Expose Us to Risks Associated with Fluctuations in Foreign Currency Exchange Rates That Could Adversely Affect Our Business.***

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

***We Must Recruit and Retain Our Key Management And Other Key Personnel and Our Failure to Recruit and Retain Qualified Employees Could Have a Negative Impact on Our Business.***

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

***Our Inability to Raise Additional Capital or Generate the Significant Capital Necessary to Expand Our Operations and Invest in New Products Could Reduce Our Ability to Compete and Could Harm Our Business.***

We intend to continue to make investments to support our business growth and may require additional funds to respond to business challenges, including the need to develop new products and enhancements to our platform or acquire complementary businesses and technologies. Accordingly, we may need to engage in equity or debt financings to secure additional funds. If we raise additional equity financing, our stockholders may experience significant dilution of their ownership interests and

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the per share value of our common stock could decline. Furthermore, if we engage in debt financing, the holders of debt would have priority over the holders of common stock, and we may be required to accept terms that restrict our ability to incur additional indebtedness. We may also be required to take other actions that would otherwise be in the interests of the debt holders and force us to maintain specified liquidity or other ratios, any of which could harm our business, results of operations, and financial condition. If we need additional capital and cannot raise it on acceptable terms, we may not be able to, among other things:

develop or enhance our products and platform;

acquire complementary technologies, products or businesses;

expand operations, in the United States or internationally; or

respond to competitive pressures or unanticipated working capital requirements;

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

***We Continue to Incur Significant Costs as a Result of Operating as a Public Company, and Our Management Is Required to Devote Substantial Time to New and Ongoing Compliance Initiatives.***

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

Section 404 of the Sarbanes-Oxley Act of 2002 requires that we include in our annual report our assessment of the effectiveness of our internal control over financial reporting and our audited financial statements as of the end of each fiscal year. We successfully completed our assessment of our internal control over financial reporting as of December 31, 2013. Our continued compliance with Section 404 will require that we incur substantial expense and expend significant management time on compliance related issues. We currently do not have an internal audit group and we will evaluate the need to hire additional accounting and financial staff with appropriate public company experience and technical accounting knowledge. In future years, if we fail to timely complete this assessment, there may be a loss of public confidence in our internal control, the market price of our stock could decline and we could be subject to regulatory sanctions or investigations by the NASDAQ Global Market, the Securities and Exchange Commission or other regulatory authorities, which would require additional financial and management resources. In addition, any failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to timely meet our regulatory reporting obligations.



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***Our financial condition and results of operations could be adversely affected if we do not effectively manage future debt.***

In September 2013, we entered into a Credit Agreement (the "Credit Facility") with JP Morgan Chase Bank, N.A., as administrative agent, Wells Fargo Bank, National Association, as syndication agent and Capital One, National Association and KeyBank National Association, as co-documentation agents. The Credit Facility, which will be used for general corporate purposes, is a \$100 million unsecured revolving line of credit that matures in September 2018. We have the right to request an increase in the aggregate principal amount of the Credit Facility to \$150 million. As a result of the Credit Facility, we may be able to incur substantial indebtedness in the future. Our incurrence of substantial indebtedness could:

make it difficult for us to satisfy our financial obligations, including making scheduled principal and interest payments;

limit our ability to borrow additional funds for working capital, capital expenditures, acquisitions or other general business purposes;

limit our ability to use our cash flow or obtain additional financing for future working capital, capital expenditures, acquisitions or other general business purposes;

require us to use a substantial portion of our cash flow from operations to make debt service payments;

limit our flexibility to plan for, or react to, changes in our business and industry; and

increase our vulnerability to the impact of adverse economic and industry conditions.

Our failure to comply with the covenants under the Credit Facility could result in an event of default and the acceleration of any debt then outstanding under the Credit Facility. Any declaration of an event of default could significantly harm our business and prospects and could cause our stock price to decline. Insufficient funds may require us to delay, scale back, or eliminate some or all of our activities.

***Changes in, or Interpretations of, Accounting Principles Could Result in Unfavorable Accounting Charges.***

We prepare our consolidated financial statements in conformity with U.S. generally accepted accounting principles. These principles are subject to interpretation by the SEC and various bodies formed to interpret and create appropriate accounting principles. A change in these principles, or their interpretation, could have a significant effect on our reported results and may even retroactively affect previously reported results. Our accounting principles that recently have been or may be affected by changes in accounting principles are: (i) accounting for stock-based compensation; (ii) accounting for income taxes; (iii) accounting for business combinations and goodwill; (iv) revenue recognition guidance; and (v) accounting for foreign currency translation.

***Changes in, or Interpretations of, Tax Rules and Regulations, Could Adversely Affect our Effective Tax Rates.***

Unanticipated changes in our tax rates could affect our future results of operations. Our future effective tax rates could be unfavorably affected by changes in tax laws or the interpretation of tax laws or by changes in the valuation of our deferred tax assets and liabilities. It is possible that future requirements, including the recently proposed implementation of International Financial Reporting Standards, or IFRS, could change our current application of U.S. generally accepted accounting principles (GAAP), resulting in a material adverse impact on our financial position or results of operations. In addition, we are subject to the continued examination of our income tax returns by the IRS and other tax authorities. We regularly assess the likelihood of outcomes resulting from these examinations, if any, to determine the adequacy of our provision for income taxes. We believe such

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estimates to be reasonable, but there can be no assurance that the final determination of any of these examinations will not have an adverse effect on our operating results and financial position.

***Our Stock Price May Continue to Experience Significant Fluctuations.***

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

***If Securities or Industry Analysts Do Not Publish Research or Reports or Publish Unfavorable Research About Our Business, Our Stock Price and Trading Volume Could Decline.***

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

***Delaware Law and Provisions in Our Amended and Restated Certificate of Incorporation and Bylaws Could Make a Merger, Tender Offer or Proxy Contest Difficult, Therefore Depressing the Trading Price of Our Common Stock.***

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

authorize the issuance of "blank check" preferred stock that could be issued by our Board of Directors to thwart a takeover attempt;

prohibit cumulative voting in the election of directors, which would otherwise allow holders of less than a majority of the stock to elect some directors;

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

require that directors only be removed from office for cause;

provide that vacancies on the Board of Directors, including newly-created directorships, may be filled only by a majority vote of directors then in office;

limit who may call special meetings of stockholders;

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prohibit stockholder action by written consent, requiring all actions to be taken at a meeting of the stockholders; and

establish advance notice requirements for nominating candidates for election to the Board of Directors or for proposing matters that can be acted upon by stockholders at stockholder meetings.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

In 2011, we entered into a ten year lease for approximately 80,000 square feet of office space for our corporate headquarters in Bridgewater, New Jersey. In addition to our principal office space in Bridgewater, New Jersey, we lease facilities and offices in Bethlehem, Pennsylvania, Chicago, Illinois, Denver, Colorado, Tucson, Arizona, Fairpoint, New York, Bellevue and Seattle, Washington, San Jose, California, Galway and Dublin, Ireland, Marseille, France, Melbourne, Australia, and Bangalore, India. Our lease for our 61,000 square foot facility in Bethlehem, Pennsylvania expires in 2019, our lease for our 47,000 square foot facility in Tucson, Arizona expires in 2021, and our lease for our 47,000 square foot facility in Bangalore, India expires in 2017. Lease terms for our other locations expire in the years between 2014 and 2025. We believe that the facilities we now lease are sufficient to meet our needs through at least the next 12 months. However, we may require additional office space after that time or if our current business plans change, and we are currently evaluating expansion possibilities.

**ITEM 3. LEGAL PROCEEDINGS**

On August 26, 2011, we filed a complaint in the United States District Court for the District of New Jersey (Civ Act. No. 11-4947 (FLW/LHG) against Newbay Software, Inc. and Newbay Software, Ltd. (collectively, "Newbay"), claiming that Newbay has infringed, and continues to infringe, several of our patents. On November 28, 2011, Newbay filed an answer to our complaint and asserted certain counterclaims that our patents at issue were invalid. In December 2012, we entered into a patent license and settlement agreement with Newbay and its parent corporation Research in Motion, Ltd. ("RIM") (now called BlackBerry) whereby we granted each of RIM and Newbay a limited license to our patents. As part of the business combination accounting rules we calculated the fair value of the affective settlement using an income approach derived from historical and estimated future cash flow information. As a result of entering into the patent license and settlement agreement, the parties dismissed the above complaints.

Our 2011 acquisition agreement with Miyowa SA provided that former shareholders of Miyowa SA would be eligible for earn-out payments to the extent specified business milestones were achieved following the acquisition. In December 2013, Eurowebfund and Bakamar, two former shareholders of Miyowa SA filed a complaint against us in the Commercial Court of Paris, France claiming that they are entitled to certain earn-out payments under the acquisition agreement. We were served with a copy of this complaint in January 2014. We believe Miyowa SA failed to meet the criteria required for us to pay the claimed amounts and that no earn-out payments are owed. Although we cannot predict the outcome of the lawsuit due to the inherent uncertainties of litigation, we believe the positions of Eurowebfund and Bakamar are without merit, and we intend to vigorously defend against all claims brought by them.

We are not currently subject to any legal proceedings that could have a material adverse effect on our operations; however, we may from time to time become a party to various legal proceedings arising in the ordinary course of our business. For instance, on October 4, 2011, we filed a complaint in the United States District Court for the District of New Jersey (Civ Act. No. 3:11-cv-05811 FLW-TJB)

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against Assurion, Inc. ("Assurion"), claiming that Assurion has infringed, and continues to infringe, several of our patents. On February 3, 2012, Assurion filed an answer to our complaint and asserted certain counterclaims that our patents at issue are invalid. In addition, on November 21, 2011, we filed an amended complaint in the United States District Court for the District of New Jersey (Civ Act. No. 3:11-cv-06713) against OnMobile Global Limited, VoxMobili, Inc. and VolMobili, S.A. ("collectively, VoxMobili"), claiming that VoxMobili has infringed, and continues to infringe, several of our patents. On April 2, 2012, VoxMobili filed an answer to our complaint and asserted certain counterclaims that our patents at issue are invalid. On March 23, 2013, the Court stayed both the Assurion and VoxMobili actions pending reexamination of several asserted patents in the United States Patent and Trademark Office. Although due to the inherent uncertainties of litigation, we cannot predict the outcome of the actions at this time, we continue to pursue our claims and believe that any counterclaims are without merit, and we intend to defend against all such counterclaims.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

Table of Contents**PART II****ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities****Market Information**

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

|                | Common Stock |          |          |          |
|----------------|--------------|----------|----------|----------|
|                | 2013         |          | 2012     |          |
|                | High         | Low      | High     | Low      |
| First Quarter  | \$ 32.00     | \$ 20.56 | \$ 38.90 | \$ 27.58 |
| Second Quarter | \$ 32.98     | \$ 25.63 | \$ 33.21 | \$ 16.89 |
| Third Quarter  | \$ 39.30     | \$ 26.61 | \$ 25.33 | \$ 17.45 |
| Fourth Quarter | \$ 38.90     | \$ 27.72 | \$ 24.29 | \$ 17.08 |

As of February 11, 2014, there were approximately 159 named holders of record of our common stock. On February 11, 2014, the last reported sale price of our common stock as reported on the NASDAQ Global Select Market was \$32.00 per share.

**Dividend Policy**

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

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**Stock Performance Graph**

The graph set forth below compares the cumulative total stockholder return on our common stock between December 31, 2008 and December 31, 2013, with the cumulative total return of (i) the NASDAQ Computer Index and (ii) the NASDAQ Composite Index, over the same period. This graph assumes the investment of \$100 on December 31, 2008 in our common stock, the NASDAQ Computer Index and the NASDAQ Composite Index, and assumes the reinvestment of dividends, if any. The graph assumes the initial value of our common stock on December 31, 2008 was the closing sales price of \$10.66 per share.

The comparisons shown in the graph below are based upon historical data. We caution that the stock price performance shown in the graph below is not necessarily indicative of, nor is it intended to forecast, the potential future performance of our common stock. Information used in the graph was obtained from NASDAQ, a source believed to be reliable, but we are not responsible for any errors or omissions in such information.

|                               | 12/31/08 | 12/31/09 | 12/31/10 | 12/30/11 | 12/31/12 | 12/31/13 |
|-------------------------------|----------|----------|----------|----------|----------|----------|
| Synchronoss Technologies, Inc | 100      | 148      | 251      | 283      | 198      | 291      |
| Nasdaq Composite Index        | 100      | 144      | 168      | 165      | 191      | 265      |
| Nasdaq Computer Index         | 100      | 171      | 201      | 202      | 227      | 299      |

**ITEM 6. *SELECTED FINANCIAL DATA***

The following selected financial data should be read in conjunction with our consolidated financial statements and related notes and the "Management's Discussion and Analysis of Financial Condition and Results of Operations" and other financial data included elsewhere in this Form 10-K. The

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selected statements of operations and the selected balance sheet data are derived from our consolidated audited financial statements.

|  | Year Ended December 31, |            |            |            |            |
|--|-------------------------|------------|------------|------------|------------|
|  | 2013                    | 2012       | 2011       | 2010       | 2009       |
| (In thousands, except per share data)                            |                         |            |            |            |            |
| <b>Statements of Operations Data:</b>                            |                         |            |            |            |            |
| Net revenues   | \$ 349,047              | \$ 273,692 | \$ 229,084 | \$ 165,969 | \$ 128,805 |
| Costs and expenses:  |                         |            |            |            |            |
| Cost of services*  | 146,238                 | 115,670    | 106,595    | 83,217     | 64,455     |
| Research and development   | 64,845                  | 52,307     | 41,541     | 26,008     | 13,153     |
| Selling, general and administrative                              | 62,096                  | 46,680     | 44,886     | 33,743     | 23,650     |
| Net change in contingent consideration obligation                | (5,324)                 | (6,235)    | 2,954      | 4,295      |            |
| Restructuring charges  | 5,172                   |            |            |            |            |
| Depreciation and amortization                                    | 41,126                  | 23,812     | 14,739     | 9,403      | 8,499      |
| <br>   |                         |            |            |            |            |
| Total costs and expenses   | 314,153                 | 232,234    | 210,715    | 156,666    | 109,757    |
| <br>   |                         |            |            |            |            |
| Income from operations   | 34,894                  | 41,458     | 18,369     | 9,303      | 19,048     |
| Interest income  | 557                     | 1,315      | 821        | 394        | 517        |
| Interest expense   | (1,089)                 | (998)      | (928)      | (917)      | (741)      |
| Other income (expense)   | 217                     | 889        | 97         | 317        | 9          |
| <br>   |                         |            |            |            |            |
| Income before income tax expense                                 | 34,579                  | 42,664     | 18,359     | 9,097      | 18,833     |
| Income tax expense   | (11,228)                | (15,581)   | (3,233)    | (5,223)    | (6,536)    |
| <br>   |                         |            |            |            |            |
| Net income attributable to common stockholders                   | \$ 23,351               | \$ 27,083  | \$ 15,126  | \$ 3,874   | \$ 12,297  |
| <br>   |                         |            |            |            |            |
| Net income attributable to common stockholders per common share: |                         |            |            |            |            |
| Basic  | \$ 0.60                 | \$ 0.71    | \$ 0.44    | \$ 0.12    | \$ 0.40    |
| <br>   |                         |            |            |            |            |
| Diluted  | \$ 0.58                 | \$ 0.69    | \$ 0.43    | \$ 0.12    | \$ 0.39    |
| <br>   |                         |            |            |            |            |
| Weighted-average common shares outstanding:                      |                         |            |            |            |            |
| Basic  | 38,891                  | 38,195     | 37,372     | 31,971     | 30,813     |

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Diluted 40,009 39,126 38,619 33,011 31,145

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

|  | As of December 31, |           |            |            |           |
|--|--------------------|-----------|------------|------------|-----------|
|  | 2013               | 2012      | 2011       | 2010       | 2009      |
|  | (In thousands)     |           |            |            |           |
| <b>Balance Sheet Data:</b>                       |                    |           |            |            |           |
| Cash, cash equivalents and marketable securities | \$ 77,605          | \$ 56,869 | \$ 152,576 | \$ 189,635 | \$ 97,684 |
| Working capital                                  | 98,786             | 84,451    | 152,886    | 203,796    | 108,336   |
| Total assets                                     | 527,019            | 466,662   | 398,618    | 340,399    | 172,559   |
| Lease financing obligation long-term             | 9,252              | 9,540     | 9,241      | 9,205      | 9,150     |
| Contingent consideration obligation long-term    | 4,468              | 5,100     | 8,432      | 16,915     |           |
| Total stockholders' equity                       | 447,639            | 374,657   | 334,563    | 288,023    | 146,464   |

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



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**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

This annual report on Form 10-K, particularly Management's Discussion and Analysis of Financial Condition and Results of Operations set forth below, contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are subject to risks and uncertainties and are based on the beliefs and assumptions of our management as of the date hereof based on information currently available to our management. Use of words such as "believes," "expects," "anticipates," "intends," "plans," "hopes," "should," "continues," "seeks," "likely" 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 discuss factors that we believe could cause or contribute to these differences below and elsewhere in this Annual Report on Form 10-K, including those set forth under "Risk Factors". We caution investors not to place substantial reliance on the forward-looking statements included in this report on Form 10-K. These statements speak only as of the date of this report (unless another date is indicated), and we undertake no obligation to update or revise the statements in light of future developments.

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

**Overview**

We are a mobile innovation company that provides cloud solutions and software-based activation for connected devices globally. Such services include intelligent connectivity management and content synchronization, backup and sharing, as well as device and service procurement, provisioning, activation and support that enable communications service providers (CSPs), cable operators/multi-services operators (MSOs), original equipment manufacturers (OEMs) with embedded connectivity (e.g. smartphones, laptops, tablets and mobile Internet devices, such as automobiles, wearables for personal health and wellness, and connected homes), multi-channel retailers and other customers to accelerate and monetize their go-to-market strategies for connected devices. This includes automating subscriber activation, order management, upgrades, service provisioning and connectivity and content management from any sales channel to any communication service (wireless or wireline), across any connected device type and managing the content transfer, synchronization and share. Our global solutions touch all aspects of connected devices on the mobile Internet.

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

Our Activation Services, Synchronoss Personal Cloud, Synchronoss WorkSpace, and Synchronoss Integrated Life platforms provide end-to-end seamless integration between customer-facing channels/applications, communication services, or devices and "back-office" infrastructure-related systems and processes. Our customers rely on our solutions and technology to automate the process of activation and content and settings management for their customers' devices while delivering additional communication services. Our Synchronoss Integrated Life platform brings together the capabilities of device/service activation with content and settings management to provide a seamless experience of activating and managing non-traditional devices. Our platforms also support automated customer care

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processes through use of accurate and effective speech processing technology and enable our customers to offer their subscribers the ability to store in and retrieve from the Cloud their personal and work content and data which resides on their connected mobile devices, such as personal computers, smartphones and tablets. Our platforms are designed to be carrier-grade, high availability, flexible and scalable to enable multiple converged communication services to be managed across multiple distribution channels, including e-commerce, m-commerce, telesales, customer stores, indirect and other retail outlets, etc., allowing us to meet the rapidly changing and converging services and connected devices offered by our customers. We enable our customers to acquire, retain and service subscribers quickly, reliably and cost-effectively by enabling backup, restore, synchronization and sharing of subscriber content. Through the use of our platforms, our customers can simplify the processes associated with managing the customer experience for procuring, activating, connecting, backing-up, synchronizing and social media and enterprise-wide sharing/collaboration connected devices and contents from these devices and associated services. The extensibility, scalability, reliability and relevance of our platforms enable new revenue streams and retention opportunities for our customers through new subscriber acquisitions, sale of new devices, accessories and new value-added service offerings in the Cloud, while optimizing their cost of operations and enhancing customer experience.

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

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

**Revenues**

We generate a substantial portion of our revenues on a per-transaction or subscription basis, which is derived from contracts that extend up to 60 months from execution. For the years ended December 31, 2013 and 2012, we derived approximately 70% and 67%, respectively, of our revenues from transactions processed and subscription arrangements. The remainder of our revenues was generated by professional services and licenses. The current mix of revenue represents higher transaction and subscription revenues than we have historically experienced. This is a result of new subscription arrangements with our existing customers.

Historically, our revenues have been directly impacted by the number of transactions processed. The future success of our business depends on the continued growth of consumer and business transactions and, as such, the volume of transactions that we process could fluctuate on a quarterly basis. See "Current Trends Affecting Our Results of Operations" for certain matters regarding future results of operations.

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

Our five largest customers, AT&T, Verizon Wireless, Comcast, NBN Co Limited and Vodafone, accounted for approximately 77% of our revenues for the year ended December 31, 2013, as compared to our five largest customers, AT&T, Level 3 Communications, Time Warner Cable, Verizon Wireless and Vodafone, which accounted for 76% of our revenues for the year ended December 31, 2012. Of these customers, AT&T and Verizon Wireless each accounted for more than 10% of our revenues in 2013.

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*Costs and Expenses*

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

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

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

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

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

Restructuring charges consist of the costs associated with the January 2013 work-force reduction plan to reduce costs and align our resources with our key strategic priorities. The restructuring charges include employee termination costs and facilities consolidation costs related to minimum lease payments of a leased location that will be closed.

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

Interest expense consists primarily of interest on our lease financing obligations.

**Current Trends Affecting Our Results of Operations**

Business from our Activation Platforms and Synchronoss Personal Cloud Solutions have been driven by the unprecedented growth in mobile devices globally. Certain industry trends, such as Next programs from AT&T have resulted in faster device upgrade cycles by customers precipitating in increased device order transactions and activations. With mobile devices becoming content rich and acting as a replacement for other traditional devices like PC's, the need to securely back up content from mobile devices, sync it with other devices and share it with others in their community of family, friends and business associates have become essential needs. The major Tier 1 carriers are also publically discussing achieving 500% penetration (multiple connected devices per user) by enabling

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connectivity to non-traditional devices. Such devices include connected cars, health and wellness devices, connected home and health care. The need for these devices to be activated, managed and the contents from them to be stored in a common cloud are also expected to be drivers of our businesses in the long term.

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

To support our expected growth driven by the favorable industry trends mentioned above, we continue to look for opportunities to improve our operating efficiencies, such as the utilization of offshore technical and non-technical resources for our exception handling center management as well as routine software maintenance activities. We also leverage modular components from our existing software platforms to build new products. We believe that these opportunities will continue to provide future benefits and position us to support revenue growth. In addition, we anticipate further automation of the transactions generated by our more mature customers and additional transaction types. Our cost of services can fluctuate from period to period based upon the level of automation and the on-boarding of new transaction and service types. We are also making investments in new research and development for development of products designed to enable us to grow rapidly in the mobile wireless market. Our purchase of capital assets and equipment may also increase based on aggressive deployment, subscriber growth and promotional offers for free storage by our major Tier 1 carrier customers.

We continue to advance our plans for the expansion of our platforms' footprint with broadband carriers and international mobile carriers to support connected devices and multiple networks through our focus on transaction management and cloud-based services for back up, synchronization and sharing of content. Our initiatives with AT&T, Verizon Wireless, Vodafone and other CSPs continue to grow both with our current businesses as well as new products. We are also exploring additional opportunities through merger and acquisition activities to support our customer, product and geographic diversification strategies.

**Critical Accounting Policies and Estimates**

The discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these consolidated financial statements in accordance with U.S. GAAP requires us to utilize accounting policies and make certain estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingencies as of the date of the financial statements and the reported amounts of revenues and expenses during a fiscal period. The Securities and Exchange Commission (SEC) considers an accounting policy to be critical if it is important to a company's financial condition and results of operations, and if it requires significant judgment and estimates on the part of management in its application. We have discussed the selection and development of the critical accounting policies with the audit committee of our Board of Directors, and the audit committee has reviewed our related disclosures in this Form 10-K. Although we believe that our judgments and estimates are appropriate, correct and reasonable under the circumstances, actual results may differ from those estimates. If actual results or events differ materially from those contemplated by us in making these estimates, our reported financial condition and results of operations for future periods could be materially affected. See "Risk Factors" for certain matters bearing risks on our future results of operations.

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

**Revenue Recognition and Deferred Revenue**

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

*Transactional and Subscription Service Arrangements:* Transaction and subscription revenues represented approximately 70%, 67%, and 77% of our revenues for the years ended December 31, 2013, 2012 and 2011, respectively. Transaction and subscription revenues consist of revenues derived from the processing of transactions through our service platforms, providing enterprise portal management services on a subscription basis and maintenance agreements on software licenses. Transaction service arrangements include services such as processing equipment orders, new account set-up and activation, number port requests, credit checks and inventory management. Subscription services include hosting and storage and the related maintenance support for those services.

Transaction revenues are principally based on a contractual price per transaction and are recognized based on the number of transactions processed during each reporting period. Revenues are recorded based on the total number of transactions processed at the applicable price established in the relevant contract. The total amount of revenues recognized is based primarily on the volume of transactions. Subscription revenues are recorded on a straight-line basis over the life of the contract for subscription services and maintenance agreements.

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

*Professional Service and Software License Arrangements:* Professional service and software license revenues represented approximately 30%, 33% and 23% of our revenues for the years ended December 31, 2013, 2012 and 2011, respectively. Professional services include process and workflow consulting services and development services. Professional services, when sold with non-software transactional or subscription service arrangements, are accounted for separately when these services have value to the customer on a standalone basis. Professional services, when sold with software transactional or subscription service arrangements, are accounted for separately when these services have value to the customer on a standalone basis and there is objective and reliable evidence of fair value of the professional services. When accounted for separately, professional service revenues are recognized on a monthly basis, as services are performed and all other elements of revenue recognition have been satisfied.

In determining whether professional service revenues can be accounted for separately from transaction or subscription service revenues, we consider the following factors for each professional services agreement: availability of the professional services from other vendors, whether objective and reliable evidence of fair value exists of the undelivered elements, the nature of the professional

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services, the timing of when the professional services contract was signed in comparison to the transaction or subscription service start date and the contractual independence of the transactional or subscription service from the professional services.

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

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

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

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

**Service Level Standards**

Pursuant to certain contracts, we are subject to service level standards and to corresponding penalties for failure to meet those standards. All performance-related penalties are reflected as a corresponding reduction of our revenues. These penalties, if applicable, are recorded in the month incurred and were insignificant for the years ended December 31, 2013, 2012 and 2011.

**Allowance for Doubtful Accounts**

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

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**Income Taxes**

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

We recognize a tax benefit from an uncertain tax position only if it is more likely than not to be sustained upon examination based on the technical merits of the position. The amount of the accrual for which an exposure exists is measured by determining the amount that has a greater than 50 percent likelihood of being realized upon the settlement of the position. Components of the reserve are classified as a long-term liability in the consolidated balance sheets. We record interest and penalties accrued in relation to uncertain tax benefits as a component of interest expense. We expect that the amount of unrecognized tax benefits will change during 2014; however, we do not expect the change to have a significant impact on our results of operations or financial position.

While we believe we have identified all reasonably identifiable exposures and that the reserve we have established for identifiable exposures is appropriate under the circumstances, it is possible that additional exposures exist and that exposures may be settled at amounts different than the amounts reserved. It is also possible that changes in facts and circumstances could cause us to either materially increase or reduce the carrying amount of our tax reserves. In general, tax returns for the year 2010 and thereafter are subject to future examination by tax authorities.

Our policy has been to leave our cumulative unremitted foreign earnings invested indefinitely outside the United States, and we intend to continue this policy. As such, taxes have not been provided on any of the remaining accumulated foreign unremitted earnings. If the cumulative unremitted foreign earnings exceed the amount we intend to reinvest in foreign countries in the future, we would provide for taxes on such excess amount.

**Stock-Based Compensation**

As of December 31, 2013, we maintain three stock-based compensation plans. We utilize the Black-Scholes pricing model to determine the fair value of stock options on the dates of grant. Restricted stock awards are measured based on the fair market values of the underlying stock on the dates of grant, unless the awards are subject to market conditions, in which case we use a binomial-lattice model (e.g., Monte Carlo simulation model). The Monte Carlo simulation model utilizes multiple input variables to estimate the probability that market conditions will be achieved. We recognize stock-based compensation over the requisite service period with an offsetting credit to additional paid-in capital.

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

We classify benefits of tax deductions in excess of the compensation cost recognized (excess tax benefits) as a financing cash inflow with a corresponding operating cash outflow. We included

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\$3.0 million, \$6.9 million and \$3.6 million of excess tax benefits as a financing cash inflow for the years ended December 31, 2013, 2012 and 2011, respectively.

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

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

|                                     | Year Ended<br>December 31, |       |       |
|-------------------------------------|----------------------------|-------|-------|
|                                     | 2013                       | 2012  | 2011  |
| Expected stock price volatility     | 66%                        | 68%   | 69%   |
| Risk-free interest rate             | 0.87%                      | 0.80% | 1.12% |
| Expected life of options (in years) | 4.5                        | 4.8   | 4.7   |
| Expected dividend yield             | 0%                         | 0%    | 0%    |

The weighted-average fair value (as of the date of grant) of the options granted was \$15.79, \$13.47 and \$17.04 per share for the year ended December 31, 2013, 2012 and 2011, respectively. The total stock-based compensation cost related to non-vested equity awards not yet recognized as an expense as of December 31, 2013 was approximately \$40.3 million.

**Business Combinations**

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

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

For acquisitions completed after January 1, 2009, we record contingent consideration resulting from a business combination at its fair value on the acquisition date. Each reporting period thereafter, we revalue these obligations and record increases or decreases in their fair value as an adjustment to net change in contingent consideration obligation within the consolidated statement of income. Changes in the fair value of the contingent consideration obligation can result from updates in the achievement of financial targets and changes to the weighted probability of achieving those future financial targets. Significant judgment is employed in determining the appropriateness of these assumptions as of the acquisition date and for each subsequent period. Accordingly, any change in the assumptions described



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

### **Goodwill**

Goodwill represents the excess of the purchase price over the fair value of assets acquired, including other definite-lived intangible assets. Goodwill is not amortized, but reviewed annually for impairment or upon the occurrence of events or changes in circumstances that would more likely than not reduce the fair value of the reporting unit below its carrying amount. We performed our annual impairment test noting no impairment as of December 31, 2013, and we do not believe we are at risk for significant impairment.

The change in the carrying amount of goodwill for the year ended December 31, 2013 is as follows:

|  |            |
|--|------------|
| Balance at December 31, 2012             | \$ 127,322 |
| Acquired goodwill                        | 12,381     |
| Reclassifications, adjustments and other | (1,960)    |

|                              |         |
|------------------------------|---------|
| Balance at December 31, 2013 | 137,743 |
|------------------------------|---------|

The reclassifications, adjustments and other of \$2.0 million are primarily related to foreign currency translation adjustments and adjustments to deferred taxes as a result of changes to acquired tax attributes.

### **Results of Operations**

#### *Year ended December 31, 2013, compared to the year ended December 31, 2012*

The following table presents an overview of our results of operations for the years ended December 31, 2013 and 2012.

|   | 2013       |                 | 2012       |                 | 2013 vs 2012 |             |
|---|------------|-----------------|------------|-----------------|--------------|-------------|
|   | \$         | % of<br>Revenue | \$         | % of<br>Revenue | \$ Change    | %<br>Change |
|   |            |                 |            |                 |              |             |
| Net revenues                                      | \$ 349,047 | 100.0%          | \$ 273,692 | 100.0%          | \$ 75,355    | 27.5%       |
| Cost of services*                                 | 146,238    | 41.9%           | 115,670    | 42.3%           | 30,568       | 26.4%       |
| Research and development                          | 64,845     | 18.6%           | 52,307     | 19.1%           | 12,538       | 24.0%       |
| Selling, general and administrative               | 62,096     | 17.8%           | 46,680     | 17.1%           | 15,416       | 33.0%       |
| Net change in contingent consideration obligation | (5,324)    | (1.5)%          | (6,235)    | (2.3)%          | 911          | (14.6)%     |
| Restructuring charges                             | 5,172      | 1.5%            |            | 0.0%            | 5,172        | 100.0%      |
| Depreciation and amortization                     | 41,126     | 11.8%           | 23,812     | 8.7%            | 17,314       | 72.7%       |
|   | 314,153    | 90.0%           | 232,234    | 84.9%           | 81,919       | 35.3%       |
| Income from operations                            | \$ 34,894  | 10.0%           | \$ 41,458  | 15.1%           | \$ (6,564)   | (15.8)%     |

\*

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

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*Net Revenues.* Net revenues increased \$75.4 million to \$349.0 million in 2013, compared to 2012. This increase was primarily due to the expansion of our services provided to our customers. Transaction and subscription revenues as a percentage of sales were 70% or \$243.0 million in 2013 compared to 67% or \$183.6 million in 2012. The increase in transaction and subscription revenue is primarily due to new subscription arrangements with our existing customers. Professional service and license revenues as a percentage of sales were 30% or \$106.0 million in 2013 compared to 33% or \$90.1 million in 2012.

Activation Services as a percentage of sales were 67% or \$233.0 million in 2013 compared to 71% or \$195.6 million in 2012. The combination of upgrade promotions being offered by operators, along with the positive impact of Family Share Plans drove increased transaction volumes. Synchronoss Personal Cloud Services as a percentage of sales were 33% or \$116.0 million in 2013 compared to 29% or \$78.1 million in 2012. Our cloud service revenue growth was driven by the scaling of our Synchronoss Personal Cloud platform deployments with major Tier 1 mobile operator customers.

*Expense*

*Cost of Services.* Cost of services increased \$30.6 million to \$146.2 million in 2013, compared to 2012, due primarily to an increase of \$15.3 million in telecommunication and facility costs related to the increased call volume and capacity associated with our data facilities. Personnel and related costs increased \$9.1 million due primarily to our continued growth in existing and new programs with our current customers and recent acquisitions. Outside consulting increased \$5.5 million due to our increased use of third party exception handling vendors. Cost of services as a percentage of revenues decreased to 41.9% for 2013, as compared to 42.3% for 2012.

*Research and Development.* Research and development expense increased approximately \$12.5 million to \$64.8 million in 2013, compared to 2012, due primarily to an increase of \$10.0 million in our personnel and related costs as a result of our continued growth as we further expand the capabilities of our offerings, as well as investing in several early-stage customer deployments. Outside consulting increased \$731 thousand and telecommunication and facility costs increased \$1.6 million as a result of the expansion of our programs. Research and development expense as a percentage of revenues decreased to 18.6% for 2013, compared to 19.1% in 2012.

*Selling, General and Administrative.* Selling, general and administrative expenses increased \$15.4 million to \$62.1 million in 2013, compared to 2012 due primarily to an increase of \$12.7 million in personnel and related costs as a result of our recent acquisitions and our expanded sales and marketing programs. Professional services related to accounting and legal costs increased \$2.4 million as a result of our acquisition and patent activity and telecommunication and facility costs increased \$2.2 million as a result of our acquisitions. Offsetting the increase was a decrease of \$2.2 million in mergers and acquisition expense due to a decrease in the number of acquisitions in 2013 compared to 2012. Selling, general and administrative expense as a percentage of revenues increased to 17.8% for 2013, as compared to 17.1% for 2012.

*Net Change in Contingent Consideration Obligation.* The net change in contingent consideration obligation resulted from a \$5.3 million reduction of the contingent consideration obligation for the year ended December 31, 2013 driven by the Spatial Systems Nominees PTY Limited ("Spatial") Earn-out reversal as a result of the timing of projected revenue financial milestones required to be achieved in order to receive the expected payout and the settlement of the SpeechCycle, Inc. ("SpeechCycle") Earn-out. The \$6.2 million reduction of the contingent consideration obligation for the year ended December 31, 2012 was driven by changes in the fair value estimates related to the weighted probability of achieving revenue and product milestones for the Miyowa S.A. ("Miyowa"), SpeechCycle, Spatial, and Sapience Knowledge Systems, Inc. ("SKS") Earn-outs.

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*Restructuring Charges.* Restructuring charges were \$5.2 million, consisting of \$4.6 million for employment termination costs and \$555 thousand for minimum lease payments, in 2013, as a result of the January 2013 work-force reduction plan to reduce costs and align our resources with our key strategic priorities. This restructuring was done shortly after our acquisition of Newbay Software Limited.

*Depreciation and Amortization.* Depreciation and amortization expense increased \$17.3 million to \$41.1 million in 2013, compared to 2012, primarily related to an increase in depreciable fixed assets necessary for the continued expansion of our platforms and the amortization of our newly acquired intangible assets of Spatial, Newbay Software Limited ("Newbay"), and Strumsoft Inc. ("Strumsoft"). Depreciation and amortization expense as a percentage of revenues increased to 11.8% for 2013, as compared to 8.7% for 2012.

*Income from Operations.* Income from operations decreased \$6.6 million to \$34.9 million in 2013, compared to 2012. This was due primarily to increases in depreciable fixed assets, increased intangible amortization, restructuring charges related to our work-force reduction and facilities consolidation to align our resources with our key strategic priorities and the additional costs associated with our acquired operations offset by increased revenues. Income from operations as a percentage of revenues decreased to 10.0% for 2013, as compared to 15.1% for 2012.

*Interest Income.* Interest income decreased \$758 thousand to \$557 thousand in 2013, compared to 2012. Interest income decreased primarily due to a reduction of our investment balances as a result of our recent acquisitions.

*Interest Expense.* Interest expense increased \$91 thousand to \$1.1 million in 2013, compared to 2012.

*Other Income.* Other income decreased \$672 thousand to \$217 thousand in 2013, compared to 2012. Other income decreased primarily due to a reduction in refundable research and development tax credits realized in France and changes in foreign currency exchange rate fluctuations.

*Income Tax.* During 2013 and 2012, we recognized approximately \$11.2 million and \$15.6 million in income tax expense, respectively. Our effective tax rate was approximately 32.5% and 36.5% during 2013 and 2012, respectively. In 2013, our effective tax rate was lower than our US federal statutory rate primarily due to the favorable impact of income in foreign jurisdictions which have lower tax rates than the U.S. and the favorable tax impact of the fair market value adjustment for the contingent consideration obligations related to the Earn-out payments. In addition, compared to 2012, our effective tax rate was favorably impacted by the late extension of the tax credit for research and experimentation expenses that was not in existence as of December 31, 2012 but was retroactively reinstated by Congress in January of 2013 and therefore recognized during 2013. These favorable items were offset by the unfavorable impact of state taxes and the tax effect of non-deductible expenses.

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

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A reconciliation of the beginning and ending amounts of unrecognized tax benefits for the twelve months ended December 31, 2013 is as follows:

|   |        |
|---|--------|
| Unrecognized tax benefit at December 31, 2012                   | \$ 529 |
| Additions for tax positions of prior periods                    | 12     |
| Additions for tax positions of current periods                  | 268    |
| Reductions related to the expiration of statutes of limitations | (75)   |
| <br>  |        |
| Unrecognized tax benefit at December 31, 2013                   | \$ 734 |

### *Year ended December 31, 2012, compared to the year ended December 31, 2011*

The following table presents an overview of our results of operations for the years ended December 31, 2012 and 2011.

|   | Year Ended December 31, |              |            |              |              |          |
|---|-------------------------|--------------|------------|--------------|--------------|----------|
|   | 2012                    |              | 2011       |              | 2012 vs 2011 |          |
|   | \$                      | % of Revenue | \$         | % of Revenue | \$ Change    | % Change |
|   | (in thousands)          |              |            |              |              |          |
| Net revenues                                      | \$ 273,692              | 100.0%       | \$ 229,084 | 100.0%       | \$ 44,608    | 19.5%    |
| Cost of services*                                 | 115,670                 | 42.3%        | 106,595    | 46.5%        | 9,075        | 8.5%     |
| Research and development                          | 52,307                  | 19.1%        | 41,541     | 18.1%        | 10,766       | 25.9%    |
| Selling, general and administrative               | 46,680                  | 17.1%        | 44,886     | 19.6%        | 1,794        | 4.0%     |
| Net change in contingent consideration obligation | (6,235)                 | (2.3)%       | 2,954      | 1.3%         | (9,189)      | (311.1)% |
| Depreciation and amortization                     | 23,812                  | 8.7%         | 14,739     | 6.4%         | 9,073        | 61.6%    |
|   | 232,234                 | 84.9%        | 210,715    | 92.0%        | 21,519       | 10.2%    |
| <br>  |                         |              |            |              |              |          |
| Income from operations                            | \$ 41,458               | 15.1%        | \$ 18,369  | 8.0%         | \$ 23,089    | 125.7%   |

\*

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

*Net Revenues.* Net revenues increased by \$44.6 million to \$273.7 million in 2012, compared to 2011. This increase was primarily due to the expansion of professional services provided to our top five customers. Transaction and subscription revenues recognized for the years ended December 31, 2012 and 2011 represented 67% or \$183.6 million and 77% or \$176.4 million of net revenues, respectively. Professional service and license revenues as a percentage of sales were 33% or \$90.1 million in 2012, compared to 23% or \$52.7 million in 2011. The increase in professional services and license revenue is primarily due to the expansion of services due to new projects with existing customers.

Activation Services as a percentage of sales were 71% or \$195.6 million in 2012 compared to 81% or \$185.8 million in 2011. Activation revenue growth was largely attributed to the positive impact of new device upgrade programs and family share plans, the launch of the iPhone

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and solid activity in our broadband business. Synchronoss Personal Cloud Services as a percentage of sales were 29% or \$78.1 million in 2012 compared to 19% or \$43.3 million in 2011. Our cloud service revenue growth was driven by the scaling of our Synchronoss Personal Cloud platform deployments with major Tier 1 Mobile Operator customers.

### *Expense*

*Cost of Services.* Cost of services increased \$9.1 million to \$115.7 million in 2012, compared to 2011, due primarily to an increase of \$7.5 million in telecommunication and facility costs related to the

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increased call volume and capacity associated with our data facilities. Personnel and related costs increased \$3.7 million due primarily to an increase in headcount as a result of our continued growth in existing and new programs with our current customers. Offsetting the increase was a \$2.5 million decrease in outside consulting expense due to our increased productivity and cost saving from changes in our third party exception handling vendors. Cost of services as a percentage of revenues decreased to 42.3% for 2012, as compared to 46.5% for 2011 as a result of increases in professional services and highly automated transaction revenues which have higher margins.

*Research and Development.* Research and development expense increased approximately \$10.8 million to \$52.3 million in 2012, compared to 2011, due primarily to an increase of \$11.5 million in personnel and related costs as a result of an increase in headcount through acquisitions and our continued growth as we further expand the capabilities of our offerings, as well as investing in several early-stage customer deployments. Telecommunication and facilities costs increased \$1.5 million as a result of the increase in headcount and the utilization of our expanded resources. Offsetting the increase was a decrease of \$3.0 million in outside consulting expense due to our increased headcount resulting in less reliance on third party consultants. As a result of increased revenues, research and development expense as a percentage of revenues increased to 19.1% for 2012, compared to 18.1% in 2011.

*Selling, General and Administrative.* Selling, general and administrative expenses increased \$1.8 million to \$46.7 million in 2012, compared to 2011. Telecommunication and facility costs increased \$1.7 million in telecommunications and facility costs due to our new larger corporate headquarters and increased locations as a result of our acquisitions and professional services related to accounting and legal increased \$1.4 million as a result of our acquisition and patent activity. Offsetting the increase was a decrease of \$1.6 million of stock compensation expense as a result of targets achieved in certain compensation plans and the decreased price of our common stock. As a result of increased revenues, selling, general and administrative expense as a percentage of revenues decreased to 17.1% for 2012, as compared to 19.6% for 2011.

*Net Change in Contingent Consideration Obligation.* The net change in contingent consideration obligation resulted from a \$6.2 million reduction of the contingent consideration obligation for the year ended December 31, 2012 driven by changes in the fair value estimates related to the weighted probability of achieving revenue and product milestones for the Miyowa, SpeechCycle, Spatial and SKS Earn-outs. The \$3.0 million of additional expense for the fair value change in the contingent consideration liability for the year ended December 31, 2011 was due to the change in the estimate of the fair value of the contingent consideration obligation related to the FusionOne, Inc. ("FusionOne") and SKS Earn-outs, primarily due to changes to the forecasted operational efficiencies and the weighted probability of achieving financial milestones.

*Depreciation and Amortization.* Depreciation and amortization expense increased \$9.1 million to \$23.8 million in 2012, compared to 2011, primarily related to the amortization of our newly acquired intangible assets of Miyowa and SpeechCycle. There was also an increase in depreciable fixed assets necessary for the continued expansion of our platforms. Depreciation and amortization expense as a percentage of revenues increased to 8.7% for 2012, as compared to 6.4% for 2011.

*Income from Operations.* Income from operations increased \$23.1 million to \$41.5 million in 2012, compared to 2011. This was due primarily to increased revenues from professional services and expansion into new programs with our largest customers, improved gross profit margins and the reduction in contingent consideration obligation. Income from operations as a percentage of revenues increased to 15.1% for 2012, as compared to 8.0% for 2011.

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*Interest Income.* Interest income increased \$494 thousand to \$1.3 million in 2012, compared to 2011. Interest income increased primarily due to a change in the mix of our cash and investment balances to higher yielding investments.

*Interest Expense.* Interest expense increased \$70 thousand to \$998 thousand in 2012, compared to 2011. Interest expense increased due to the facility lease for our Bridgewater, New Jersey facility.

*Other Income.* Other income increased \$792 thousand to \$889 thousand in 2012, compared to 2011. Other income increased primarily due to research and development tax credits in foreign jurisdictions and fluctuations in foreign currency exchange rates.

*Income Tax.* During 2012 and 2011, we recognized approximately \$15.6 million and \$3.2 million in income tax expense, respectively. Our effective tax rate was approximately 36.5% and 17.6% during 2012 and 2011, respectively. In 2012, our effective tax rate was higher than our US federal statutory rate primarily due to state taxes and the tax effect of non-deductible expenses, offset by the favorable impact of income in foreign jurisdictions which have lower tax rates than the U.S. and the favorable tax impact of the fair market value adjustment for the contingent consideration obligations related to the Earn-out payments. In addition, compared to 2011, our effective tax rate was unfavorably impacted by the late extension of the tax credit for research and experimentation expenses. The tax benefit for this credit was recorded in first quarter 2013.

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

A reconciliation of the beginning and ending amounts of unrecognized tax benefits for the twelve months ended December 31, 2012 is as follows:

|   |        |
|---|--------|
| Unrecognized tax benefit at December 31, 2011                   | \$ 533 |
| Additions for tax positions of prior periods                    | 154    |
| Additions for tax positions of current periods                  | 25     |
| Reductions related to the expiration of statutes of limitations | (183)  |

|   |        |
|---|--------|
| Unrecognized tax benefit at December 31, 2012 | \$ 529 |
|---|--------|

### Unaudited Quarterly Results of Operations

|  | Quarter Ended |           |              |             |
|--|---------------|-----------|--------------|-------------|
|  | March 31      | June 30   | September 30 | December 31 |
| (In thousands, except per share data)  |               |           |              |             |
| <b>2013</b>                            |               |           |              |             |
| Net revenues                           | \$ 78,276     | \$ 83,848 | \$ 89,716    | \$ 97,207   |
| Gross profit(2)                        | 46,145        | 48,321    | 51,583       | 56,760      |
| Net income(3)(4)                       | 476           | 3,412     | 3,590        | 15,873      |
| Basic net income per common share(1)   | 0.01          | 0.09      | 0.09         | 0.40        |
| Diluted net income per common share(1) | 0.01          | 0.09      | 0.09         | 0.39        |
|  |               | 48        |              |             |



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|  | Quarter Ended                         |           |              |             |
|--|---------------------------------------|-----------|--------------|-------------|
|  | March 31                              | June 30   | September 30 | December 31 |
|  | (In thousands, except per share data) |           |              |             |
| <b>2012</b>                            |                                       |           |              |             |
| Net revenues                           | \$ 64,560                             | \$ 66,990 | \$ 68,961    | \$ 73,181   |
| Gross profit(2)                        | 35,939                                | 40,359    | 39,825       | 41,899      |
| Net income(3)                          | 5,483                                 | 11,949    | 6,202        | 3,449       |
| Basic net income per common share(1)   | 0.14                                  | 0.31      | 0.16         | 0.09        |
| Diluted net income per common share(1) | 0.14                                  | 0.31      | 0.16         | 0.09        |

- (1) Per common share amounts for the quarters and full year have been calculated separately. Accordingly, quarterly amounts do not add to the annual amount because of differences in the weighted-average common shares outstanding during each period principally due to the effect of issuing shares of our common stock and options during the year.
- (2) Gross profit is defined as net revenues less cost of services and excludes depreciation and amortization expense.
- (3) Net income for the quarters ended March 31, 2012, June 30, 2012, September 30, 2012, December 31, 2012, March 31, 2013, June 30, 2013, September 30, 2013, and December 31, 2013, included a change in contingent consideration obligation of (\$780) thousand, (\$4.6) million, (\$327) thousand, and (\$500) thousand, \$433 thousand, \$1.7 million, \$500 thousand, and (\$8.0) million, respectively.
- (4) Net income for the quarter ended March 31, 2013, included restructuring charges of \$5.2 million.

**Liquidity and Capital Resources**

Our principal source of liquidity has been cash provided by operations. Our cash, cash equivalents and marketable securities balance was \$77.6 million at December 31, 2013, an increase of \$20.7 million as compared to the end of 2012. This increase was primarily due to cash generated from operations and the exercise of stock options offset by purchases of fixed assets and the acquisition of Strumsoft. We anticipate that our principal uses of cash in the future will be to fund the expansion of our business through both organic growth as well as possible acquisition activities and the expansion of our customer base internationally. Uses of cash will also include facility and technology expansion, capital expenditures, and working capital.

In September 2013, we entered into a Credit Agreement (the "Credit Facility") with JP Morgan Chase Bank, N.A., as administrative agent, Wells Fargo Bank, National Association, as syndication agent and Capital One, National Association and KeyBank National Association, as co-documentation agents. The Credit Facility, which will be used for general corporate purposes, is a \$100 million unsecured revolving line of credit that matures on September 27, 2018. We have the right to request an increase in the aggregate principal amount of the Credit Facility to \$150 million. As of December 31, 2013, we had not drawn down any funds under the Credit Facility.

The Credit Facility is subject to certain financial covenants. As of December 31, 2013, we were in compliance with all required covenants and there were no outstanding balances on the Credit Facility.

At December 31, 2013, our non-U.S. subsidiaries held approximately \$15.7 million of cash and cash equivalents that are available for use by all of our operations around the world. However, if these funds were repatriated to the U.S. or used for U.S. operations, certain amounts could be subject to U.S. tax for the incremental amount in excess of the foreign tax paid.

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**Discussion of Cash Flows**

***Year ended December 31, 2013, compared to the year ended December 31, 2012***

*Cash Flows from Operations.* Net cash provided by operating activities for the year ended December 31, 2013 was \$81.1 million, as compared to \$55.9 million for the year ended December 31, 2012. The increase in net cash provided by operating activities for the year ended December 31, 2013, of \$25.2 million as compared to 2012 is primarily due to an increase in the changes in non-cash items and working capital accounts offset by a decline in net income.

*Cash Flows from Investing.* Net cash used in investing activities for the year ended December 31, 2013 was \$73.7 million, as compared to \$77.2 million for the year ended December 31, 2012. The decrease in net cash used in investing activities for the year ended December 31, 2013, of \$3.5 million as compared to 2012 is primarily due to fewer acquisitions in 2013 compared to 2012 offset by increased purchases of property and equipment related to our continued investments in our global information technology and business systems infrastructure and fewer maturities of marketable securities as a result of lower marketable securities balances.

*Cash Flows from Financing.* Net cash provided by financing activities for the year ended December 31, 2013 was \$20.1 million, as compared to \$12.4 million cash used in financing activities for the year ended December 31, 2013. The increase in net cash provided by financing activities for the year ended December 31, 2013, of \$32.5 million as compared to 2012 is primarily an increase in proceeds from the exercise of stock options and no repurchases of our common stock in 2013 offset by less excess tax benefits from the exercise of stock options.

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

***Year ended December 31, 2012, compared to the year ended December 31, 2011***

*Cash Flows from Operations.* Net cash provided by operating activities for the year ended December 31, 2012 was \$55.9 million, as compared to \$42.6 million for the year ended December 31, 2011. The increase in net cash provided by operating activities for the year ended December 31, 2012, of \$13.3 million as compared to 2011 is primarily due to an increase in operating income excluding depreciation and amortization. We also made cash payments related to contingent consideration obligations, taxes and leased facilities.

*Cash Flows from Investing.* Net cash used in investing activities for the year ended December 31, 2012 was \$77.2 million, as compared to \$145.1 million for the year ended December 31, 2011. The decrease in net cash used in investing activities for the year ended December 31, 2012, of \$67.9 million as compared to 2011 is primarily due to an increase in sales and maturities of marketable securities offset by cash used for current acquisitions and purchases of property and equipment related to our continued investments in our global information technology and business systems infrastructure.

*Cash Flows from Financing.* Net cash used in financing activities for the year ended December 31, 2012 was \$12.4 million, as compared to \$8.2 million for the year ended December 31, 2011. The increase in net cash used in financing activities for the year ended December 31, 2012, of \$4.2 million as compared to 2011 is primarily due to a \$9.8 million decrease in proceeds from the exercise of stock options and an increase of \$4.6 million in the repurchase of common stock offset by a decrease of \$6.3 million in payments for contingent consideration and an increase of \$3.3 million in the excess tax benefit from the exercise of stock options.

Table of Contents**Effect of Inflation**

Although inflation generally affects us by increasing our cost of labor and equipment, we do not believe that inflation has had any material effect on our results of operations during 2013, 2012 and 2011.

**Contractual Obligations**

Our contractual commitments consist of obligations under leases for office space, automobiles, computer equipment and furniture and fixtures. The following table summarizes our long-term contractual obligations as of December 31, 2013 (in thousands).

|  | Total            | Payments Due by Period |                  |                  |                      |
|--|------------------|------------------------|------------------|------------------|----------------------|
|  |                  | Less Than<br>1 Year    | 1 - 3 Years      | 4 - 5 Years      | More Than<br>5 Years |
| Long-term lease obligations(1)         | \$ 7,127         | \$ 1,406               | \$ 2,444         | \$ 2,365         | \$ 912               |
| Contingent consideration obligation(2) | 4,490            | 22                     | 4,468            |                  |                      |
| Operating lease obligations            | 44,395           | 6,536                  | 12,350           | 9,280            | 16,229               |
| Capital lease obligations              | 320              | 275                    | 45               |                  |                      |
| Purchase obligations(3)                | 20,368           | 12,466                 | 7,902            |                  |                      |
| Other long-term liabilities(4)         | 734              |                        | 734              |                  |                      |
| <b>Total</b>                           | <b>\$ 77,434</b> | <b>\$ 20,705</b>       | <b>\$ 27,943</b> | <b>\$ 11,645</b> | <b>\$ 17,141</b>     |

- (1) Amount represents obligation associated with the Pennsylvania facility lease.
- (2) Amount represents the fair value of the contingent consideration obligations of our Strumsoft acquisition and is based on actual and estimated achievements of financial targets and milestones as of December 31, 2013. When settled at the end of the applicable Earn-out period the amount is subject to change due to the actual achievements of financial targets and our stock price.
- (3) Amount represents obligations associated with co-location agreements.
- (4) Amount represents unrecognized tax positions recorded in our balance sheet. Although the timing of the settlement is uncertain, we believe this amount will be settled within 3 years.

**Impact of Recently Issued Accounting Standards**

In February 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2013-02 which requires additional disclosures regarding the reporting of reclassifications out of accumulated other comprehensive income. ASU 2013-02 requires an entity to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. This guidance is effective for reporting periods beginning after December 15, 2012. We adopted this guidance effective January 1, 2013. Our adoption of this standard did not have a significant impact on our consolidated financial statements.

In March 2013, the FASB issued ASU 2013-05, which permits an entity to release cumulative translation adjustments into net income when a reporting entity (parent) ceases to have a controlling financial interest in a subsidiary or group of assets that is a business within a foreign entity. Accordingly, the cumulative translation adjustment should be released into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided, or, if a controlling financial interest is no longer held. The revised standard is effective for fiscal years beginning after December 15, 2013; however, early

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adoption is permitted. We do not expect adoption of this ASU to significantly impact our consolidated financial statements.

In July 2013, the FASB issued ASU 2013-11, which provides that a liability related to an unrecognized tax benefit would be offset against a deferred tax asset instead of presented gross for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward if such settlement is required or expected in the event the uncertain tax position is disallowed. This new guidance is effective for fiscal years beginning after December 15, 2013. We do not expect adoption of this ASU to significantly impact our consolidated financial statements.

**Off-Balance Sheet Arrangements**

We had no off-balance sheet arrangements during the years ended December 31, 2013 and December 31, 2012 that have or are reasonably likely to have, a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to our interests.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

**Market Risk**

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

The primary objective of our investment activities is to preserve our capital for the purpose of funding operations, while at the same time maximizing the income we receive from our investments without significantly increasing risk. To achieve these objectives, our investment policy allows us to maintain a portfolio of cash equivalents and short- and long-term investments in a variety of securities, which could include commercial paper, money market funds and corporate and government debt securities. Our cash, cash equivalents and marketable securities at December 31, 2013 and 2012 were invested in liquid money market accounts, certificates of deposit and government securities. All market-risk sensitive instruments were entered into for non-trading purposes.

**Foreign Currency Exchange Risk**

We conduct business outside the U.S. in several currencies including the British Pound Sterling, Euro, Australian Dollar, and Indian Rupee. Prior to the third quarter of 2013, several of our subsidiaries that operate outside the U.S. used the U.S. dollar as the functional currency. Effective July 1, 2013, we changed the functional currencies of those subsidiaries that operate outside the U.S. to their local currency. The functional currency is translated into U.S. dollars for balance sheet accounts using the month end rates in effect as of the balance sheet date and average exchange rate for revenue and expense accounts for each respective period. The translation adjustments are deferred as a separate component of stockholders' equity, within accumulated other comprehensive income. Gains or losses resulting from transactions denominated in foreign currencies are included in other income or expense, within the consolidated statements of income. The effects of the change in functional currency were not material to our consolidated financial statements for all years presented.

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We do not hold any derivative instruments and do not engage in any hedging activities. Although our reporting currency is the U.S. dollar, we may conduct business and incur costs in the local currencies of other countries in which we may operate, make sales and buy materials. As a result, we are subject to currency translation risk. Further, changes in exchange rates between foreign currencies and the U.S. dollar could affect our future net sales and cost of sales and could result in exchange losses.

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

**Interest Rate Risk**

We are exposed to the risk of interest rate fluctuations on the interest income earned on our cash and cash equivalents. A hypothetical 100 basis point movement in interest rates applicable to our cash and cash equivalents outstanding at December 31, 2013 would increase interest income by less than \$800 on an annual basis. We are subject to foreign currency exchange risk with respect to cash balances maintained in foreign currencies.

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**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

|   |           |
|---|-----------|
| <u>Report of Independent Registered Public Accounting Firm</u>  | <u>55</u> |
| <u>Consolidated Balance Sheets as of December 31, 2013 and 2012</u>   | <u>56</u> |
| <u>Consolidated Statements of Income for the years ended December 31, 2013, 2012 and 2011</u>               | <u>57</u> |
| <u>Consolidated Statements of Comprehensive Income for the years ended December 31, 2013, 2012 and 2011</u> | <u>58</u> |
| <u>Consolidated Statements of Stockholders' Equity for the years ended December 31, 2013, 2012 and 2011</u> | <u>59</u> |
| <u>Consolidated Statements of Cash Flows for the years ended December 31, 2013, 2012 and 2011</u>           | <u>60</u> |
| <u>Notes to Consolidated Financial Statements</u>   | <u>61</u> |

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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders of  
Synchronoss Technologies, Inc.

We have audited the accompanying consolidated balance sheets of Synchronoss Technologies, Inc. as of December 31, 2013 and 2012, and the related consolidated statements of income and comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2013. Our audits also included the financial statement schedule listed in the Index at Item 15(a)(2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Synchronoss Technologies, Inc. at December 31, 2013 and 2012, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Synchronoss Technologies, Inc.'s internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) and our report dated February 26, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP  
MetroPark, New Jersey  
February 26, 2014

Table of Contents**SYNCHRONOSS TECHNOLOGIES, INC.****CONSOLIDATED BALANCE SHEETS****(In thousands)**

|  | <b>December 31,</b> |             |
|--|---------------------|-------------|
|  | <b>2013</b>         | <b>2012</b> |
| <b>ASSETS</b>  |                     |             |
| Current assets:  |                     |             |
| Cash and cash equivalents  | \$ 63,512           | \$ 36,028   |
| Marketable securities  | 9,105               | 20,188      |
| Accounts receivable, net of allowance for doubtful accounts of \$237 and \$258 at December 31, 2013 and 2012, respectively | 64,933              | 74,980      |
| Prepaid expenses and other assets  | 19,451              | 24,012      |
| Deferred tax assets  | 4,626               | 4,114       |
| <br>   |                     |             |
| Total current assets   | 161,627             | 159,322     |
| Marketable securities  | 4,988               | 653         |
| Property and equipment, net  | 106,106             | 58,162      |
| Goodwill   | 137,743             | 127,322     |
| Intangible assets, net   | 101,963             | 110,760     |
| Deferred tax assets  | 4,210               | 6,961       |
| Other assets   | 10,382              | 3,482       |
| <br>   |                     |             |
| Total assets   | \$ 527,019          | \$ 466,662  |

**LIABILITIES AND STOCKHOLDERS' EQUITY**

|   |          |          |
|---|----------|----------|
| Current liabilities:  |          |          |
| Accounts payable  | \$ 9,528 | \$ 8,980 |
| Accrued expenses  | 37,919   | 41,658   |
| Deferred revenues   | 15,372   | 20,954   |
| Contingent consideration obligation   | 22       | 3,279    |
| <br>  |          |          |
| Total current liabilities   | 62,841   | 74,871   |
| Lease financing obligation long-term  | 9,252    | 9,540    |
| Contingent consideration obligation long-term   | 4,468    | 5,100    |
| Other liabilities   | 2,819    | 2,494    |
| Stockholders' equity:   |          |          |
| Preferred stock, \$0.0001 par value; 10,000 shares authorized, 0 shares issued and outstanding at December 31, 2013 and 2012  |          |          |
| Common stock, \$0.0001 par value; 100,000 shares authorized, 44,456 and 42,533 shares issued; 40,663 and 38,674 outstanding at December 31, 2013 and 2012, respectively | 4        | 4        |
| Treasury stock, at cost (3,793 and 3,859 shares at December 31, 2013 and 2012, respectively)  | (67,104) | (67,918) |
| Additional paid-in capital  | 393,644  | 344,469  |
| Accumulated other comprehensive loss  | (723)    | (365)    |
| Retained earnings   | 121,818  | 98,467   |



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|  |            |            |
|--|------------|------------|
| Total stockholders' equity                 | 447,639    | 374,657    |
| Total liabilities and stockholders' equity | \$ 527,019 | \$ 466,662 |

See accompanying notes to consolidated financial statements.

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## SYNCHRONOSS TECHNOLOGIES, INC.

## CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)

|   | Year Ended December 31, |                |                |
|---|-------------------------|----------------|----------------|
|   | 2013                    | 2012           | 2011           |
| Net revenues                                      | \$ 349,047              | \$ 273,692     | \$ 229,084     |
| Costs and expenses:                               |                         |                |                |
| Cost of services*                                 | 146,238                 | 115,670        | 106,595        |
| Research and development                          | 64,845                  | 52,307         | 41,541         |
| Selling, general and administrative               | 62,096                  | 46,680         | 44,886         |
| Net change in contingent consideration obligation | (5,324)                 | (6,235)        | 2,954          |
| Restructuring charges                             | 5,172                   |                |                |
| Depreciation and amortization                     | 41,126                  | 23,812         | 14,739         |
| <b>Total costs and expenses</b>                   | <b>314,153</b>          | <b>232,234</b> | <b>210,715</b> |
| <br>  |                         |                |                |
| Income from operations                            | 34,894                  | 41,458         | 18,369         |
| Interest income                                   | 557                     | 1,315          | 821            |
| Interest expense                                  | (1,089)                 | (998)          | (928)          |
| Other income                                      | 217                     | 889            | 97             |
| <br>  |                         |                |                |
| Income before income tax expense                  | 34,579                  | 42,664         | 18,359         |
| Income tax expense                                | (11,228)                | (15,581)       | (3,233)        |
| <br>  |                         |                |                |
| Net income  | \$ 23,351               | \$ 27,083      | \$ 15,126      |
| <br>  |                         |                |                |
| Net income per common share:                      |                         |                |                |
| Basic   | \$ 0.60                 | \$ 0.71        | \$ 0.44        |
| <br>  |                         |                |                |
| Diluted   | \$ 0.58                 | \$ 0.69        | \$ 0.43        |
| <br>  |                         |                |                |
| Weighted-average common shares outstanding:       |                         |                |                |
| Basic   | 38,891                  | 38,195         | 37,372         |

|         |        |        |        |
|---------|--------|--------|--------|
| Diluted | 40,009 | 39,126 | 38,619 |
|---------|--------|--------|--------|

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

See notes to financial statement footnote 2.

See accompanying notes to consolidated financial statements

Table of Contents**SYNCHRONOSS TECHNOLOGIES, INC.****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(In thousands)**

|   | <b>Year Ended December 31,</b> |             |             |
|---|--------------------------------|-------------|-------------|
|   | <b>2013</b>                    | <b>2012</b> | <b>2011</b> |
| Net Income  | \$ 23,351                      | \$ 27,083   | \$ 15,126   |
| Other comprehensive income (loss), net of tax:                |                                |             |             |
| Foreign currency translation adjustments                      | (3,779)                        | 211         | (310)       |
| Unrealized gain (loss) on securities, (net of tax)            | 2                              | 123         | (207)       |
| Net gain (loss) on intra-entity foreign currency transactions | 3,419                          |             |             |
| <br>  |                                |             |             |
| Total other comprehensive income (loss)                       | (358)                          | 334         | (517)       |
| <br>  |                                |             |             |
| Total Comprehensive Income                                    | \$ 22,993                      | \$ 27,417   | \$ 14,609   |

See accompanying notes to consolidated financial statements.

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## SYNCHRONOSS TECHNOLOGIES, INC.

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands)

|  | Common Stock |        | Treasury Stock |            | Additional<br>Paid-In<br>Capital | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Retained<br>Earnings | Total<br>Stockholders'<br>Equity |
|--|--------------|--------|----------------|------------|----------------------------------|---|----------------------|----------------------------------|
|  | Shares       | Amount | Shares         | Amount     |                                  |   |                      |                                  |
| Balance at December 31, 2010   | 38,863       | 4      | (2,000)        | (23,713)   | 255,656                          | (182)   | 56,258               | \$ 288,023                       |
| Stock based compensation   |              |        |                |            | 10,637                           |   |                      | 10,637                           |
| Issuance of restricted stock   | 510          |        |                |            | 10,090                           |   |                      | 10,090                           |
| Issuance of common stock on exercise of options                                      | 1,444        |        |                |            | 17,707                           |   |                      | 17,707                           |
| Earn-Out shares issuable   | (84)         |        |                |            | (664)                            |   |                      | (664)                            |
| Issuance of Earn-Out shares  | 330          |        |                |            | 10,585                           |   |                      | 10,585                           |
| Repurchase of treasury stock   |              |        | (669)          | (19,999)   |                                  |   |                      | (19,999)                         |
| Comprehensive income:  |              |        |                |            |                                  |   |                      |                                  |
| Net income   |              |        |                |            |                                  |   | 15,126               | 15,126                           |
| Foreign currency translation   |              |        |                |            |                                  | (310)   |                      | (310)                            |
| Unrealized loss on investments in marketable securities, net of tax benefits of \$93 |              |        |                |            |                                  | (207)   |                      | (207)                            |
| Total comprehensive income   |              |        |                |            |                                  |   |                      | 14,609                           |
| Tax benefit from stock option exercise   |              |        |                |            | 3,575                            |   |                      | 3,575                            |
| Balance at December 31, 2011   | 41,063       | \$ 4   | (2,669)        | \$(43,712) | \$ 307,586                       | \$ (699)  | \$ 71,384            | \$ 334,563                       |
| Stock based compensation   |              |        |                |            | 10,186                           |   |                      | 10,186                           |
| Issuance of restricted stock   | 760          |        |                |            | 9,782                            |   |                      | 9,782                            |
| Issuance of common stock on exercise of options                                      | 634          |        |                |            | 7,949                            |   |                      | 7,949                            |
| Issuance of common stock related to acquisition                                      | 76           |        |                |            | 1,386                            |   |                      | 1,386                            |
| ESPP compensation  |              |        |                |            | 457                              |   |                      | 457                              |
| Repurchase of treasury stock   |              |        | (1,223)        | (24,615)   |                                  |   |                      | (24,615)                         |
| Sale of Treasury Stock in connection with an employee stock purchase plan            |              |        | 33             | 409        | 203                              |   |                      | 612                              |
| Comprehensive income:  |              |        |                |            |                                  |   |                      |                                  |
| Net income   |              |        |                |            |                                  |   | 27,083               | 27,083                           |
| Foreign currency translation   |              |        |                |            |                                  | 211   |                      | 211                              |
| Unrealized loss on investments in marketable securities, net of tax benefits of \$82 |              |        |                |            |                                  | 123   |                      | 123                              |
| Total comprehensive income   |              |        |                |            |                                  |   |                      | 27,417                           |
| Tax benefit from stock option exercise   |              |        |                |            | 6,920                            |   |                      | 6,920                            |
| Balance at December 31, 2012   | 42,533       | \$ 4   | (3,859)        | \$(67,918) | \$ 344,469                       | \$ (365)  | \$ 98,467            | \$ 374,657                       |

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|   |       |    |        |         |         |
|---|-------|----|--------|---------|---------|
| Stock based compensation  |       |    | 10,035 |         | 10,035  |
| Issuance of restricted stock  | 734   |    | 14,539 |         | 14,539  |
| Issuance of common stock on exercise of options                                     | 1,156 |    | 19,196 |         | 19,196  |
| Issuance of common stock related to acquisition                                     | 33    |    | 1,144  |         | 1,144   |
| ESPP compensation   |       |    | 640    |         | 640     |
| Sale of Treasury Stock in connection with an employee stock purchase plan           |       | 66 | 814    | 660     | 1,474   |
| Comprehensive income:   |       |    |        |         |         |
| Net income  |       |    |        | 23,351  | 23,351  |
| Foreign currency translation  |       |    |        | (3,779) | (3,779) |
| Unrealized loss on investments in marketable securities, net of tax benefits of \$2 |       |    |        | 2       | 2       |
| Net gain (loss) on intra-entity foreign currency transactions                       |       |    |        | 3,419   | 3,419   |
|   |       |    |        |         |         |
| Total comprehensive income  |       |    |        |         | 22,993  |
| Tax benefit from stock option exercise  |       |    | 2,961  |         | 2,961   |

Balance at December 31, 2013                      44,456   \$   4   (3,793)   \$ (67,104)   \$ 393,644   \$   (723)   \$ 121,818   \$ 447,639

See accompanying notes to consolidated financial statements.

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## SYNCHRONOSS TECHNOLOGIES, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

|   | Year Ended December 31, |                  |                  |
|---|-------------------------|------------------|------------------|
|   | 2013                    | 2012             | 2011             |
| <b>Operating activities:</b>  |                         |                  |                  |
| Net income  | \$ 23,351               | \$ 27,083        | \$ 15,126        |
| Adjustments to reconcile net income to net cash provided by operating activities:           |                         |                  |                  |
| Depreciation and amortization expense   | 41,126                  | 23,812           | 14,739           |
| Loss on disposal of asset   |                         | 230              |                  |
| Amortization of bond premium  | 294                     | 1,216            | 622              |
| Proceeds from insurance claim   |                         |                  | (199)            |
| Deferred income taxes   | 1,575                   | 1,475            | (642)            |
| Non-cash interest on leased facility  | 921                     | 921              | 918              |
| Stock-based compensation  | 25,214                  | 20,425           | 22,051           |
| Changes in operating assets and liabilities:  |                         |                  |                  |
| Accounts receivable, net of allowance for doubtful accounts                                 | 10,167                  | (11,611)         | (19,409)         |
| Prepaid expenses and other current assets   | 8,022                   | 8,129            | 597              |
| Other assets  | (7,376)                 | (496)            | (349)            |
| Accounts payable  | 348                     | (1,915)          | 344              |
| Accrued expenses  | (7,155)                 | 1,284            | 7,351            |
| Contingent consideration obligation   | (6,214)                 | (8,211)          | 2,188            |
| Excess tax benefit from the exercise of stock options                                       | (2,961)                 | (6,920)          | (3,575)          |
| Other liabilities   | (320)                   | (497)            | (183)            |
| Deferred revenues   | (5,900)                 | 949              | 3,006            |
| <b>Net cash provided by operating activities</b>  | <b>81,092</b>           | <b>55,874</b>    | <b>42,585</b>    |
| <b>Investing activities:</b>  |                         |                  |                  |
| Purchases of fixed assets   | (73,434)                | (33,234)         | (14,732)         |
| Proceeds from insurance claim   |                         |                  | 199              |
| Purchases of marketable securities available-for-sale                                       | (8,366)                 | (13,146)         | (82,098)         |
| Sales and maturities of marketable securities available-for-sale                            | 14,825                  | 74,334           | 7,259            |
| Business acquired, net of cash  | (6,677)                 | (105,177)        | (55,752)         |
| <b>Net cash used in investing activities</b>  | <b>(73,652)</b>         | <b>(77,223)</b>  | <b>(145,124)</b> |
| <b>Financing activities:</b>  |                         |                  |                  |
| Proceeds from the exercise of stock options   | 19,196                  | 7,949            | 17,707           |
| Payments on contingent consideration obligation   | (1,926)                 | (2,268)          | (8,533)          |
| Excess tax benefit from the exercise of stock option  | 2,961                   | 6,920            | 3,576            |
| Repurchase of common stock  |                         | (24,615)         | (19,999)         |
| Proceeds from the sale of Treasury Stock in connection with an employee stock purchase plan | 1,474                   | 612              |                  |
| Repayments of capital obligations   | (1,597)                 | (1,015)          | (945)            |
| <b>Net cash (used in) provided by financing activities</b>                                  | <b>20,108</b>           | <b>(12,417)</b>  | <b>(8,194)</b>   |
| Effect of exchange rate changes on cash   | (64)                    | 364              | (204)            |
| <b>Net (decrease) increase in cash and cash equivalents</b>                                 | <b>27,484</b>           | <b>(33,402)</b>  | <b>(110,937)</b> |
| Cash and cash equivalents at beginning of year  | 36,028                  | 69,430           | 180,367          |
| <b>Cash and cash equivalents at end of year</b>   | <b>\$ 63,512</b>        | <b>\$ 36,028</b> | <b>\$ 69,430</b> |

**Supplemental disclosures of cash flow information:**

|                        |    |     |    |    |    |
|------------------------|----|-----|----|----|----|
| Cash paid for interest | \$ | 168 | \$ | 77 | \$ |
|------------------------|----|-----|----|----|----|

|                            |  |       |  |       |  |       |
|----------------------------|--|-------|--|-------|--|-------|
| Cash paid for income taxes |  | 1,773 |  | 3,396 |  | 3,600 |
|----------------------------|--|-------|--|-------|--|-------|

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

|   |    |       |    |       |    |
|---|----|-------|----|-------|----|
| Issuance of common stock in connection with the acquisition | \$ | 1,144 | \$ | 1,386 | \$ |
|---|----|-------|----|-------|----|

|  |  |  |  |  |  |       |
|--|--|--|--|--|--|-------|
| Issuance of common stock in connection with settlement of contingent consideration |  |  |  |  |  | 8,597 |
|--|--|--|--|--|--|-------|

See accompanying notes to consolidated financial statements.



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**SYNCHRONOSS TECHNOLOGIES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(In thousands, except per share data)**

**1. Description of Business**

Synchronoss Technologies, Inc. (the "Company" or "Synchronoss") is a mobile innovation company that provides cloud solutions and software-based activation for connected devices globally. Such services include intelligent connectivity management and content synchronization, backup and sharing, as well as device and service procurement, provisioning, activation and support, that enable communications service providers (CSPs), cable operators/multi-services operators (MSOs), original equipment manufacturers (OEMs) with embedded connectivity (e.g. smartphones, laptops, tablets and mobile Internet devices, such as automobiles, wearables for personal health and wellness, and connected homes), multi-channel retailers and other customers to accelerate and monetize their go-to-market strategies for connected devices. This includes automating subscriber activation, order management, upgrades, service provisioning and connectivity and content management from any sales channel to any communication service (wireless or wireline), across any connected device type and managing the content transfer, synchronization and share. The Company's global solutions touch all aspects of connected devices on the mobile Internet.

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

The Company's Activation Services, Synchronoss Personal Cloud, Synchronoss WorkSpace, and Synchronoss Integrated Life platforms provide end-to-end seamless integration between customer-facing channels/applications, communication services, or devices and "back-office" infrastructure-related systems and processes. The Company's customers rely on Synchronoss' solutions and technology to automate the process of activation and content and settings management for their customers' devices while delivering additional communication services. The Synchronoss Integrated Life platform brings together the capabilities of device/service activation with content and settings management to provide a seamless experience of activating and managing non-traditional devices. The Company's platforms also support automated customer care processes through use of accurate and effective speech processing technology and enable the Company's customers to offer their subscribers the ability to store in and retrieve from the Cloud their personal and work content and data which resides on their connected mobile devices, such as personal computers, smartphones and tablets. The Company's platforms are designed to be carrier-grade, high availability, flexible and scalable to enable multiple converged communication services to be managed across multiple distribution channels, including e-commerce, m-commerce, telesales, customer stores, indirect and other retail outlets, etc., allowing Synchronoss to meet the rapidly changing and converging services and connected devices offered by the Company's customers. The Company enables its customers to acquire, retain and service subscribers quickly, reliably and cost-effectively by enabling backup, restore, synchronization and sharing of subscriber content. Through the use of the Company's platforms, customers can simplify the processes associated with managing the customer experience for procuring, activating, connecting, backing-up, synchronizing and social media and enterprise-wide sharing/collaboration connected devices and contents from these

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**SYNCHRONOSS TECHNOLOGIES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(In thousands, except per share data)**

**1. Description of Business (Continued)**

devices and associated services. The extensibility, scalability, reliability and relevance of the Company's platforms enable new revenue streams and retention opportunities for customers through new subscriber acquisitions, sale of new devices, accessories and new value-added service offerings in the Cloud, while optimizing their cost of operations and enhancing customer experience.

The Company currently operates in and markets its solutions and services directly through its sales organizations in North America, Europe and Asia-Pacific.

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

**2. Summary of Significant Accounting Policies**

***Basis of Presentation and Consolidation***

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All material intercompany transactions and accounts are eliminated in consolidation.

Certain amounts from the prior year balance sheet have been recasted. In connection with the Spatial Systems Nominees PTY LTD ("Spatial") acquisition, the consolidated balance sheet at December 31, 2012 has been recast to include retrospective purchase accounting adjustments. These adjustments pertain to measurement period adjustments during the period ended November 30, 2013, based on the reclassification and valuation of assets acquired and liabilities assumed in the Spatial acquisition. The effect on the consolidated balance sheet at December 31, 2012, as a result of the recast, is a decrease in accounts receivable of \$2.6 million, an increase in prepaid expenses and other assets of \$5.0 million, an increase in goodwill of \$11.8 million, an increase in accrued expenses of \$4.6 million, and an increase in deferred revenues of \$9.6 million.

***Use of Estimates***

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

***Revenue Recognition and Deferred Revenue***

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

*Transactional and Subscription Service Arrangements:* Transaction and subscription revenues represented approximately 70%, 67%, and 77% of revenues for the years ended December 31, 2013,

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**SYNCHRONOSS TECHNOLOGIES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(In thousands, except per share data)**

**2. Summary of Significant Accounting Policies (Continued)**

2012 and 2011, respectively. Transaction and subscription revenues consist of revenues derived from the processing of transactions through the Company's service platforms, providing enterprise portal management services on a subscription basis and maintenance agreements on software licenses. Transaction service arrangements include services such as processing equipment orders, new account set-up and activation, number port requests, credit checks and inventory management. Subscription services include hosting and storage and the related maintenance support for those services.

Transaction revenues are principally based on a contractual price per transaction and are recognized based on the number of transactions processed during each reporting period. Revenues are recorded based on the total number of transactions processed at the applicable price established in the relevant contract. The total amount of revenues recognized is based primarily on the volume of transactions. Subscription revenues are recorded on a straight-line basis over the life of the contract for subscription services and maintenance agreements.

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

*Professional Service and Software License Arrangements:* Professional service and software license revenues represented approximately 30%, 33% and 23% of revenues for the years ended December 31, 2013, 2012 and 2011, respectively. Professional services include process and workflow consulting services and development services. Professional services, when sold with non-software transactional or subscription service arrangements, are accounted for separately when the professional services have value to the customer on a standalone basis. Professional services, when sold with software transactional or subscription service arrangements are accounted for separately when the professional services have value to the customer on a standalone basis and there is objective and reliable evidence of fair value of the professional services. When accounted for separately, professional service revenues are recognized on a monthly basis, as services are performed and all other elements of revenue recognition have been satisfied.

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

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**SYNCHRONOSS TECHNOLOGIES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(In thousands, except per share data)**

**2. Summary of Significant Accounting Policies (Continued)**

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

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

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

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

***Service Level Standards***

Pursuant to certain contracts, the Company is subject to service level standards and to corresponding penalties for failure to meet those standards. All performance-related penalties are reflected as a corresponding reduction of the Company's revenues. These penalties, if applicable, are recorded in the month incurred and were insignificant for the years ended December 31, 2013, 2012 and 2011, respectively.

***Concentration of Credit Risk***

The Company's financial instruments that are exposed to concentration of credit risk consist primarily of cash and cash equivalents, marketable securities and accounts receivable. The Company maintains its cash and cash equivalents at several major financial institutions. The Company has not experienced any realized losses in such accounts and believes it is not exposed to any significant credit

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**SYNCHRONOSS TECHNOLOGIES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(In thousands, except per share data)**

**2. Summary of Significant Accounting Policies (Continued)**

risk related to cash, cash equivalents and securities. The Company's cash equivalents and short-term marketable securities consist primarily of money market funds, certificates of deposit, and municipal and corporate bonds. The Company believes that concentration of credit risk with respect to accounts receivable is limited because of the creditworthiness of the Company's major customers.

The Company's top five customers accounted for 77%, 76% and 86% of net revenues for 2013, 2012 and 2011, respectively. The Company's top five customers accounted for 76% and 67% of accounts receivable at December 31, 2013 and 2012, respectively. Of these customers, AT&T and Verizon Wireless each accounted for more than 10% of the Company's revenues in 2013. The loss of either AT&T or Verizon as a customer would have a material negative impact on the Company. The Company believes that if either AT&T or Verizon terminated their relationships with Synchronoss, AT&T and Verizon would encounter substantial costs in replacing Synchronoss' transaction management solutions.

***Fair Value of Financial Instruments and Liabilities***

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

***Cash and Cash Equivalents***

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

***Marketable Securities***

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

***Accounts Receivable and Allowance for Doubtful Accounts***

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

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**SYNCHRONOSS TECHNOLOGIES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(In thousands, except per share data)**

**2. Summary of Significant Accounting Policies (Continued)**

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

***Property and Equipment***

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

***Business Combinations***

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

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

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

***Goodwill and Other Intangible Assets***

Goodwill represents the excess of the purchase price over the fair value of assets acquired, including other definite-lived intangible assets. Goodwill is not amortized, but reviewed annually for impairment or upon the occurrence of events or changes in circumstances that would more likely than

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**SYNCHRONOSS TECHNOLOGIES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(In thousands, except per share data)**

**2. Summary of Significant Accounting Policies (Continued)**

not reduce the fair value of the reporting unit below its carrying amount. There were no impairment charges recognized during the years ended December 31, 2013, 2012 and 2011.

Intangible assets that do not have indefinite lives (primarily technology and customer relationships) are amortized over their useful lives. All of intangible assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. The Company reevaluates the useful life determinations for these intangible assets each year to determine whether events and circumstances warrant a revision in their remaining useful lives.

***Impairment of Long-Lived Assets***

A review of long-lived assets for impairment is performed when events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. If an indication of impairment is present, the Company compares the estimated undiscounted future cash flows to be generated by the asset to the asset's carrying amount. If the undiscounted future cash flows are less than the carrying amount of the asset, the Company records an impairment loss equal to the amount by which the asset's carrying amount exceeds its fair value. The fair value is determined based on valuation techniques such as a comparison to fair values of similar assets or using a discounted cash flow analysis. There were no impairment charges recognized during the years ended December 31, 2013, 2012 and 2011.

***Cost of Services***

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

***Research and Development***

Research and development costs are expensed as incurred, unless they meet U.S. GAAP criteria for deferral and amortization. Software development costs incurred prior to the establishment of technological feasibility do not meet these criteria, and are expensed as incurred. Amortization of software development costs is computed using the straight-line method over the estimated useful lives of the assets, 3 and 5 years. As of December 31, 2013, the Company had \$1.8 million of unamortized software development costs and \$1.2 million of amortization expense which was recognized during 2013. As of December 31, 2012, the Company had \$2.0 million of unamortized software development costs and \$1.3 million of amortization expense which was recognized during 2012. Research and development expense consists primarily of costs related to personnel, including salaries and other personnel-related expenses, consulting fees and the cost of facilities, computer and support services used in service technology development. The Company also expenses costs relating to developing modifications and minor enhancements of its existing technology and services.

***Income Taxes***

Since the Company conducts operations on a global basis, its effective tax rate has and will depend upon the geographic distribution of its pre-tax earnings among locations with varying tax rates. The

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**SYNCHRONOSS TECHNOLOGIES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(In thousands, except per share data)**

**2. Summary of Significant Accounting Policies (Continued)**

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

The Company recognizes a tax benefit from an uncertain tax position only if it is more likely than not to be sustained upon examination based on the technical merits of the position. The amount of the accrual for which an exposure exists is measured by determining the amount that has a greater than 50 percent likelihood of being realized upon the settlement of the position. Components of the reserve are classified as a long-term liability in the consolidated balance sheets. The Company records interest and penalties accrued in relation to uncertain tax benefits as a component of interest expense. The Company expects that the amount of unrecognized tax benefits will change during 2014; however, the Company does not expect the change to have a significant impact on its results of operations or financial position.

While the Company believes it has identified all reasonably identifiable exposures and that the reserve that the Company has established for identifiable exposures is appropriate under the circumstances, it is possible that additional exposures exist and that exposures may be settled at amounts different than the amounts reserved. It is also possible that changes in facts and circumstances could cause the Company to either materially increase or reduce the carrying amount of its tax reserves. In general, tax returns for the year 2010 and thereafter are subject to future examination by tax authorities.

The Company's policy has been to leave its cumulative unremitted foreign earnings invested indefinitely outside the United States, and the Company intends to continue this policy. As such, taxes have not been provided on any of the remaining accumulated foreign unremitted earnings. If the cumulative unremitted foreign earnings exceed the amount the Company intends to reinvest in foreign countries in the future, the Company would provide for taxes on such excess amount.

***Foreign Currency***

Prior to the third quarter of 2013, several of the Company's subsidiaries that operate outside the U.S. used the U.S. dollar as the functional currency. Effective July 1, 2013, the Company changed the functional currencies of those subsidiaries that operate outside the U.S. to their local currency. This change was the result of a change in the Company's international operations and economic strategies driven by the implementation of a global financial system that has allowed the Company's foreign operations to become self-contained and integrated within their resident countries and to the local currency.

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



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**SYNCHRONOSS TECHNOLOGIES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(In thousands, except per share data)**

**2. Summary of Significant Accounting Policies (Continued)**

transactions denominated in foreign currencies are included in other income or expense, within the consolidated statements of income. The effects of the change in functional currency were not material to the Company's consolidated financial statements for all years presented.

***Comprehensive Income***

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

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

The Company calculates basic and diluted per share amounts based on net earnings adjusted for the effects to earnings that would result if contingently issuable shares related to contingent consideration to be settled in the Company's stock were reported as equity for the periods presented. Basic earnings per share is calculated by using the weighted average number of common shares outstanding during the period. The diluted earnings per share calculation is based on the weighted average number of shares of common stock outstanding adjusted for the number of additional shares that would have been outstanding had all potentially dilutive common shares been issued. Potentially dilutive shares of common stock include stock options, non-vested share awards and contingently issuable shares related to contingent consideration to be settled in stock. The dilutive effects of stock options and restricted stock awards are based on the treasury stock method. The dilutive effects of the contingent consideration to be settled in stock are calculated as if the contingently issuable shares were outstanding as of the beginning of the period. The following table provides a reconciliation of the numerator and denominator used in computing basic and diluted net income attributable to common

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## SYNCHRONOSS TECHNOLOGIES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

**2. Summary of Significant Accounting Policies (Continued)**

stockholders per common share. Stock options that are anti-dilutive and excluded from the following table totaled 1,367, 1,840, and 947 for the years ended December 31, 2013, 2012 and 2011, respectively.

|  | Year Ended December 31, |           |           |
|--|-------------------------|-----------|-----------|
|  | 2013                    | 2012      | 2011      |
| <b>Numerator:</b>  |                         |           |           |
| Net income attributable to common stockholders   | \$ 23,351               | \$ 27,083 | \$ 15,126 |
| Income effect for equity mark-to-market on contingent consideration obligation, net of tax |                         |           | 1,466     |
| Net income applicable to shares of common stock for earnings per share                     | \$ 23,351               | \$ 27,083 | \$ 16,592 |
| <b>Denominator:</b>  |                         |           |           |
| Weighted average common shares outstanding basic   | 38,891                  | 38,195    | 37,372    |
| <b>Dilutive effect of:</b>   |                         |           |           |
| Options and unvested restricted shares   | 1,118                   | 931       | 1,247     |
| Weighted average common shares outstanding diluted   | 40,009                  | 39,126    | 38,619    |

***Stock-Based Compensation***

As of December 31, 2013, the Company maintains three stock-based compensation plans. The Company utilizes the Black-Scholes pricing model to determine the fair value of stock options on the dates of grant. Restricted stock awards are measured based on the fair market values of the underlying stock on the dates of grant, unless the awards are subject to market conditions, in which case the Company uses a binomial-lattice model (e.g., Monte Carlo simulation model). The Monte Carlo simulation model utilizes multiple input variables to estimate the probability that market conditions will be achieved. The Company recognizes stock-based compensation over the requisite service period with an offsetting credit to additional paid-in capital.

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

The Company classifies benefits of tax deductions in excess of the compensation cost recognized (excess tax benefits) as a financing cash inflow with a corresponding operating cash outflow. The Company included \$3.0 million, \$6.9 million and \$3.6 million of excess tax benefits as a financing cash inflow for the years ended December 31, 2013, 2012 and 2011, respectively.



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**SYNCHRONOSS TECHNOLOGIES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(In thousands, except per share data)**

**2. Summary of Significant Accounting Policies (Continued)**

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

In February 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2013-02 which requires additional disclosures regarding the reporting of reclassifications out of accumulated other comprehensive income. ASU 2013-02 requires an entity to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. This guidance is effective for reporting periods beginning after December 15, 2012. The Company adopted this guidance effective January 1, 2013. The Company's adoption of this standard did not have a significant impact on its consolidated financial statements.

In March 2013, the FASB issued ASU 2013-05, which permits an entity to release cumulative translation adjustments into net income when a reporting entity (parent) ceases to have a controlling financial interest in a subsidiary or group of assets that is a business within a foreign entity. Accordingly, the cumulative translation adjustment should be released into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided, or, if a controlling financial interest is no longer held. The revised standard is effective for fiscal years beginning after December 15, 2013; however, early adoption is permitted. The Company does not expect adoption of this ASU to significantly impact its consolidated financial statements.

In July 2013, the FASB issued ASU 2013-11, which provides that a liability related to an unrecognized tax benefit would be offset against a deferred tax asset instead of presented gross for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward if such settlement is required or expected in the event the uncertain tax position is disallowed. This new guidance is effective for fiscal years beginning after December 15, 2013. The Company does not expect adoption of this ASU to significantly impact its consolidated financial statements.

***Segment and Geographic Information***

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

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## SYNCHRONOSS TECHNOLOGIES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

**2. Summary of Significant Accounting Policies (Continued)**

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

|          | Year Ended December 31, |            |            |
|----------|-------------------------|------------|------------|
|          | 2013                    | 2012       | 2011       |
| Revenues |                         |            |            |
| Domestic | \$ 309,322              | \$ 252,292 | \$ 220,406 |
| Foreign  | 39,725                  | 21,400     | 8,678      |
| Total    | \$ 349,047              | \$ 273,692 | \$ 229,084 |

|                              | December 31, |           |
|------------------------------|--------------|-----------|
|                              | 2013         | 2012      |
| Property and equipment, net: |              |           |
| Domestic                     | \$ 96,558    | \$ 52,852 |
| Foreign                      | 9,548        | 5,310     |
| Total                        | \$ 106,106   | \$ 58,162 |

**3. Acquisition***Strumsoft, Inc. ("Strumsoft")*

On November 6, 2013, the Company acquired 100% of the capital stock of Strumsoft (USA), Inc., a California corporation and Strumsoft (India) Pvt. Ltd., an India company for a total cash consideration of \$11.0 million and issued approximately 33 shares of the Company's Common Stock. The total cash consideration was comprised of \$10.2 million for the purchase of all the shares of Strumsoft and \$774 for the estimated surplus working capital on the date of purchase. The 33 shares of the Company's Common Stock were valued at approximately \$1.1 million based on the Company's November 6, 2013 closing stock price per shares. In addition, the Company potentially may make payments ("Strumsoft Earn-out") totaling up to approximately \$6.0 million based on the ability to achieve a range of business objectives for the period from January 1, 2014 through December 31, 2014. The maximum that could be paid to existing employees of Strumsoft is \$2.0 million and actual amounts will be recorded as compensation expense over the service period. Strumsoft is engaged in the business of providing consultancy services for software development and data processing.

Management determined the preliminary fair value of net assets acquired during the fourth quarter of 2013. Accordingly, on November 6, 2013 the Company recorded \$4.2 million representing the initial fair value estimate of the contingent consideration that will be earned through

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December 31, 2014. At December 31, 2013 there was no change in the fair value of the contingent consideration. The fair value of this liability is based on future sales projections of Strumsoft and weighting the probability of the sales outcome for the period ended December 31, 2014. These fair value measurements were based on significant inputs not observed in the market and thus represented a Level 3 measurement.

The goodwill recorded in connection with this acquisition is based on (i) the expertise in cloud computing held by key leaders of Strumsoft, and (ii) intangible assets that do not qualify for separate

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## SYNCHRONOSS TECHNOLOGIES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

**3. Acquisition (Continued)**

recognition such as Strumsoft's assembled workforce. The goodwill acquired will not be deductible for tax purposes. The results of Strumsoft's operations have been included in the consolidated financial statements since the acquisition date. Pro forma results of operations for the acquisition have not been presented because the effects of the acquisition were not material to the Company's prior financial statements.

The Company believes that Strumsoft will help strengthen its user design and messaging development and augment the Company's cloud services offerings and mobile development. In addition, the acquisition of Strumsoft is expected to help increase the Company's penetration of its domestic customer base.

*Allocation of Consideration Transferred*

Total purchase price is summarized as follows:

|   | November 6, 2013 |
|---|------------------|
| Cash consideration                            | \$ 10,187        |
| Working Capital Surplus                       | 774              |
| Value of Synchronoss common stock issued      | 1,144            |
| Estimated fair value of the Earn-out payments | 4,200            |
| <b>Total purchase price</b>                   | <b>\$ 16,305</b> |

The following table summarizes the preliminary estimated fair values of the assets and liabilities assumed at the acquisition date:

|   | November 6, 2013 |
|---|------------------|
| Cash and cash equivalents                 | \$ 4,284         |
| Accounts receivable                       | 115              |
| Prepaid expenses and other assets         | 129              |
| Intangible assets                         | 4,683            |
| Property and equipment                    | 62               |
| <b>Total identifiable assets acquired</b> | <b>9,273</b>     |
| Accounts payable and accrued liabilities  | (3,603)          |
| Deferred tax liability                    | (1,746)          |
| <b>Total liabilities assumed</b>          | <b>(5,349)</b>   |
| <b>Net identifiable assets acquired</b>   | <b>3,924</b>     |
| <b>Goodwill</b>                           | <b>12,381</b>    |
| <b>Net assets acquired</b>                | <b>\$ 16,305</b> |

The Company recorded \$4.7 million in intangible assets as of the acquisition date with a weighted-average amortization period of 2 years and is amortizing the value of the trade name and customer relationships over an estimated useful life of 2 and 3 years, respectively and an order backlog that was amortized over the last two months of 2013. Amortization expense related to the acquired intangible



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## SYNCHRONOSS TECHNOLOGIES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

**3. Acquisition (Continued)**

assets resulting from the Strumsoft acquisition, which is included in depreciation and amortization expense, was approximately \$1.1 million for the year ended December 31, 2013.

Intangible assets related to the Strumsoft acquisition as of December 31, 2013 consist of the following:

|                             |          |
|-----------------------------|----------|
| Intangible assets:          |          |
| Trade name                  | \$ 102   |
| Accumulated amortization    | (9)      |
| Trade name, net             |          |
|                             | 93       |
| Order backlog               |          |
|                             | 918      |
| Accumulated amortization    | (918)    |
| Order backlog, net          |          |
|                             |          |
| Customer relationships      |          |
|                             | 3,662    |
| Accumulated amortization    | (203)    |
| Customer relationships, net |          |
|                             | 3,459    |
| Intangibles assets, net     |          |
|                             | \$ 3,552 |

***Newbay Software Limited ("Newbay")***

On December 24, 2012 the Company acquired 100% of the capital stock of Newbay, an Ireland company, and its subsidiaries, for cash consideration of \$55.5 million. Newbay had operations in Europe and the U.S.

The purchase price was allocated to the tangible assets acquired and liabilities assumed based upon their fair values at the acquisition date. The excess of the purchase price over the net tangible assets and liabilities, approximately \$23.2 million, was recorded as goodwill, which is not tax deductible.

Total purchase price is summarized as follows:

**December 24, 2012**

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|                    |    |         |
|--------------------|----|---------|
| Cash consideration | \$ | 55,500  |
| Closing Adjustment |    | (2,947) |

|                      |    |        |
|----------------------|----|--------|
| Total purchase price | \$ | 52,553 |
|----------------------|----|--------|

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## SYNCHRONOSS TECHNOLOGIES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

**3. Acquisition (Continued)***Allocation of Consideration Transferred*

The following table summarizes the final fair values of the Newbay assets and liabilities assumed at the acquisition date:

|  | December 24, 2012 |
|--|-------------------|
| Cash and cash equivalents                | \$ 2,444          |
| Accounts receivable                      | 5,748             |
| Prepaid expenses and other assets        | 3,838             |
| Property and equipment                   | 4,543             |
| Intangible assets                        | 27,989            |
| Deferred tax asset                       | 517               |
| Other assets, non-current                | 1,089             |
| <br>                                     |                   |
| Total identifiable assets acquired       | 46,168            |
| Accounts payable and accrued liabilities | (13,575)          |
| Deferred revenue                         | (881)             |
| Capital lease                            | (2,348)           |
| <br>                                     |                   |
| Total liabilities assumed                | (16,804)          |
| Net identifiable assets acquired         | 29,364            |
| Goodwill                                 | 23,189            |
| <br>                                     |                   |
| Net assets acquired                      | \$ 52,553         |

***Spatial Systems Nominees PTY LTD ("Spatial")***

On November 30, 2012, the Company acquired 100% of the capital stock of Spatial, an Australian company with operations in the U.S., for total cash consideration of \$30.6 million and issued approximately 240 shares of the Company's Common Stock. The total cash consideration was comprised of \$30.0 million for the purchase of all of the shares of Spatial and \$625 for the estimated surplus working capital on the date of purchase. Of the 240 shares of the Company's Common Stock issued, only a portion valued at approximately \$1.4 million based on the Company's November 30, 2012 closing stock price per share was considered purchase price. The remaining value of the shares will be recognized as compensation expense and amortized over the service period of three years. In addition, the Company could have potentially made payments totaling up to approximately \$5.0 million in cash and issue up to 260 shares of stock based on the ability to achieve a range of business objectives for the period from December 1, 2012 through November 30, 2013. However, these objectives were not achieved due to the timing of projected revenues financial milestones required to receive the expected payout and, therefore, the Company has no further obligation to the former Spatial stockholders.

The purchase price was allocated to the tangible assets acquired and liabilities assumed based upon their fair values at the acquisition date. The excess of the purchase price over the net tangible assets and liabilities, approximately \$35.9 million, was recorded as goodwill, which is not

tax deductible.

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## SYNCHRONOSS TECHNOLOGIES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

**3. Acquisition (Continued)***Allocation of Consideration Transferred*

Total purchase price is summarized as follows:

|   | November 30, 2012 |               |
|---|-------------------|---------------|
| Cash consideration                            | \$                | 30,000        |
| Working Capital Surplus                       |                   | 625           |
| Value of Synchronoss common stock issued      |                   | 1,386         |
| Estimated fair value of the Earn-out payments |                   | 4,600         |
| <b>Total purchase price</b>                   | <b>\$</b>         | <b>36,611</b> |

The Company prepared an initial determination of the fair value of assets acquired and liabilities assumed as of the acquisition date using preliminary information. In accordance with Account Standards Codification 805, during the measurement period an acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the measurement of the amounts recognized as of the acquisition date. Accordingly, the Company has recognized measurement period adjustments made during the first quarter of 2013 to the fair value of certain assets acquired and liabilities assumed as a result of the further refinements in the Company's provisional amounts. These adjustments were retrospectively applied to the November 30, 2012 acquisition date balance sheet. The effect of these adjustments on the preliminary purchase price allocation was a decrease in accounts receivable of \$2.6 million, an increase in prepaid expenses and other assets of \$5.0 million, an increase to goodwill of \$11.8 million, an increase in accrued expenses of \$4.6 million, and an increase to deferred revenues of \$9.6 million. None of the adjustments had a material impact on the Company's previously reported results of operations.

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## SYNCHRONOSS TECHNOLOGIES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

**3. Acquisition (Continued)**

The following table summarizes the final fair values of the assets and liabilities assumed at the acquisition date:

|  | November 30, 2012 |
|--|-------------------|
| Cash and cash equivalents                | \$ 2,395          |
| Accounts receivable                      | 4,409             |
| Prepaid expenses and other assets        | 5,232             |
| Property and equipment                   | 584               |
| Intangible assets                        | 11,322            |
| Other assets, non-current                | 70                |
| <br>                                     |                   |
| Total identifiable assets acquired       | 24,012            |
| Accounts payable and accrued liabilities | (9,927)           |
| Deferred revenue                         | (11,111)          |
| Deferred tax liability                   | (1,862)           |
| Other liabilities, non-current           | (389)             |
| <br>                                     |                   |
| Total liabilities assumed                | (23,289)          |
| Net identifiable assets acquired         | 723               |
| Goodwill                                 | 35,888            |
| <br>                                     |                   |
| Net assets acquired                      | \$ 36,611         |

***Acquisition-related Costs***

Acquisition-related costs recognized during the years ended December 31, 2013 and 2012, including transaction costs such as employee retention, legal, accounting, valuation and other professional services, were \$1.7 million and \$2.9 million, respectively.

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

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

Level 1 Observable inputs quoted prices in active markets for identical assets and liabilities;

Level 2 Observable inputs other than the quoted prices in active markets for identical assets and liabilities includes quoted prices for similar instruments, quoted prices for identical or similar instruments in inactive markets, and amounts derived from valuation models where all significant inputs are observable in active markets; and

Level 3 Unobservable inputs includes amounts derived from valuation models where one or more significant inputs are unobservable and require the Company to develop relevant assumptions.

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## SYNCHRONOSS TECHNOLOGIES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

## 4. Fair Value Measurements of Assets and Liabilities (Continued)

The following is a summary of assets and liabilities held by the Company and their related classifications under the fair value hierarchy at December 31, 2013 and 2012:

|            | December 31, |           |
|------------|--------------|-----------|
|            | 2013         | 2012      |
| Level 1(A) | \$ 68,911    | \$ 41,395 |
| Level 2(B) | 8,694        | 15,474    |
| Level 3(C) | (4,490)      | (8,379)   |
| Total      | \$ 73,115    | \$ 48,490 |

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

The Company utilizes the market approach to measure fair value for its financial assets. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets. The Company's marketable securities investments classified as Level 2 primarily utilize broker quotes in a non-active market for valuation of these securities. No transfers of assets between Level 1 and Level 2 of the fair value measurement hierarchy occurred during the year ended December 31, 2013.

The aggregate fair value of available for sale securities and aggregate amount of unrealized gains and losses for available for sale securities at December 31, 2013 were as follows:

|  | Aggregate<br>Fair Value | Aggregate<br>Amount<br>of Unrealized |         |
|--|-------------------------|--------------------------------------|---------|
|  |                         | Gains                                | Losses  |
| Due in one year or less                  | \$ 9,105                | \$ 5                                 | \$ (32) |
| Due after one year, less than five years | 4,988                   | 11                                   | (2)     |
|  | \$ 14,093               | \$ 16                                | \$ (34) |





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## SYNCHRONOSS TECHNOLOGIES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

**4. Fair Value Measurements of Assets and Liabilities (Continued)**

The aggregate fair value of available for sale securities and aggregate amount of unrealized gains and losses for available for sale securities at December 31, 2012 were as follows:

|  | Aggregate<br>Fair Value | Aggregate<br>Amount<br>of Unrealized |         |
|--|-------------------------|--------------------------------------|---------|
|  |                         | Gains                                | Losses  |
| Due in one year or less                  | \$ 20,188               | \$ 18                                | \$ (41) |
| Due after one year, less than five years | 653                     | 1                                    | (1)     |
|  | \$ 20,841               | \$ 19                                | \$ (42) |

Unrealized gains and losses are reported as a component of accumulated other comprehensive loss in stockholders' equity. The net unrealized gain net of tax was \$2 and \$123 as of December 31, 2013 and 2012, respectively. During the year ended December 31, 2012, the Company received \$52.8 million in proceeds from the sale of its marketable securities and recognized \$264 of net losses. There were no sales of marketable securities during the year ended December 31, 2013. The cost of securities sold is based on specific identification method. The Company evaluates investments with unrealized losses to determine if the losses are other than temporary. The Company has determined that the gross unrealized losses at December 31, 2013 and 2012 are temporary. In making this determination, the Company considered the financial condition, credit ratings and near-term prospects of the issuers, the underlying collateral of the investments, and the magnitude of the losses as compared to the cost and the length of time the investments have been in an unrealized loss position. Additionally, while the Company classifies the securities as available for sale, the Company does not currently intend to sell such investments and it is more likely than not to recover the carrying value prior to being required to sell such investments.

The Company determined the fair value of the contingent consideration obligation based on a probability-weighted income approach derived from quarterly revenue estimates and a probability assessment with respect to the likelihood of achieving the various performance criteria. The fair value measurement is based on significant inputs not observable in the market and thus represents a Level 3 measurement. The significant unobservable inputs used in the fair value measurement of the Company's contingent consideration obligation are the probabilities of achieving certain financial targets and contractual milestones. Significant increases (decreases) in any of those probabilities in isolation may result in a higher (lower) fair value measurement. No changes in valuation techniques occurred during the year ended December 31, 2013. During the year ended December 31, 2013, the Company recognized a \$5.3 million reduction of the contingent consideration obligation driven by the settlement of the SpeechCycle, Inc. ("SpeechCycle") Earn-out and the Spatial Earn-out not being achieved due to the timing of projected revenues financial milestones required to receive the expected payout. During the year ended December 31, 2013, the Company paid approximately \$2.6 million to the former stockholders of SpeechCycle and employees at the completion of the service period for the SpeechCycle contingent consideration obligation and approximately \$1.0 million to the former stock-holders of Miyowa, S.A. ("Miyowa") and employees at the completion of the Miyowa contingent consideration obligation.

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## SYNCHRONOSS TECHNOLOGIES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

**4. Fair Value Measurements of Assets and Liabilities (Continued)**

The changes in fair value of the Company's Level 3 contingent consideration obligation during the year ended December 31, 2013 were as follows:

|   | <b>Level 3</b> |
|---|----------------|
| Balance at December 31, 2012  | \$ 8,379       |
| Fair value adjustment to contingent consideration obligation included in net income | (5,324)        |
| Earn-out compensation due to SpeechCycle employees                                  | 511            |
| SpeechCycle Earn-out payment  | (2,553)        |
| Miyowa Earn-out payment   | (1,041)        |
| Fx impact of change in contingent consideration obligation                          | 51             |
| Addition of Strumsoft Earn-out  | 4,200          |
| Earn-out compensation due to Strumsoft employees                                    | 267            |
| <br>  |                |
| Balance at December 31, 2013  | \$ 4,490       |

**5. Property and Equipment**

Property and equipment consist of the following:

|                                | <b>December 31,</b> |             |
|--------------------------------|---------------------|-------------|
|                                | <b>2013</b>         | <b>2012</b> |
| Computer hardware              | \$ 70,501           | \$ 33,381   |
| Computer software              | 22,640              | 18,313      |
| Construction in-progress       | 30,440              | 8,755       |
| Furniture and fixtures         | 3,579               | 3,568       |
| Building                       | 8,808               | 8,808       |
| Leasehold improvements         | 10,250              | 9,931       |
|                                | 146,218             | 82,756      |
| Less: Accumulated depreciation | (40,112)            | (24,594)    |
|                                | \$ 106,106          | \$ 58,162   |

Depreciation expense was approximately \$24.6 million, \$14.5 million, and \$10.5 million for 2013, 2012, and 2011, respectively. Amortization of property and equipment recorded under a capital lease is included with depreciation expense.



Table of Contents**SYNCHRONOSS TECHNOLOGIES, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(In thousands, except per share data)****6. Accrued Expenses**

Accrued expenses consist of the following:

|                                     | <b>December 31,</b> |                  |
|-------------------------------------|---------------------|------------------|
|                                     | <b>2013</b>         | <b>2012</b>      |
| Accrued compensation and benefits   | \$ 12,868           | \$ 15,687        |
| Accrued third party processing fees | 5,284               | 4,139            |
| Accrued accounting fees             | 1,296               | 928              |
| Accrued consulting fees             | 1,263               | 2,136            |
| Accrued acquisition costs           | 40                  | 5,303            |
| Accrued other                       | 14,520              | 11,543           |
| Accrued income tax payable          | 2,648               | 1,922            |
|                                     | <b>\$ 37,919</b>    | <b>\$ 41,658</b> |

**7. Capital Structure**

As of December 31, 2013, the Company's authorized capital stock was 110,000 shares of stock with a par value of \$0.0001, of which 100,000 shares were designated common stock and 10,000 shares were designated preferred stock.

***Common Stock***

Each holder of common stock is entitled to vote on all matters and is entitled to one vote for each share held. Dividends on common stock will be paid when, as and if declared by the Company's Board of Directors. No dividends have ever been declared or paid by the Company. As of December 31, 2013, there were 40,663 shares of common stock outstanding, 5,097 shares of common stock reserved for issuance under the Company's 2000 Stock Plan (the "2000 Plan"), 13,000 shares of common stock reserved for issuance under the Company's 2006 Equity Incentive Plan (the "2006 Plan"), and 0 shares of common stock reserved for issuance under the Company's 2010 New Hire Equity Incentive Plan (the "2010 Plan").

***Preferred Stock***

There are no shares of preferred stock outstanding as of December 31, 2013 or 2012. 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.

***Registration Rights***

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



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**SYNCHRONOSS TECHNOLOGIES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(In thousands, except per share data)**

**8. Stock Plans**

As of December 31, 2013, the Company maintains three stock incentive plans, the 2000 Plan, the 2006 Plan and the 2010 Plan. The Company's Board of Directors administers the 2000 Plan, the 2006 Plan, and the 2010 Plan and is responsible for determining the individuals to be granted options or shares, the number of options or shares each individual will receive, the price per share and the exercise period of each option.

Under the 2000 Plan, the Company has the ability to provide employees, outside directors and consultants an opportunity to acquire a proprietary interest in the success of the Company or to increase such interest by receiving options or purchasing shares of the Company's stock at a price not less than the fair market value at the date of grant for incentive stock options and a price not less than 30% of the fair market value at the date of grant for non-qualified options. Under the 2006 Plan and 2010 Plan, the Company may grant to its employees, outside directors and consultants awards in the form of incentive stock options, non-qualified stock options, shares of restricted stock and stock units or stock appreciation rights. During the year ended December 31, 2013, options to purchase 624 shares of common stock were granted under the 2006 Plan. Under the Company's Plans, options may be exercised in whole or in part for 100% of the shares subject to vesting at any time after the date of grant. Options under the Company's 2000 and 2006 Plans generally vest 25% on the first year anniversary of the date of grant plus an additional 1/48<sup>th</sup> for each month of continuous service thereafter. Options under the Company's 2010 Plan generally vest the first 50% on the second year anniversary from July 19, 2010 and an additional 1/48<sup>th</sup> for each month of continuous service thereafter.

During 2013, the Company issued approximately 308 shares of restricted stock and increased the amount reserved to grant 128 shares of stock related to the 2012 performance share grant. As of December 31, 2013, the Company had a remaining 187 shares of restricted stock reserved for the 2013 performance share grant. The actual number of shares to be issued, which could range from 0 to 187, is dependent upon the Company's revenue and operating income levels compared to targets. For certain executives, the 2013 and 2012 performance share grants also contain a market condition that adjusts the number of performance shares otherwise earned based on the achievement of operating targets. Specifically, the percentage of the target performance shares earned based on achievement of operating targets could be adjusted (upward or downward) based on the Company's Total Shareholder Return (TSR) performance, as compared to the TSR of the companies in the S&P 500 at the beginning and end of the following year. The additional shares, if any, will be issued in early 2014. As of December 31, 2013, there were 3,749 shares available for grant or award under the Company's Plans.

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

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## SYNCHRONOSS TECHNOLOGIES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

**8. Stock Plans (Continued)**

voluntary termination behavior, as well as a historical analysis of actual option forfeitures. The weighted-average assumptions used in the Black-Scholes option pricing model are as follows:

|                                     | Year Ended<br>December 31, |       |       |
|-------------------------------------|----------------------------|-------|-------|
|                                     | 2013                       | 2012  | 2011  |
| Expected stock price volatility     | 66%                        | 68%   | 69%   |
| Risk-free interest rate             | 0.87%                      | 0.80% | 1.12% |
| Expected life of options (in years) | 4.5                        | 4.8   | 4.7   |
| Expected dividend yield             | 0%                         | 0%    | 0%    |

The weighted-average fair value (as of the date of grant) of the options granted during the year ended December 31, 2013, 2012 and 2011 was \$15.79, \$13.47 and \$17.04, respectively. During the years ended December 31, 2013, 2012 and 2011, the Company recorded total pre-tax stock-based compensation expense of \$25.2 million (\$16.8 million after tax or \$0.42 per diluted share), \$20.4 million (\$12.9 million after tax or \$0.33 per diluted share), and \$22.1 million (\$14.1 million after tax or \$0.37 per diluted share), respectively, which includes the fair value for equity awards issued after January 1, 2006. The total stock-based compensation cost related to non-vested equity awards not yet recognized as an expense as of December 31, 2013 was approximately \$40.3 million. That cost is expected to be recognized over a weighted-average period of approximately 2.41 years.



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## SYNCHRONOSS TECHNOLOGIES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

## 8. Stock Plans (Continued)

*Stock Options*

The following table summarizes information about stock options outstanding.

| Options   | Number of<br>Options | Weighted-Average<br>Exercise Price | Weighted-Average<br>Remaining<br>Contractual<br>Term (Years) | Aggregate<br>Intrinsic<br>Value |
|---|----------------------|------------------------------------|--|---------------------------------|
| Outstanding at December 31, 2010                | 5,561                | \$ 16.36                           |  |                                 |
| Options Granted                                 | 630                  | 30.17                              |  |                                 |
| Options Exercised                               | (1,444)              | 12.26                              |  |                                 |
| Options Cancelled                               | (449)                | 20.21                              |  |                                 |
| Outstanding at December 31, 2011                | 4,298                | 19.36                              |  |                                 |
| Options Granted                                 | 363                  | 24.19                              |  |                                 |
| Options Exercised                               | (634)                | 12.55                              |  |                                 |
| Options Cancelled                               | (51)                 | 20.35                              |  |                                 |
| Outstanding at December 31, 2012                | 3,976                | 20.88                              |  |                                 |
| Options Granted                                 | 624                  | 30.28                              |  |                                 |
| Options Exercised                               | (1,156)              | 16.61                              |  |                                 |
| Options Cancelled                               | (129)                | 25.15                              |  |                                 |
| Outstanding at December 31, 2013                | 3,315                | \$ 23.97                           | 4.27   | \$ 25,001                       |
| Vested or expected to vest at December 31, 2013 | 3,170                | \$ 23.74                           | 4.20   | \$ 24,701                       |
| Exercisable at December 31, 2013                | 2,046                | \$ 21.21                           | 3.52   | \$ 21,591                       |

As of December 31, 2013 and 2012, the weighted-average remaining contractual life of outstanding options was approximately 4.3 and 4.9 years, respectively. As of December 31, 2013 and 2012, the weighted-average remaining contractual life of exercisable options was approximately 3.5 and 4.3 years, respectively. Options vested as of December 31, 2013 have an aggregate intrinsic value of approximately \$21.6 million. Options outstanding as of December 31, 2013 have an aggregate intrinsic value of approximately \$25.0 million. The total intrinsic value (the excess of the market price over the exercise price) for stock options exercised in 2013, 2012, and 2011 was approximately

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\$17.9 million, \$9.5 million, and \$28.4 million, respectively. The amount of cash received from the exercise of stock options was approximately \$19.2 million in 2013. For the years ended December 31, 2013 and 2012, the total fair value of vested options was approximately \$11.9 million and \$13.6 million, respectively. As of December 31, 2013 and 2012 the weighted-average fair value (as of the date of grant) of the non-vested options was \$13.08 and \$11.45, respectively. During the year ended December 31, 2013 the weighted-average fair value (as of the date of grant) of options granted, vested and forfeited was \$15.79, \$11.10 and \$8.26, respectively.

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## SYNCHRONOSS TECHNOLOGIES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

## 8. Stock Plans (Continued)

The following table summarizes stock options outstanding and exercisable at December 31, 2013:

| Range of Exercise Price | Number of Options | Outstanding                     |  | Exercisable       |                                 |
|-------------------------|-------------------|---------------------------------|--|-------------------|---------------------------------|
|                         |                   | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Life (in years) | Number of Options | Weighted Average Exercise Price |
| \$0.29 - \$11.46        | 441               | \$ 9.70                         | 2.76   | 441               | \$ 9.70                         |
| \$11.60 - \$14.00       | 425               | \$ 13.64                        | 4.76   | 425               | \$ 13.64                        |
| \$15.89 - \$20.91       | 459               | \$ 19.94                        | 4.01   | 259               | \$ 19.64                        |
| \$21.59 - \$27.55       | 482               | \$ 26.16                        | 4.04   | 315               | \$ 26.50                        |
| \$27.92 - \$30.41       | 245               | \$ 29.71                        | 4.51   | 137               | \$ 29.32                        |
| \$30.50 - \$30.50       | 428               | \$ 30.50                        | 4.93   | 203               | \$ 30.50                        |
| \$30.56 - \$31.02       | 561               | \$ 30.87                        | 6.22   |                   |                                 |
| \$33.82 - \$38.62       | 274               | \$ 36.40                        | 1.52   | 266               | \$ 36.40                        |
|                         | 3,315             |                                 |  | 2,046             |                                 |

A summary of the Company's non-vested restricted stock activity and the balance at December 31, 2013, is presented below:

| Non-Vested Restricted Stock     | Number of Awards | Weighted-Average Grant Date Fair Value |
|---------------------------------|------------------|--|
| Non-vested at December 31, 2010 | 187              | \$ 20.01                               |
| Granted                         | 530              | \$ 27.48                               |
| Vested                          | (186)            | \$ 20.66                               |
| Forfeited                       | (20)             | \$ 28.50                               |
| Non-vested at December 31, 2011 | 511              | \$ 27.72                               |
| Granted                         | 809              | \$ 23.94                               |
| Vested                          | (410)            | \$ 27.09                               |
| Forfeited                       | (44)             | \$ 28.97                               |
| Non-vested at December 31, 2012 | 866              | \$ 24.43                               |
| Granted                         | 880              | \$ 30.76                               |
| Vested                          | (481)            | \$ 25.12                               |
| Forfeited                       | (145)            | \$ 25.63                               |
| Non-vested at December 31, 2013 | 1,120            | \$ 28.95                               |

***Employee Stock Purchase Plan***

On February 1, 2012, the Company established a ten year Employee Stock Purchase Plan ("ESPP" or "the Plan") for certain eligible employees. The Plan is to be administered by the Company's Board of Directors. The total number of shares available for purchase under the Plan is 500 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.

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## SYNCHRONOSS TECHNOLOGIES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

**8. Stock Plans (Continued)**

The expected life of ESPP shares is the average of the remaining purchase period under each offering period. The weighted-average assumptions used to value employee stock purchase rights during December 31, 2013 were as follows:

|   | Year Ended<br>December 31, |       |
|---|----------------------------|-------|
|   | 2013                       | 2012  |
| Expected stock price volatility         | 65%                        | 68%   |
| Risk-free interest rate                 | 1.04%                      | 0.92% |
| Expected life of ESPP shares (in years) | 0.5                        | 0.5   |
| Expected dividend yield                 | 0%                         | 0%    |

During the years ended December 31, 2013 and 2012, the Company recorded \$640 and \$457, respectively, of compensation expense related to the ESPP. During the years ended December 31, 2013 and 2012, the Company sold a total of 66 and 33 shares, respectively, of its Treasury Stock pursuant to purchases under its ESPP Plan. Cash received from purchases through the ESPP Plan during the years ended December 31, 2013 and 2012, was approximately \$1.5 million and \$612, respectively, and is included within the financing activities section of the consolidated statements of cash flows. There were no shares purchased during the year ending December 31, 2011. The total unrecognized compensation expense related to the ESPP as of December 31, 2013 was approximately \$44, which is expected to be recognized over the remainder of the offering period.

***Treasury Stock***

On May 8, 2012, the Company's Board of Directors authorized a stock repurchase program to purchase up to \$25 million of the Company's outstanding Common Stock. The duration of the repurchase program is twelve months. Under the program, the Company may purchase shares of its Common Stock in the open market, through block trades or otherwise at prices deemed appropriate by the Company. The timing and amount of repurchase transactions under the program will depend on available working capital. As of December 31, 2012, a total of 1.2 million shares were purchased under the program for an aggregate purchase price of \$24.6 million. The Company classifies Common Stock repurchased as Treasury Stock on its balance sheet. There were no repurchases of Common Stock under the stock repurchase program for the year ended December 31, 2013.

**9. 401(k) Plan**

The Company has a 401(k) plan (the "Plan") covering all eligible employees. The Plan allows for a discretionary employer match. The Company incurred and expensed \$1.5 million, \$1.3 million, and \$1.1 million for the years ended December 31, 2013, 2012 and 2011, respectively, in Plan match contributions.

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## SYNCHRONOSS TECHNOLOGIES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

**10. Income Taxes**

The components of income before income taxes are as follows:

|              | Year Ended December 31, |                  |                  |
|--------------|-------------------------|------------------|------------------|
|              | 2013                    | 2012             | 2011             |
| Domestic     | \$ 30,437               | \$ 40,680        | \$ 11,584        |
| Foreign      | 4,142                   | 1,984            | 6,775            |
| <b>Total</b> | <b>\$ 34,579</b>        | <b>\$ 42,664</b> | <b>\$ 18,359</b> |

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

|                           | Year Ended December 31, |                    |                   |
|---------------------------|-------------------------|--------------------|-------------------|
|                           | 2013                    | 2012               | 2011              |
| <b>Current:</b>           |                         |                    |                   |
| Federal                   | \$ (3,709)              | \$ (10,544)        | \$ (2,328)        |
| State                     | (2,661)                 | (2,409)            | (718)             |
| Foreign                   | (3,076)                 | (1,076)            | (829)             |
| <b>Deferred:</b>          |                         |                    |                   |
| Federal                   | (3,447)                 | (1,809)            | 29                |
| State                     | (1,324)                 | (227)              | 562               |
| Foreign                   | 2,989                   | 484                | 51                |
| <b>Income tax expense</b> | <b>\$ (11,228)</b>      | <b>\$ (15,581)</b> | <b>\$ (3,233)</b> |

Reconciliations of the statutory tax rates and the effective tax rates for the years ended December 31, 2013, 2012 and 2011 are as follows:

|  | Year Ended<br>December 31, |      |      |
|--|----------------------------|------|------|
|  | 2013                       | 2012 | 2011 |
| Statutory rate                           | 35%                        | 35%  | 34%  |
| State taxes, net of federal benefit      | 7%                         | 4%   |      |
| Effect of Rates Different than Statutory | 0%                         | (1)% | (6)% |
| Non-deductible stock based compensation  | 3%                         | 1%   | (1)% |
| Other permanent adjustments              | 1%                         | 1%   | 1%   |
| Fair market value adjustment on Earn-out | (6)%                       | (5)% | 5%   |
| Research and development credit          | (5)%                       | (1)% | (8)% |
| Federal net operating losses             |                            |      | (9)% |
| Change in valuation allowance            | (2)%                       |      |      |

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|       |      |     |     |
|-------|------|-----|-----|
| Other | (1)% | 3%  | 2%  |
| Net   | 32%  | 37% | 18% |

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## SYNCHRONOSS TECHNOLOGIES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

**10. Income Taxes (Continued)**

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

|   | December 31, |             |
|---|--------------|-------------|
|   | 2013         | 2012        |
| Deferred tax assets:                      |              |             |
| Accrued liabilities                       | \$ 212       | \$ 108      |
| Deferred revenue                          | 3,555        | 532         |
| Bad debts reserve                         | 789          | 40          |
| Deferred compensation                     | 12,891       | 12,671      |
| Federal net operating loss carry forwards | 21,139       | 24,658      |
| State net operating loss carry forwards   | 2,568        | 2,970       |
| Foreign net operating loss carry forwards | 9,202        | 7,423       |
| Deferred rent                             | 532          | 477         |
| Capital loss carryforward                 | 115          | 119         |
| Other                                     | 1,020        | 1060        |
| <br>                                      |              |             |
| Total deferred tax assets                 | \$ 52,023    | \$ 50,058   |
| Deferred tax liabilities:                 |              |             |
| Intangible assets                         | \$ (29,536)  | \$ (31,611) |
| Fixed assets                              | (10,848)     | (7,372)     |
| <br>                                      |              |             |
| Total deferred tax liabilities            | (40,384)     | (38,983)    |
| Less: valuation allowance                 | (2,803)      |             |
| <br>                                      |              |             |
| Net Deferred Income Tax Assets            | \$ 8,836     | \$ 11,075   |

The following table indicates where net deferred income taxes have been classified on the Balance Sheet:

|                                 | December 31, |          |
|---------------------------------|--------------|----------|
|                                 | 2013         | 2012     |
| Current deferred tax assets     | \$ 4,728     | \$ 4,114 |
| Less: Valuation allowance       | (102)        |          |
| <br>                            |              |          |
| Net current deferred tax assets | 4,626        | 4,114    |
| <br>                            |              |          |
| Non-current deferred tax assets | 6,911        | 6,961    |



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|                                     |          |           |
|-------------------------------------|----------|-----------|
| Less: Valuation allowance           | (2,701)  |           |
| Net non-current deferred tax assets | 4,210    | 6,961     |
| Net Deferred Tax Assets             | \$ 8,836 | \$ 11,075 |

At December 31, 2013, the Company had approximately \$60.2 million of federal net operating losses, approximately \$51.0 million of state net operating losses, and approximately \$48.3 million of foreign net operating losses. These federal and state net operating loss carryforwards begin to expire in

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## SYNCHRONOSS TECHNOLOGIES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

**10. Income Taxes (Continued)**

2014 and are subject to certain limitations under Internal Revenue Code Section 382 due to the changes in ownership of the acquired companies. The foreign net operating losses generally do not expire.

In January 2013, the Income Tax Department of India closed the 2009 income tax examination of the Company's wholly-owned subsidiary, Synchronoss Technologies India, without changes. Examinations of 2010 and 2011 are in progress. The Company believes the result of these audits will not have a material effect on its financial position or results of operations.

The Company is currently under income tax examinations in several states but does not believe that the results of these audits will have a material effect on its financial position or results of operations

The Company has not provided taxes for undistributed earnings of its foreign subsidiaries except to the extent that the Company does not plan to reinvest such earnings indefinitely outside the United States. If the cumulative foreign earnings exceed the amount the Company intends to reinvest in foreign countries in the future, the Company would provide for taxes on such excess amount. The undistributed earnings of the foreign subsidiaries, which the Company plans to reinvest indefinitely outside the United States, are approximately \$26.8 million.

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

|   |        |
|---|--------|
| Unrecognized tax benefit at December 31, 2010               | \$ 546 |
| Increases for tax positions taken during prior year         | 17     |
| Decreases for tax positions taken during prior year         | (78)   |
| Reduction due to lapse of applicable statute of limitations | (169)  |
| Increases for tax positions of current period               | 187    |
| <br>  |        |
| Unrecognized tax benefit at December 31, 2011               | 503    |
| Increases for tax positions taken during prior year         | 141    |
| Decreases for tax positions taken during prior year         |        |
| Reduction due to lapse of applicable statute of limitations | (158)  |
| Increases for tax positions of current period               | 25     |
| <br>  |        |
| Unrecognized tax benefit at December 31, 2012               | 511    |
| Increases for tax positions taken during prior year         |        |
| Decreases for tax positions taken during prior year         | (5)    |
| Reduction due to lapse of applicable statute of limitations | (66)   |
| Increases for tax positions of current period               | 268    |
| <br>  |        |
| Unrecognized tax benefit at December 31, 2013               | \$ 708 |

The Company recognizes interest and penalties, if any, related to unrecognized tax benefits in interest expense. The liability for unrecognized tax benefits excludes accrued interest of \$25 and \$18 at December 31, 2013 and 2012, respectively.



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## SYNCHRONOSS TECHNOLOGIES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

**11. Commitments and Contingencies***Leases*

The Company leases office space, automobiles and office equipment under non-cancellable lease agreements, which expire through December 2025. Aggregate annual future minimum lease payments under these non-cancellable leases are as follows:

|                          |           |
|--------------------------|-----------|
| Year Ending December 31: |           |
| 2014                     | \$ 8,217  |
| 2015                     | 7,720     |
| 2016                     | 7,118     |
| 2017                     | 6,525     |
| 2018 and thereafter      | 22,262    |
|                          | \$ 51,842 |

Rent expense for the years ended December 31, 2013, 2012 and 2011 was \$6.7 million, \$5.7 million, and \$2.9 million, respectively.

**12. Goodwill and Intangibles***Goodwill*

The following table shows the adjustments to goodwill during 2013 and 2012:

|  |            |
|--|------------|
| Balance at December 31, 2011             | \$ 54,617  |
| Acquisitions                             | 61,105     |
| Reclassifications, adjustments and other | 11,600     |
| Balance at December 31, 2012             | \$ 127,322 |
| Acquisitions                             | 12,381     |
| Reclassifications, adjustments and other | (1,960)    |
| Balance at December 31, 2013             | \$ 137,743 |

The reclassifications, adjustment and other of (\$2.0) million for the year 2013 is primarily related to purchase accounting adjustments to the Spatial acquisition and to deferred taxes as a result of changes to acquired tax attributes. The reclassifications, adjustment and other of \$11.6 million for the year 2012 are primarily related to retrospectively applied measurement period adjustments made during the first quarter of 2013 to the fair value of certain assets acquired and liabilities assumed as a result of the further refinements in the Company's provisional

amounts and adjustments to deferred taxes as a result of changes to acquired tax attributes.

The Company performs an impairment study of the Company's goodwill annually. There were no impairment charges recognized during the years ended December 31, 2013 and 2012.

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## SYNCHRONOSS TECHNOLOGIES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

## 12. Goodwill and Intangibles (Continued)

*Other Intangible Assets*

The Company's intangible assets with definite lives consist primarily of trade names, technology, and customer lists and relationships. These intangible assets are being amortized on the straight-line method over the estimated useful lives of the assets ranging from 2-25 years. Amortization expense related to currently existing intangible assets for the years ended December 31, 2013, 2012 and 2011 was \$16.1 million, \$8.7 million, and \$3.6 million, respectively.

The Company's intangible assets consist of the following:

|                                       | December 31, 2013 |
|---------------------------------------|-------------------|
| Intangible assets:                    |                   |
| Trade name                            | \$ 1,589          |
| Accumulated amortization              | (788)             |
| Translation adjustments               | 8                 |
| <br>                                  |                   |
| Trade name, net                       | 809               |
| <br>                                  |                   |
| Technology                            | 65,280            |
| Accumulated amortization              | (16,183)          |
| Translation adjustments               | 855               |
| <br>                                  |                   |
| Technology, net                       | 49,952            |
| <br>                                  |                   |
| Customer lists and relationships      | 61,161            |
| Accumulated amortization              | (12,747)          |
| Translation adjustments               | 426               |
| <br>                                  |                   |
| Customer lists and relationships, net | 48,840            |
| <br>                                  |                   |
| Capitalized software and patents      | 3,634             |
| Accumulated amortization              | (1,272)           |
| Translation adjustments.              |                   |

|                                       |       |
|---------------------------------------|-------|
| Capitalized software and patents, net | 2,362 |
|---------------------------------------|-------|

|                          |       |
|--------------------------|-------|
| Order Backlog            | 918   |
| Accumulated amortization | (918) |
| Translation adjustments  |       |

|                    |  |
|--------------------|--|
| Order Backlog, net |  |
|--------------------|--|

|                         |    |         |
|-------------------------|----|---------|
| Intangibles assets, net | \$ | 101,963 |
|-------------------------|----|---------|

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## SYNCHRONOSS TECHNOLOGIES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

## 12. Goodwill and Intangibles (Continued)

|                                       | December 31, 2012 |
|---------------------------------------|-------------------|
| Intangible assets:                    |                   |
| Trade name                            | \$ 1,487          |
| Accumulated amortization              | (237)             |
| Trade name, net                       | 1,250             |
| Technology                            | 65,280            |
| Accumulated amortization              | (7,515)           |
| Technology, net                       | 57,765            |
| Customer lists and relationships      | 57,373            |
| Accumulated amortization              | (7,480)           |
| Customer lists and relationships, net | 49,893            |
| Capitalized software and patents      | 2,460             |
| Accumulated amortization              | (608)             |
| Capitalized software and patents, net | 1,852             |
| Intangibles assets, net <sup>3</sup>  | \$ 110,760        |



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

|                         |           |
|-------------------------|-----------|
| Year ended December 31: |           |
| 2014                    | \$ 16,378 |
| 2015                    | 15,332    |
| 2016                    | 14,981    |
| 2017                    | 13,928    |
| 2018                    | 13,848    |

**13. Restructuring Charges**

In January 2013, the Company initiated a work-force reduction of approximately 10 percent as part of a corporate restructuring, with reductions occurring across all levels and departments within the Company. This measure was intended to reduce costs and to align the Company's resources with its key strategic priorities. Additionally, in relation to the work-force reduction, the Company initiated a facilities consolidation, beginning the process of closing one of its leased locations in Seattle, WA. The Company recorded restructuring charges of \$4.6 million and \$555 during the year ended December 31, 2013 for employment termination costs and minimum lease payments, respectively. There were no additional restructuring charges during the year ended December 31, 2013. At December 31, 2013, the restructuring charges that were unpaid and classified under accrued expenses on the balance sheet related to the facilities consolidation were \$128.

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## SYNCHRONOSS TECHNOLOGIES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

**13. Restructuring Charges (Continued)**

A summary of the Company's restructuring accrual at December 31, 2013, and changes during the year ended December 31, 2013, is presented below:

|                              | Balance at<br>December 31,<br>2012 | Charges         | Payments          | Adjustments    | Balance at<br>December 31,<br>2013 |
|------------------------------|------------------------------------|-----------------|-------------------|----------------|------------------------------------|
| Employment termination costs | \$                                 | \$ 4,617        | \$ (4,602)        | \$ (15)        | \$                                 |
| Facilities consolidation     |                                    | 555             | (427)             |                | 128                                |
| <b>Total</b>                 | <b>\$</b>                          | <b>\$ 5,172</b> | <b>\$ (5,029)</b> | <b>\$ (15)</b> | <b>\$ 128</b>                      |

**14. Accumulated Other Comprehensive Income**

The changes in accumulated other comprehensive income during the year ended December 31, 2013, are as follows, net of tax:

|   | Foreign<br>Currency | Unrealized<br>Holding Gains on<br>Available-for-Sale<br>Securities | Net Gain (Loss)<br>on Intra-Entity<br>Foreign Currency<br>Transactions | Total        |
|---|---------------------|--|--|--------------|
| Balance at December 31, 2012                        | \$ (352)            | \$ (13)  | \$   | \$ (365)     |
| Other comprehensive income before reclassifications | (3,779)             | 2  | 3,419  | (358)        |
| <b>Total other comprehensive loss</b>               | <b>(3,779)</b>      | <b>2</b>   | <b>3,419</b>   | <b>(358)</b> |
| Balance at December 31, 2013                        | \$ (4,131)          | \$ (11)  | \$ 3,419   | \$ (723)     |

The changes in accumulated other comprehensive income during the year ended December 31, 2012, are as follows, net of tax:

|   | Foreign<br>Currency | Unrealized<br>Holding Gains on<br>Available-for-Sale<br>Securities | Net Gain (Loss)<br>on Intra-Entity<br>Foreign Currency<br>Transactions | Total      |
|---|---------------------|--|--|------------|
| Balance at December 31, 2011                        | \$ (563)            | \$ (136)   | \$   | \$ (699)   |
| Other comprehensive income before reclassifications | 211                 | 123  |  | 334        |
| <b>Total other comprehensive loss</b>               | <b>211</b>          | <b>123</b>   |  | <b>334</b> |

|                              |    |       |    |      |    |       |
|------------------------------|----|-------|----|------|----|-------|
| Balance at December 31, 2012 | \$ | (352) | \$ | (13) | \$ | (365) |
|------------------------------|----|-------|----|------|----|-------|

There were no reclassifications from accumulated other comprehensive income for the years ended December 31, 2013 and 2012.

**15. Credit Facility**

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

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**SYNCHRONOSS TECHNOLOGIES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(In thousands, except per share data)**

**15. Credit Facility (Continued)**

co-documentation agents. The Credit Facility, which will be used for general corporate purposes, is a \$100 million unsecured revolving line of credit that matures on September 27, 2018. Synchronoss has the right to request an increase in the aggregate principal amount of the Credit Facility to \$150 million. As of December 31, 2013, the Company had not drawn down any funds under the Credit Facility.

The Credit Facility is subject to certain financial covenants. As of December 31, 2013, the Company was in compliance with all required covenants and there were no outstanding balances on the Credit Facility.

**16. Legal Matters**

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

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

**17. Subsequent Events Review**

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

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

Not applicable.

**ITEM 9A. CONTROLS AND PROCEDURES**

*Evaluation of Disclosure Controls and Procedures*

Under the supervision and with the participation of the Company's management, including its Chief Executive Officer and Chief Financial Officer, the Company evaluated the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of December 31, 2012. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that its disclosure controls and procedures were effective as of December 31, 2013, to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934, as amended, are recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer, as appropriate to allow timely decisions regarding required disclosures.

*Changes in Internal Controls over Financial Reporting*

The Company has implemented new financial systems that will continue in phases over the next several quarters. In connection with this initiative and the resulting changes in the financial systems, the Company continues to enhance the design and documentation of the internal control processes to ensure that controls over the Company's financial reporting remain effective. Except as noted, there were no changes in the internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rule 13a-15 that was conducted during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

*Management's Annual Report on Internal Control over Financial Reporting*

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rules 13a-15(f) or 15d-15(f) promulgated under the Securities Exchange Act of 1934 as a process designed by, or under the supervision of, the Company's principal executive and principal financial officers and effected by the Company's Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;

Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

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

The Company's management assessed the effectiveness of its internal control over financial reporting as of December 31, 2013. In making this assessment, the Company's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in 1992 (1992 framework) (the COSO criteria).

Based on the Company's assessment, management concluded that, as of December 31, 2013, its internal control over financial reporting was effective.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2013 has been audited by Ernst & Young LLP, its independent registered public accounting firm, as stated in their report which is included in Item 9 of this Annual Report on Form 10-K.

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

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

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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders of  
Synchronoss Technologies, Inc.

We have audited Synchronoss Technologies, Inc.'s internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) (the COSO criteria). Synchronoss Technologies, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Synchronoss Technologies, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Synchronoss Technologies, Inc. as of December 31, 2013 and 2012 and the related consolidated statements of income and comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2013 of Synchronoss Technologies, Inc. and our report dated February 26, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP  
Metropark, New Jersey  
February 26, 2014

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**ITEM 9B. OTHER INFORMATION**

None.

**PART III**

**ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT**

(a) Identification of Directors. Information concerning the directors of Synchronoss is set forth under the heading "Election of Directors" in the Synchronoss Proxy Statement for the 2014 Annual Meeting of Stockholders and is incorporated herein by reference.

(b) Audit Committee Financial Expert. Information concerning Synchronoss' audit committee financial expert is set forth under the heading "Audit Committee" in the Synchronoss Proxy Statement for the 2014 Annual Meeting of Stockholders and is incorporated herein by reference.

(c) Identification of the Audit Committee. Information concerning the audit committee of Synchronoss is set forth under the heading "Audit Committee" in the Synchronoss Proxy Statement for the 2014 Annual Meeting of Stockholders and is incorporated herein by reference.

(d) Section 16(a) Beneficial Ownership Reporting Compliance. Information concerning compliance with beneficial ownership reporting requirements is set forth under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" in the Synchronoss Proxy Statement for the 2014 Annual Meeting of Stockholders and is incorporated herein by reference.

(e) Code of Ethics. Information concerning the Synchronoss Code of Business Conduct is set forth under the caption "Code of Business Conduct" in the Synchronoss Proxy Statement for the 2014 Annual Meeting of Stockholders and is incorporated herein by reference. The Code of Business Conduct can also be found on our website, [www.synchronoss.com](http://www.synchronoss.com).

**ITEM 11. EXECUTIVE COMPENSATION**

Information concerning executive compensation is set forth under the headings "Compensation of Executive Officers" in the Synchronoss Proxy Statement for the 2014 Annual Meeting of Stockholders and is incorporated herein by reference.

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

Information concerning shares of Synchronoss equity securities beneficially owned by certain beneficial owners and by management is set forth under the heading "Equity Security Ownership of Certain Beneficial Owners and Management" in the Synchronoss Proxy Statement for the 2014 Annual Meeting of Stockholders and is incorporated herein by reference.

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

The following table provides information as of December 31, 2013 with respect to the shares of our common stock that may be issuable under our existing equity compensation plans.



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The following information is as of December 31, 2013:

|  | (a)   | (b)  | (c)   |
|--|---|--|---|
| Plan Category  | Number of Securities<br>to be Issued Upon<br>Exercise of<br>Outstanding Options<br>and Rights | Weighted-Average<br>Exercise Price of<br>Outstanding<br>Options and Rights | Number of Securities<br>Remaining Available<br>for Future Issuance<br>Under Equity<br>Compensation Plans<br>(Excluding Securities<br>Reflected in Column (a)) |
| Equity compensation plans approved by security holders     | 3,286,675   | \$ 24.00   | 3,748,940   |
| Equity compensation plans not approved by security holders | 28,030  | \$ 19.32   |   |
| <b>Totals</b>  | <b>3,314,705</b>  | <b>\$ 23.97</b>  | <b>3,748,940</b>  |

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

Information concerning certain relationships and related transactions is set forth under the heading "Certain Related Party Transactions" in the Synchronoss Proxy Statement for the 2014 Annual Meeting of Stockholders and is incorporated herein by reference.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

Information concerning fees and services of the Company's principal accountants is set forth under the heading "Report of the Audit Committee" and "Independent Registered Public Accounting Firm's Fees" in the Synchronoss Proxy Statement for the 2014 Annual Meeting of Stockholders and is incorporated herein by reference.

Table of Contents**PART IV****ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

- (a)  
 (1) Financial Statements:

|  |           |
|--|-----------|
| <u>Report of Independent Registered Public Accounting Firm</u> | <u>55</u> |
| <u>Balance Sheets</u>  | <u>56</u> |
| <u>Statements of Income</u>                                    | <u>57</u> |
| <u>Statements of Comprehensive Income</u>                      | <u>58</u> |
| <u>Statements of Stockholders' Equity</u>                      | <u>59</u> |
| <u>Statements of Cash Flows</u>                                | <u>60</u> |
| <u>Notes to Financial Statements</u>                           | <u>61</u> |

- (a)  
 (2) Schedule for the years ended December 31, 2013, 2012, 2011:

II Valuation and Qualifying Accounts

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

- (a)  
 (3) Exhibits:

| <b>Exhibit No.</b> | <b>Description</b>   |
|--------------------|--|
| 3.1                | Restated Certificate of Incorporation of the Registrant, incorporated by reference to Registrant's Registration Statement on Form S-1 (Commission File No. 333-132080).  |
| 3.2                | Amended and Restated Bylaws of the Registrant, incorporated by reference to Registrant's Registration Statement on Form S-1 (Commission File No. 333-132080).  |
| 4.1                | Reference is made to Exhibits 3.1 and 3.2.   |
| 4.2                | Amended and Restated Investors Rights Agreement, dated December 22, 2000, by and among the Registrant, certain stockholders and the investors listed on the signature pages thereto, incorporated by reference to Registrant's Registration Statement on Form S-1 (Commission File No. 333-132080).  |
| 4.3                | Amendment No. 1 to Synchronoss Technologies, Inc. Amended and Restated Investors Rights Agreement, dated April 27, 2001, by and among the Registrant, certain stockholders and the investors listed on the signature pages thereto, incorporated by reference to Registrant's Registration Statement on Form S-1 (Commission File No. 333-132080). |
| 4.4                | Registration Rights Agreement, dated November 13, 2000, by and among the Registrant and the investors listed on the signature pages thereto, incorporated by reference to Registrant's Registration Statement on Form S-1 (Commission File No. 333-132080).  |
| 4.5                | Amendment No. 1 to Synchronoss Technologies, Inc. Registration Rights Agreement, dated May 21, 2001, by and among the Registrant, certain stockholders listed on the signature pages thereto and Silicon Valley Bank, incorporated by reference to Registrant's Registration Statement on Form S-1 (Commission File No. 333-132080).               |
| 10.1               | Form of Indemnification Agreement between the Registrant and each of its directors and executive officers, incorporated by reference to Registrant's Registration Statement on Form S-1 (Commission File No. 333-132080).  |

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| <b>Exhibit No.</b> | <b>Description</b>  |
|--------------------|---|
| 10.2               | Synchronoss Technologies, Inc. 2000 Stock Plan and forms of agreements thereunder, incorporated by reference to Registrant's Registration Statement on Form S-1 (Commission File No. 333-132080).   |
| 10.3               | Amendment No. 1 to Synchronoss Technologies, Inc. 2000 Stock Plan, incorporated by reference to Registrant's Registration Statement on Form S-1 (Commission File No. 333-132080).   |
| 10.4               | 2006 Equity Incentive Plan, as amended and restated, incorporated by reference to Registrant's Schedule 14A dated April 8, 2010.  |
| 10.4.1             | 2010 New Hire Equity Incentive Plan, incorporated by reference to Registrant's Registration Statement on Form S-8 (Commission File No. 333-168745).   |
| 10.5               | Employee Stock Purchase Plan, incorporated by reference to Registrant's Annual Report on Form 10-K for the year ended December 31, 2011.  |
| 10.6               | Lease Agreement between the Registrant and Triple Net Investments XXV, L.P. for the premises located at Lehigh Valley Industrial Park VII, Bethlehem, Pennsylvania, dated as of May 16, 2008, as amended, incorporated by reference to Registrant's Annual Report on Form 10-K for the year ended December 31, 2008.  |
| 10.7               | Lease Agreement between the Registrant and Wells Reit Bridgewater NJ, LLC for the premises located at 200 Crossing Boulevard, Bridgewater, New Jersey, dated as of October 27, 2011, incorporated by reference to Registrant's Annual Report on Form 10-K for the year ended December 31, 2011.   |
| 10.8               | Credit Agreement dated as of September 27, 2013 between the Registrant and JPMorgan Chase Bank, N.A., as Administrative Agent, incorporated by reference to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2013.  |
| 10.9               | Cingular Mater Services Agreement, effective September 1, 2005 by and between the Registrant and Cingular Wireless LLC, incorporated by reference to Registrant's Annual Report on Form 10-K for the year ended December 31, 2008.  |
| 10.9.1*            | Subordinate Material and Services Agreement No. SG021306.S.025 by and between the Registrant and AT&T Services, Inc. dated as of August 1, 2013, including order numbers SG021306.S.025.S.001, SG021306.S.025.S.002, SG021306.S.025.S.003 and SG021306.S.025.S.004, incorporated by reference to Registrant's Quarterly Report on Form 10-Q/A for the quarter ended September 30, 2013. |
| 10.10              | Employment Agreement dated as of December 31, 2011 between the Registrant and Stephen G. Waldis, incorporated by reference to Registrant's Annual report on Form 10-K for the year ended December 31, 2011.   |
| 10.11              | Employment Agreement dated as of December 31, 2011 between the Registrant and Lawrence R. Irving, incorporated by reference to Registrant's Annual report on Form 10-K for the year ended December 31, 2011.  |
| 10.12              | Employment Agreement dated as of December 31, 2011 between the Registrant and Robert Garcia, incorporated by reference to Registrant's Annual report on Form 10-K for the year ended December 31, 2011.   |
| 10.13              | Employment Agreement dated as of May 1, 2013 between the Registrant and Nicholas Lazzaro.   |

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| <b>Exhibit No.</b> | <b>Description</b>   |
|--------------------|--|
| 10.14              | Employment Agreement dated as of September 10, 2008 between the Registrant and Mark Mendes.  |
| 10.16              | Share Purchase Agreement dated as of December 24, 2012 by and between Synchronoss Technologies Ireland Ltd. and Research In Motion Ltd, incorporated by reference to Registrant's Annual report on Form 10-K for the year ended December 31, 2012. |
| 21.1               | List of subsidiaries.  |
| 23.1               | Consent of Ernst & Young, LLP, Independent Registered Public Accounting Firm.  |
| 24                 | Power of Attorney (see signature page to this Annual Report on Form 10-K)  |
| 31.1               | Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002  |
| 31.2               | Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002  |
| 32.1               | Certification of Chief Executive Officer pursuant to Rule 13a-14(b) of the Exchange Act and section 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002   |
| 32.2               | Certification of Chief Financial Officer pursuant to Rule 13a-14(b) of the Exchange Act and section 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002   |
| 101.INS            | XBRL Instance Document   |
| 101.SCH            | XBRL Schema Document   |
| 101.CAL            | XBRL Calculation Linkbase Document   |
| 101.DEF            | XBRL Taxonomy Extension Definition Linkbase  |
| 101.LAB            | XBRL Labels Linkbase Document  |
| 101.PRE            | XBRL Presentation Linkbase Document  |

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Compensation Arrangement.

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

\*

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.

(b)  
Exhibits.

See (a)(3) above.

(c)  
Financial Statement Schedule.

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**SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS**  
**December 31, 2013, 2012, and 2011**

|                                    | <b>Beginning<br/>Balance</b> |  | <b>Additions</b> |  | <b>Reductions</b> |  | <b>Ending<br/>Balance</b> |
|------------------------------------|------------------------------|--|------------------|--|-------------------|--|---------------------------|
| <b>(In thousands)</b>              |                              |  |                  |  |                   |  |                           |
| Allowance for doubtful receivables |                              |  |                  |  |                   |  |                           |
| 2013                               | \$ 258                       |  | \$ 1,076         |  | \$ (1,097)        |  | \$ 237                    |
| 2012                               | \$ 356                       |  | \$ 230           |  | \$ (328)          |  | \$ 258                    |
| 2011                               | \$ 558                       |  | \$ (202)         |  |                   |  | \$ 356                    |

|   | <b>Beginning<br/>Balance</b> |  | <b>Additions</b> |  | <b>Reductions</b> |  | <b>Ending<br/>Balance</b> |
|---|------------------------------|--|------------------|--|-------------------|--|---------------------------|
| <b>(In thousands)</b>                       |                              |  |                  |  |                   |  |                           |
| Valuation allowance for deferred tax assets |                              |  |                  |  |                   |  |                           |
| 2013  | \$                           |  | \$ 3,778         |  | \$ (975)          |  | \$ 2,803                  |
| 2012  | \$ 253                       |  |                  |  | \$ (253)          |  | \$                        |
| 2011  | \$ 279                       |  |                  |  | \$ (26)           |  | \$ 253                    |

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| <b>Signature</b>  | <b>Title</b> | <b>Date</b>       |
|---|--------------|-------------------|
| <hr/> <i>/s/ CHARLES E. HOFFMAN</i><br>Charles E. Hoffman | Director     | February 26, 2014 |
| <hr/> <i>/s/ THOMAS J. HOPKINS</i><br>Thomas J. Hopkins   | Director     | February 26, 2014 |
| <hr/> <i>/s/ JAMES M. MCCORMICK</i><br>James M. McCormick | Director     | February 26, 2014 |
| <hr/> <i>/s/ DONNIE M. MOORE</i><br>Donnie M. Moore       | Director     | February 26, 2014 |