SYNCHRONOSS TECHNOLOGIES INC
Form 10-Q
November 04, 2010

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

(Mark One)

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

For the quarterly period ended September 30, 2010

or

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

For the transition period from __________ to __________

Commission file number 000-52049

SYNCHRONOSS TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

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

(866) 620-3940

(Registrant s telephone number, including area code)

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

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

Indicate by check mark whether the registrant 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 þ No o

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

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

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

Shares outstanding of the Registrant s common stock:

Class	Outstanding at November 2, 2010
Common stock, $0.0001 par value	31,839,781 shares

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

	September 30, 2010	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 63,116	$ 89,924
Marketable securities	1,726	2,558
Accounts receivable, net of allowance for doubtful accounts of $463 and $830 at September 30, 2010 and December 31, 2009, respectively	38,804	25,939
Prepaid expenses and other assets	6,852	4,069
Deferred tax assets	1,548	1,462
Total current assets	112,046	123,952
Marketable securities	7,704	5,202
Property and equipment, net	26,473	23,735
Goodwill	24,661	6,911
Intangible assets, net	34,143	2,727
Deferred tax assets	12,919	8,992
Other assets	2,783	1,040
Total assets	$ 220,729	$ 172,559
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 6,918	$ 5,171
Accrued expenses	9,488	7,350
Deferred revenues	8,797	3,095
Lease financing obligation	113	
Total current liabilities	25,316	15,616
Lease financing obligation long-term	9,194	9,150
Contingent consideration obligation long-term	11,317	
Other liabilities	1,195	1,329
Stockholders equity:		
Preferred stock, $0.0001 par value; 10,000 shares authorized, 0 shares issued and outstanding at September 30, 2010 and December 31, 2009, respectively		
Common stock, $0.0001 par value; 100,000 shares authorized, 33,810 and 33,104 shares issued; 31,810 and 31,104 outstanding at September 30, 2010 and December 31, 2009, respectively	3	3
Treasury stock, at cost (2,000 shares at September 30, 2010 and December 31, 2009)	(23,713)	(23,713)
Additional paid-in capital	137,114	117,797
Accumulated other comprehensive income (loss)	91	(7)

Retained earnings		60,212		52,384
Total stockholders equity		173,707		146,464
Total liabilities and stockholders equity	$	220,729	$	172,559

See accompanying consolidated notes.

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

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Net revenues	$ 44,456	$ 33,097	$ 116,738	$ 93,204
Costs and expenses:				
Cost of services*	22,983	16,790	59,638	47,179
Research and development	7,569	3,243	16,760	9,359
Selling, general and administrative	10,465	5,561	23,310	17,218
Net change in contingent consideration obligation	(1,968)		(1,968)	
Depreciation and amortization	2,606	2,154	6,459	6,264
Total costs and expenses	41,655	27,748	104,199	80,020
Income from operations	2,801	5,349	12,539	13,184
Interest income and other income	706	106	940	458
Interest expense and other expense	(342)	(250)	(909)	(546)
Income before income tax expense	3,165	5,205	12,570	13,096
Income tax expense	(1,024)	(2,076)	(4,742)	(5,305)
Net income	$ 2,141	$ 3,129	$ 7,828	$ 7,791
Net income per common share:				
Basic	$ 0.05	$ 0.10	$ 0.23	$ 0.25
Diluted	$ 0.05	$ 0.10	$ 0.23	$ 0.25
Weighted-average common shares outstanding:				
Basic	31,586	30,865	31,276	30,767
Diluted	32,480	31,355	32,196	31,282

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

See notes to financial statements

footnote 4

See accompanying consolidated notes.

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

	Nine Months Ended September 30, 2010	2009
Operating activities:		
Net income	$ 7,828	$ 7,791
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	6,459	6,264
Loss (gain) on disposal of fixed assets	31	(6)
Proceeds from insurance claim	(418)	
Deferred income taxes	818	(1,288)
Non-cash interest on leased facility	684	447
Stock-based compensation	8,763	6,004
Changes in operating assets and liabilities:		
Accounts receivable, net of allowance for doubtful accounts	(12,604)	(3,320)
Prepaid expenses and other current assets	(1,780)	117
Other assets	(1,695)	(77)
Accounts payable	1,248	947
Accrued expenses	888	(762)
Contingent consideration obligation	(1,913)	
Excess tax benefit from the exercise of stock options	(755)	(221)
Other liabilities	(285)	(40)
Lease obligation	3	
Deferred revenues	2,451	1,174
Net cash provided by operating activities	9,723	17,030
Investing activities:		
Purchases of fixed assets	(7,310)	(10,590)
Proceeds from the sale of fixed assets		6
Proceeds from insurance claim	418	
Purchases of marketable securities available for sale	(4,296)	(2,631)
Maturity of marketable securities available for sale	2,659	1,835
Business acquired, net of cash	(30,779)	(49)
Net cash used in investing activities	(39,308)	(11,429)
Financing activities:		
Proceeds from the exercise of stock options	2,663	879
Excess tax benefit from the exercise of stock options	755	221
Payments on capital obligations	(684)	(121)
Net cash provided by financing activities	2,734	979
Effect of exchange rate changes on cash	43	

Net increase in cash and cash equivalents		(26,808)		6,580
Cash and cash equivalents at beginning of year		89,924		72,203
Cash and cash equivalents at end of period	$	63,116	$	78,783
Supplemental disclosures of cash flow information:				
Cash paid for income taxes	$	5,053	$	4,328
Non-cash increase in building and related lease liability	$		$	2,123
Issuance of common stock in connection with the acquisition	$	7,316	$	

See accompanying consolidated notes.

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

The consolidated financial statements as of September 30, 2010 and for the three and nine months ended September 30, 2010 and 2009 are unaudited, but in the opinion of management include all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the results for the interim periods. They do not include all of the information and footnotes required by U.S. generally accepted accounting principles (GAAP) for complete financial statements and should be read in conjunction with the financial statements and notes in the Annual Report of Synchronoss Technologies, Inc. incorporated by reference in the Company s annual report on Form 10-K for the year ended December 31, 2009. The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Synchronoss Technologies UK Ltd., Synchronoss Technologies Ireland, Ltd., Wisor Telecom Corporation (Wisor), Synchronoss Telecom India Private Ltd., FusionOne, Inc., and FusionOne Esti Ou. All significant intercompany balances and transactions are eliminated in consolidation. The Company has no unconsolidated subsidiaries or investments accounted for under the equity method. The results reported in these consolidated financial statements should not necessarily be taken as indicative of results that may be expected for the entire year. The balance sheet at December 31, 2009 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by GAAP for complete financial statements.

1. Description of Business

Synchronoss Technologies, Inc. (the Company or Synchronoss) is a leading provider of on-demand transaction management platforms that enable communications service providers (CSPs), cable operators/ multi-services operators (MSOs), original equipment manufacturers (OEMs) with embedded connectivity (e.g. smartphones, laptops, netbooks and mobile Internet devices, among others), e-Tailers/retailers and other customers to accelerate and monetize their go-to-market strategies for connected devices. This includes automating subscriber activation, order management and service provisioning from any channel (e.g., e-commerce, telesales, customer stores, indirect and other retail outlets, etc.) to any communication service (e.g., wireless(2G, 3G, 4G), high speed access, local access, IPTV, cable, satellite TV, etc.) across any connected device type and content transfer. The Company s ConvergenceNow ®, ConvergenceNow ® Plus + and InterconnectNow ™ 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 its cloud-based solutions and technology to automate the process of activating customers while delivering additional communication services, including new service offerings and ongoing customer care. Synchronoss has designed its platforms to be flexible and scalable to enable multiple converged communication services to be managed across multiple distribution channels, including e-commerce, telesales, customer stores, indirect, and other retail outlets, etc., allowing the Company to meet the rapidly changing and converging services and connected devices offered by its customers. The Company enables its customers to acquire, retain and service subscribers quickly, reliably and cost-effectively by simplifying the processes associated with managing the customer experience for ordering and activating connected devices and services through the use of its platforms.

On July 19, 2010 the Company acquired FusionOne, Inc. and its subsidiary, FusionOne Esti ou (Estonia) (collectively, FusionOne) for approximately $32 million in cash and issued approximately 400 thousand common shares of the Company s Common Stock. FusionOne was incorporated in Delaware on May 19, 1998 and began operations on November 4, 1998 (inception) (Note 7). FusionOne provides internet synchronization technology and marketing services that make information access seamless and simple across multiple communications and computing devices across both compatible and traditionally incompatible systems. In addition, FusionOne has expanded its technology to provide personal content management applications for mobile phone users which includes affordable backup of the users address book, calendar, pictures and downloaded content.

2. Basis of Presentation

For further information about the Company s basis of presentation or its significant accounting policies, refer to the financial statements and footnotes thereto included in the Company s annual report on Form 10-K for the year ended December 31, 2009.

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

3. Recent Accounting Pronouncements

Impact of Recently Issued Accounting Standards

In April 2010, the FASB issued ASU 2010-17, *Revenue Recognition Milestone Method (Topic 605): Milestone Method of Revenue Recognition* (ASU 2010-17). ASU 2010-17 provides guidance on defining a milestone and determining when it may be appropriate to apply the milestone method of revenue recognition for research or development transactions. Consideration that is contingent on achievement of a milestone in its entirety may be recognized as revenue in the period in which the milestone is achieved only if the milestone is judged to meet certain criteria to be considered substantive. Milestones should be considered substantive in their entirety and may not be bifurcated. An arrangement may contain both substantive and non-substantive milestones, and each milestone should be evaluated individually to determine if it is substantive. ASU 2010-17 is effective on a prospective basis for milestones achieved in fiscal years, and interim periods within those years, beginning on or after June 15, 2010, with early adoption permitted. The Company is currently evaluating the early adoption option and because the Company currently does not have performance payment milestones in its contractual arrangements it does not expect that the adoption would have a material impact on the consolidated financial statements.

4. Earnings 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 settleable in the Company s stock were reported as equity for the periods presented. To calculate basic earnings per share the Company uses the weighted average number of common shares outstanding during the period adjusted for the weighted average number of contingently issuable shares. The weighted average numbers of shares contingently issuable are calculated as if they were outstanding as of the last day of 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 settleable 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 settleable in stock are calculated as if the contingently issuable shares were outstanding as of the acquisition date, July 19, 2010. The following table provides a reconciliation of the numerator and denominator used in computing basic and diluted net income attributable to common stockholders per common share. Stock options that are anti-dilutive and excluded from the following table totaled 2,281 and 1,460 for the three months ended September 30, 2010 and 2009, respectively, and 1,769 and 1,462 for the nine months ended September 30, 2010 and 2009, respectively.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	**2009**	**2010**	**2009**
Numerator:				
Net income	$ 2,141	$ 3,129	$ 7,828	$ 7,791
Income effect of contingent consideration obligation, net of tax	(591)		(544)	
Net income applicable to shares of common stock for earnings per share	1,550	3,129	7,284	7,791
Denominator:				
Weighted average common shares outstanding basic	31,586	30,865	31,276	30,767

Dilutive effect of:				
Net issuable common share equivalents	30		10	
Options and unvested restricted shares	864	490	910	515
Weighted average common shares outstanding diluted	32,480	31,355	32,196	31,282

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

5. Comprehensive Income

The components of comprehensive income are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Net Income	$ 2,141	$ 3,129	$ 7,828	$ 7,791
Translation adjustments	66	(166)	64	(79)
Unrealized gain (loss) on securities, (net of tax)	23	26	34	26
Total Other Comprehensive Income	$ 2,230	$ 2,989	$ 7,926	$ 7,738

6. 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 include amounts derived from valuation models where one or more significant inputs are unobservable and require us to develop relevant assumptions.

The following is a summary of assets and liabilities held by the Company and their related classifications under the fair value hierarchy.

	September 30, 2010	December 30, 2009
Level 1 (A)	$ 63,116	$ 89,924
Level 2 (B)	9,430	7,760
Level 3 (C)	(11,317)	
Total	$ 61,229	$ 97,684

(A) Level 1 assets include money market funds which are classified as cash equivalents.

(B) Level 2 assets include certificates of deposit which are classified as marketable securities.

(C) Level 3 liabilities includes the contingent consideration obligation which is classified as long term liabilities.

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 three months and nine months ended September 30, 2010.

The aggregate fair value of available for sale securities and aggregate amount of unrealized gains and losses for available for sale securities at September 30, 2010 were as follows:

	Aggregate Fair Value	Aggregate Amount of Unrealized Gains	Aggregate Amount of Unrealized Losses
Due in one year or less	$ 1,726	$ 23	$
Due after one year, less than five years	7,704	117	(3)
	$ 9,430	$ 140	$ (3)

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

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, 2009 were as follows:

	Aggregate Fair Value	Aggregate Amount of Unrealized Gains	Aggregate Amount of Unrealized Losses
Due in one year or less	$ 2,558	$ 43	$
Due after one year, less than five years	5,202	48	(6)
	$ 7,760	$ 91	$ (6)

Unrealized gains and losses are reported as a component of accumulated other comprehensive income (loss) in stockholders equity. The cost of securities sold is based on specific identification method. No available for sale securities have been in a continuous unrealized loss position for twelve months or longer.

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 earn-out criteria. The fair value measurement is based on significant inputs not observable in the market and thus represents a Level 3 measurement. No changes in valuation techniques or inputs occurred during the three months and nine months ended September 30, 2010.

The changes in fair value of the Company s Level 3 contingent consideration obligation during the nine months ended September 30, 2010 were as follows:

	Level 3
Contingent consideration obligation related to acquisition of FusionOne as of July 19, 2010	$ 13,230
Fair value adjustment to contingent consideration included in net income	(1,968)
Earn-out compensation due to employees	55
Balance at September 30, 2010	$ 11,317

7. Acquisition

On July 19, 2010 the Company acquired 100% of FusionOne, Inc. a leader in mobile content transfer and synchronization software. The acquisition of FusionOne accelerates the Company s overall connected device growth strategy and customer diversification efforts. Pursuant to the Agreement and Plan of Merger and Reorganization dated July 6, 2010 (the Merger Agreement), the Company paid approximately $32 million in cash and issued approximately 400 thousand common shares of the Company s Common Stock valued at approximately $7.1 million based on the Company s July 19, 2010 closing stock price per share, and potentially may make payments (Earn-out) totaling up to $35 million in cash and stock, based on achievements of certain financial targets for the period from July 1, 2010 through December 31, 2011. The maximum that could be paid to existing employees of FusionOne is $7 million and will be recorded as compensation expense over the service period.

Acquisition-related Costs

Acquisition-related costs recognized in the three and nine months ended September 30, 2010, including transaction costs such as legal, accounting, valuation and other professional services, were $2.4 million and $2.7 million, respectively.

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

The Earn-out acquisition date fair value of $13.2 million was determined 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 earn-out criteria. The fair value measurement is based on significant inputs not observable in the market and thus represents a Level 3 measurement. For the three and nine months ended September 30, 2010, a change in the Earn-out fair value of $2.0 million was recorded as a credit in the consolidated statement of income. As of September 30, 2010, the preliminary range of outcomes and the assumptions used to develop the estimates had not changed significantly. The decrease in the fair value was due principally to FusionOne not achieving all of their quarterly metrics. Each reporting period, the Company will estimate the change in the fair value of the contingent consideration and any change in fair value will be recognized in the statement of income. The estimate of the fair value of the contingent consideration requires subjective assumptions to be made of various potential operating result scenarios. Future revisions to these assumptions could materially change the estimate of the fair value of the contingent consideration and therefore materially affect the Company s future financial results.

During September 2010, in its efforts to improve efficienc