SYNCHRONOSS TECHNOLOGIES INC
Form 10-Q
May 01, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2015

Or

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

For the transition period from to

Commission file number 000-52049

SYNCHRONOSS TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

Delaware	06-1594540
(State or other jurisdiction of	(I.R.S. Employer

incorporation or organization)	Identification No.)
200 Crossing Boulevard, 8th Floor	
Bridgewater, New Jersey (Address of principal executive offices)	08807 (Zip Code)

(866) 620-3940

(Registrant's telephone number, including area code)

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

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer 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

Shares outstanding of the Registrant's common stock:

Class	Outstanding at April 27,

	2015
Common stock, $0.0001 par value	43,279,832

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SYNCHRONOSS TECHNOLOGIES, INC.

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands)

	March 31, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$ 152,487	$ 235,967
Marketable securities	54,955	51,097
Accounts receivable, net of allowance for doubtful accounts of $220 and $88 at March 31, 2015 and December 31, 2014, respectively	138,011	118,371
Prepaid expenses and other assets	30,775	35,023
Deferred tax assets	3,123	1,475
Total current assets	379,351	441,933
Marketable securities	2,321	3,313
Property and equipment, net	160,252	151,171
Goodwill	173,367	147,135
Intangible assets, net	109,766	99,489
Deferred tax assets	2,903	1,232
Other assets	18,532	18,549
Total assets	$ 846,492	$ 862,822
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 12,999	$ 25,059
Accrued expenses	33,606	42,679
Deferred revenues	11,957	11,897
Contingent consideration obligation	—	8,000
Total current liabilities	58,562	87,635
Lease financing obligation - long term	14,055	9,204
Convertible debt	230,000	230,000
Deferred tax liability	5,955	3,698
Other liabilities	2,781	3,178
Stockholders' equity:		
Preferred stock, $0.0001 par value; 10,000 shares authorized, 0 shares issued and outstanding at March 31, 2015 and December 31, 2014	—	—
Common stock, $0.0001 par value; 100,000 shares authorized, 46,940 and 46,444 shares issued; 43,236 and 42,711 outstanding at March 31, 2015 and December 31, 2014,	4	4

respectively		
Treasury stock, at cost (3,704 and 3,733 shares at March 31, 2015 and December 31, 2014, respectively)	(65,969)	(66,336)
Additional paid-in capital	469,312	454,740
Accumulated other comprehensive loss	(39,482)	(20,014)
Retained earnings	171,274	160,713
Total stockholders' equity	535,139	529,107
Total liabilities and stockholders' equity	$ 846,492	$ 862,822

See accompanying notes to consolidated financial statements.

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SYNCHRONOSS TECHNOLOGIES, INC.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(Unaudited)

(In thousands, except per share data)

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Net revenues	$ 132,926	$ 98,477
Costs and expenses:		
Cost of services*	53,655	39,979
Research and development	22,024	15,541
Selling, general and administrative	20,883	17,125
Net change in contingent consideration obligation	—	1,211
Restructuring charges	3,240	—
Depreciation and amortization	14,835	12,266
Total costs and expenses	114,637	86,122
Income from operations	18,289	12,355
Interest income	466	49
Interest expense	(1,342)	(420)
Other income	14	796
Income before income tax expense	17,427	12,780
Income tax expense	(6,866)	(5,196)
Net income	$ 10,561	$ 7,584
Net income per common share:		
Basic	$ 0.25	$ 0.19
Diluted	$ 0.23	$ 0.19
Weighted-average common shares outstanding:		
Basic	41,626	39,769
Diluted	47,080	40,655
Comprehensive (loss) income	$ (8,907)	$ 8,583

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

See accompanying notes to consolidated financial statements.

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SYNCHRONOSS TECHNOLOGIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Three Months Ended March 31,	
	2015	2014
Operating activities:		
Net income	$ 10,561	$ 7,584
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization expense	14,835	12,266
Amortization of debt issuance costs	375	—
Amortization of bond premium	474	74
Deferred income taxes	(733)	3,112
Non-cash interest on leased facility	233	230
Stock-based compensation	6,585	5,842
Changes in operating assets and liabilities:		
Accounts receivable, net of allowance for doubtful accounts	(22,145)	(28,935)
Prepaid expenses and other current assets	5,623	816
Other assets	(443)	465
Accounts payable	106	(3,388)
Accrued expenses	(12,301)	(8,743)
Contingent consideration obligation	(1,532)	1,611
Excess tax benefit from the exercise of stock options	(1,981)	(385)
Other liabilities	(243)	1,249
Deferred revenues	451	(3,204)
Net cash used in operating activities	(135)	(11,406)
Investing activities:		
Purchases of fixed assets	(24,217)	(8,044)
Purchases of marketable securities available-for-sale	(43,548)	(1,244)
Maturities of marketable securities available-for-sale	40,285	315
Business acquired, net of cash	(59,481)	—
Net cash used in investing activities	(86,961)	(8,973)
Financing activities:		
Proceeds from the exercise of stock options	5,398	3,273
Payments on contingent consideration obligation	(4,468)	—
Excess tax benefit from the exercise of stock options	1,981	385
	975	740

Proceeds from the sale of treasury stock in connection with an employee stock purchase plan		
Repayments of capital obligations	(291)	(324)
Net cash provided by financing activities	3,595	4,074
Effect of exchange rate changes on cash	21	64
Net decrease in cash and cash equivalents	(83,480)	(16,241)
Cash and cash equivalents at beginning of period	235,967	63,512
Cash and cash equivalents at end of period	$ 152,487	$ 47,271
Supplemental disclosures of cash flow information:		
Cash paid for income taxes	$ 346	$ 717

See accompanying notes to consolidated financial statements.

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SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED

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

The consolidated financial statements as of March 31, 2015 and for the three months ended March 31, 2015 and 2014 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 consolidated 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, 2014. The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany accounts 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, 2014 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. Certain amounts from the prior year's financial statements have been reclassified to conform to the current year's presentation.

1. Description of Business

Synchronoss Technologies, Inc. (the "Company" or "Synchronoss") is a mobile innovation company that provides software-based cloud and activation solutions for connected devices to enterprise customers on a global scale. The Company's software creates innovative consumer and enterprise solutions that drive billions of transactions on a wide range of connected devices across the world's leading networks. The Company's solutions include: intelligent connectivity management and content synchronization, backup and sharing 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 value-add services 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 Synchronoss Personal Cloud™ 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 content associated with them. Synchronoss WorkSpace™ platform focuses on providing a secure, integrated file sharing and collaboration solution for small and medium businesses. The Company's consumer and small business platforms and solutions enable Synchronoss to drive a natural extension of the Company's 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™ and Synchronoss WorkSpace™ platforms provide end-to-end seamless integration between customer-facing channels/applications, communication services or devices and "back-office" infrastructure-related systems and processes. The Company's customers rely on the Company's solutions and technology to automate the process of activation and content and settings management for their subscriber's devices while delivering additional communication services. The Company's 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 both traditional and 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, highly available, flexible and scalable to enable multiple converged communication services to be managed across multiple distribution channels including e-commerce, m-commerce, telesales, customer stores, indirect and other retail outlets allowing the Company to meet the rapidly changing and converging services and connected devices offered by the Company's customers. Synchronoss 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, the Company's customers can simplify the processes associated with managing the

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SYNCHRONOSS TECHNOLOGIES, INC.

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

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 the Company's platforms enable new revenue streams and retention opportunities for the Company's customers through new subscriber acquisitions, sale of new devices, accessories and new value-added service offerings in the Cloud, while optimizing their cost of operations and enhancing customer experience. The Company currently operates in and markets its solutions and services directly through the Company's 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. Basis of Presentation and Consolidation

For further information about the Company's basis of presentation and consolidation or its significant accounting policies, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2014.

Impact of Recently Issued Accounting Standards

In March 2015, the Financial Accounting Standards Board issued Accounting issued Accounting Standards Update (ASU) No. 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. The amendments in this ASU requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. The amendments are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption of the amendments is permitted for financial statements that have not been previously issued. The amendments should be applied on a retrospective basis, wherein the balance sheet of each individual period presented should be adjusted to reflect the period-specific effects of applying the new guidance. Upon transition, an entity is required to comply with the applicable disclosures for a change in an accounting principle. These disclosures include the nature of and reason for the change in accounting principle, the transition method, a description of the prior-period information that has been retrospectively adjusted, and the effect of the change on the financial statement line items (i.e., debt issuance cost asset and the debt liability). The Company is currently evaluating the effects of ASU 2015-03 on the consolidated financial statements.

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

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

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or retrospectively, and can choose early adoption. The Company does not expect the adoption of this ASU to significantly impact the consolidated financial statements.

In May 2014, the FASB and the International Accounting Standards Board ("IASB") (collectively, the "Boards") jointly issued a comprehensive new revenue recognition standard that will supersede nearly all existing revenue recognition guidance under US GAAP and IFRS. The standard's core principle (issued as ASU 2014-09 by the FASB and as IFRS 15 by the IASB), is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. The new guidance must be adopted using either a full retrospective approach for all periods presented in the period of adoption or a modified retrospective approach. The effective date is fiscal years beginning after December 15, 2016. Early application is not permitted. The Company is currently evaluating the methods of adoption and the impact that ASU 2014-09 will have on the consolidated financial statements.

3. Earnings per Common Share

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

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 291 and 1,642 for the three months ended March 31, 2015 and 2014, respectively.

	Three Months Ended March 31,	
	2015	2014
Numerator:		
Net income attributable to common stockholders	$ 10,561	$ 7,584
Income effect for interest on convertible debt, net of tax	475	—
Numerator for diluted EPS- Income to common stockholders after assumed conversions	$ 11,036	$ 7,584
Denominator:		
Weighted average common shares outstanding — basic	41,626	39,769
Dilutive effect of:		
Shares from assumed conversion of convertible debt	4,326	—
Options and unvested restricted shares	1,128	886
Weighted average common shares outstanding — diluted	47,080	40,655

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:

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

- Level 1 – Observable inputs – quoted prices in active markets for identical assets and liabilities;
- Level 2 – Observable inputs – other than the quoted prices in active markets for identical assets and liabilities – includes quoted prices for similar instruments, quoted prices for identical or similar instruments in inactive markets, and amounts derived from valuation models where all significant inputs are observable in active markets; and
- Level 3 – Unobservable inputs – includes amounts derived from valuation models where one or more significant inputs are unobservable and require the Company to develop relevant assumptions.

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

	March 31, 2015	December 31, 2014
Level 1 (A)	$ 157,884	$ 241,364
Level 2 (B)	51,879	49,013
Level 3 (C)	—	(8,000)
Total	$ 209,763	$ 282,377

(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 three months ended March 31, 2015.

The aggregate fair value of available-for-sale securities and aggregate amount of unrealized gains and losses for available-for-sale securities at March 31, 2015 were as follows:

	Aggregate Fair Value	Aggregate Amount of Unrealized Gains	Losses
Due in one year or less	$ 54,955	$ 8	$ (89)
Due after one year, less than five years	2,321	2	(3)
	$ 57,276	$ 10	$ (92)

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, 2014 were as follows:

	Aggregate Fair Value	Aggregate Amount of Unrealized Gains	Losses
Due in one year or less	$ 51,097	$ 10	$ (72)
Due after one year, less than five years	3,313	2	(3)
	$ 54,410	$ 12	$ (75)

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

Unrealized gains and losses are reported as a component of accumulated other comprehensive loss in stockholders' equity. The cost of securities sold is based on the specific identification method. The Company evaluates investments with unrealized losses to determine if the losses are other than temporary. The Company has determined that the gross unrealized losses as of March 31, 2015 and December 31, 2014 are temporary. In making this determination, the Company considered the financial condition, credit ratings and near-term prospects of the issuers, the underlying collateral of the investments, and the magnitude of the losses as compared to the cost and the length of time the investments have been in an unrealized loss position. Additionally, while the Company classifies the securities as available-for-sale, the Company does not currently intend to sell such investments and it is more likely than not to recover the carrying value prior to being required to sell such investments.

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

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

	Level 3
Balance at December 31, 2014	$ 8,000
Payment of contingent consideration	(8,000)
Balance at March 31, 2015	$ —

5. Acquisition

F-Secure Corporation (“F-Secure”)

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

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

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

The Company determined the preliminary fair value of the net assets acquired during the first quarter of 2015 as follows:

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

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

Acquisition-related costs recognized during the three months ended March 31, 2015, including transaction costs such as legal, accounting, valuation and other professional services, were $856 thousand.

Voxmobili SA (“Vox”)

On July 11, 2014, the Company acquired all outstanding shares of Vox, a French company, for $25.1 million, net of cash acquired and liabilities assumed, subject to certain working capital adjustments. The Company believes that this acquisition contributed to its position as the leading provider of personal cloud solutions to the world’s largest mobile operators.

The Company determined the preliminary fair value of the net assets acquired during the third quarter of 2014 as follows:

	Purchase Price Allocation	
Cash	$ 1,414	
Prepaid expenses and other assets	220	
Accounts receivable	3,750	
Intangible assets:		Wtd. Avg.
Technology	4,900	5 years
Customer relationships	5,000	5 years
Goodwill	17,188	
Total assets acquired	32,472	
Accounts payable and accrued liabilities	2,118	
Deferred revenues	457	
Deferred taxes	3,338	
Net assets acquired	$ 26,559	

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

Acquisition-related costs, including transaction costs such as legal, accounting, valuation and other professional services, were $1.5 million.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED

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

6. Stockholders' Equity

Stock Options

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

	Three Months Ended March 31,	
	2015	2014
Expected stock price volatility	48 %	63 %
Risk-free interest rate	1.26 %	1.54 %
Expected life of options (in years)	4.01	4.28
Expected dividend yield	0 %	0 %

The weighted-average fair value (as of the date of grant) of the options was $15.86 and $16.20 per share for the three months ended March 31, 2015 and 2014, respectively. During the three months ended March 31, 2015 and 2014, the Company recorded total pre-tax stock-based compensation expense of $6.6 million ($4.4 million after tax or $0.09 per diluted share) and $5.8 million ($3.8 million after tax or $0.09 per diluted share), respectively, which includes the fair value for equity awards issued. The total stock-based compensation cost related to unvested equity awards not yet recognized as an expense as of March 31, 2015 was approximately $42.8 million. The expense is expected to be recognized over a weighted-average period of approximately 2.63 years.

The following table summarizes information about stock options outstanding as of March 31, 2015:

Weighted-

Options	Number of Options	Weighted-Average Exercise Price	Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2014	2,767	$ 25.81		
Options Granted	299	41.04		
Options Exercised	(227)	23.80		
Options Cancelled	(96)	30.91		
Outstanding at March 31, 2015	2,743	$ 27.45	4.59	$ 54,877
Vested or expected to vest at March 31, 2015	2,524	$ 26.81	4.44	$ 52,128
Exercisable at March 31, 2015	1,465	$ 22.40	3.40	$ 36,708

A summary of the Company's unvested restricted stock at March 31, 2015, and changes during the three months ended March 31, 2015, is presented below:

Non-Vested Restricted Stock	Number of Awards
Non-vested at December 31, 2014	1,342
Granted	328
Vested	(298)
Forfeited	(59)
Non-vested at March 31, 2015	1,313

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SYNCHRONOSS TECHNOLOGIES, INC.

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

Employee Stock Purchase Plan

On February 1, 2012, the Company established a ten year Employee Stock Purchase Plan ("ESPP" or the "Plan") for certain eligible employees. The Plan is to be administered by the Company's Board of Directors. The total number of shares available for purchase under the Plan is 500 thousand shares of the Company's Common Stock. Employees participate over a six month period through payroll withholdings and may purchase, at the end of the six month period, the Company's Common Stock at the lower of 85% of the fair market value on the first day of the offering period or the fair market value on the purchase date. No participant will be granted a right to purchase Common Stock under the Plan if such participant would own more than 5% of the total combined voting power of the Company. In addition, no participant may purchase more than one thousand shares of Common Stock within any purchase period.

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 are as follows:

	Three Months Ended March 31,			
	2015		2014	
Expected stock price volatility	40	%	64	%
Risk-free interest rate	0.05	%	0.08	%
Expected life (in years)	0.50		0.50	
Expected dividend yield	0	%	0	%

During the three months ended March 31, 2015 and 2014, the Company recorded $150 thousand and $199 thousand, respectively, of compensation expense related to the ESPP. During the three months ended March 31, 2015 and 2014, the Company sold a total of 29 thousand and 27 thousand shares, respectively, of its Treasury Stock pursuant to purchases under its ESPP. Cash received from purchases through the ESPP during the three months ended March 31, 2015 and 2014, was approximately $975 thousand and $740 thousand, respectively, and is included within the financing activities section of the consolidated statements of cash flows. The total unrecognized compensation expense related to the ESPP as of March 31, 2015 was approximately $201 thousand, which is expected to be recognized over the remainder of the offering period.

7. Accumulated Other Comprehensive Income (Loss)

Comprehensive (loss) income was as follows:

	Three Months Ended March 31, 2015	2014
Net income	$ 10,561	$ 7,584
Translation adjustments	(16,837)	995
Unrealized income on securities, (net of tax)	241	4
Net loss on intra-entity foreign currency transactions	(2,872)	—
Total comprehensive (loss) income	$ (8,907)	$ 8,583

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SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED

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

The changes in accumulated other comprehensive income (loss) during the three months ended March 31, 2015, are as follows, net of tax:

	Foreign Currency	Unrealized (Loss) Income on Intra-Entity Foreign Currency Transactions	Unrealized Holding Gains (Losses) on Available-for-Sale Securities	Total
Balance at December 31, 2014	$ (16,980)	$ (2,857)	$ (177)	$ (20,014)
Other comprehensive (loss) income	(16,837)	(2,872)	241	(19,468)
Total comprehensive (loss) income	(16,837)	(2,872)	241	(19,468)
Balance at March 31, 2015	$ (33,817)	$ (5,729)	$ 64	$ (39,482)

8. Goodwill and Intangibles

Goodwill

The Company recorded Goodwill which 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.

The changes in Goodwill during the three months ended March 31, 2015 are as follows:

Balance at December 31, 2014	$ 147,135
F-Secure acquisition	36,454
Translation adjustments	(10,222)
Balance at March 31, 2015	$ 173,367

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.

The Company's intangible assets consist of the following:

	Weighted Average Life	March 31, 2015 Cost	Accumulated Amortization	Net
Trade name	4	$ 1,529	$ (1,293)	$ 236
Technology	7	65,310	(25,227)	40,083
Customer lists and relationships	9	86,246		