

FORM 10-Q

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SYNCHRONOSS TECHNOLOGIES INC - SNCR

Filing Date: August 06, 2008

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DESCRIPTION

Quarterly report which provides a continuing view of a company's financial position

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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 June 30, 2008

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

(State or other jurisdiction of incorporation or organization)

06-1594540

(I.R.S. Employer Identification No.)

750 Route 202 South, Suite 600

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 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

Shares outstanding of the Registrant's common stock:

Class
Common stock, \$0.0001 par value

Outstanding at July 31, 2008
31,383,132 shares

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

	<u>June 30,</u> <u>2008</u>	<u>December 31,</u> <u>2007</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 90,843	\$ 92,756
Marketable securities	1,724	1,891
Accounts receivable, net of allowance for doubtful accounts of \$53 and \$448 at June 30, 2008 and December 31, 2007, respectively	22,311	26,710
Prepaid expenses and other assets	7,018	2,949
Deferred tax assets	<u>208</u>	<u>247</u>
Total current assets	122,104	124,553
Marketable securities	2,332	1,210
Property and equipment, net	9,328	10,467
Deferred tax assets	2,633	2,498
Other assets	<u>355</u>	<u>290</u>
Total assets	<u>\$ 136,752</u>	<u>\$ 139,018</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 848	\$ 1,681
Accrued expenses	5,763	9,495
Deferred revenues	<u>1,043</u>	<u>373</u>
Total current liabilities	7,654	11,549
Other liabilities	697	678
Stockholders' equity:		
Preferred stock, \$0.0001 par value; 10,000 shares authorized, 0 shares issued and outstanding at June 30, 2008 and December 31, 2007	—	—
Common stock, \$0.0001 par value; 100,000 shares authorized, 32,755 and 32,726 shares issued; 31,880 and 32,630 outstanding at June 30, 2008 and December 31, 2007, respectively	3	3
Treasury stock, at cost (875 and 96 shares at June 30, 2008 and December 31, 2007, respectively)	(10,444)	(19)
Additional paid-in capital	103,790	98,596
Accumulated other comprehensive income (loss)	(16)	4
Retained earnings	<u>35,068</u>	<u>28,207</u>
Total stockholders' equity	<u>128,401</u>	<u>126,791</u>
Total liabilities and stockholders' equity	<u>\$ 136,752</u>	<u>\$ 139,018</u>

See Notes to Consolidated Financial Statements

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2008	2007	2008	2007
Net revenues	\$ 24,315	\$ 31,321	\$ 53,425	\$ 52,650
Costs and expenses:				
Cost of services *	11,865	14,505	25,272	24,147
Research and development	2,388	2,534	4,810	4,466
Selling, general and administrative	4,861	4,630	10,128	7,870
Depreciation	1,480	1,290	2,945	2,377
Total costs and expenses	<u>20,594</u>	<u>22,959</u>	<u>43,155</u>	<u>38,860</u>
Income from operations	3,721	8,362	10,270	13,790
Interest income	636	959	1,493	1,903
Interest expense	(9)	(12)	(19)	(27)
Income before income tax expense	4,348	9,309	11,744	15,666
Income tax expense	(1,793)	(3,873)	(4,883)	(6,536)
Net income	<u>\$ 2,555</u>	<u>\$ 5,436</u>	<u>\$ 6,861</u>	<u>\$ 9,130</u>
Net income per common share:				
Basic	<u>\$ 0.08</u>	<u>\$ 0.17</u>	<u>\$ 0.21</u>	<u>\$ 0.28</u>
Diluted	<u>\$ 0.08</u>	<u>\$ 0.16</u>	<u>\$ 0.21</u>	<u>\$ 0.28</u>
Weighted-average common shares outstanding:				
Basic	<u>32,400</u>	<u>32,150</u>	<u>32,465</u>	<u>32,116</u>
Diluted	<u>33,050</u>	<u>33,360</u>	<u>33,202</u>	<u>33,186</u>

*

Cost of services excludes depreciation which is shown separately.

See Notes to Consolidated Financial Statements

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

	Six Months Ended	
	June 30,	
	2008	2007
Operating activities:		
Net income	\$ 6,861	\$ 9,130
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	2,944	2,377
Deferred income taxes	(96)	(20)
Stock-based compensation	3,369	1,288
Changes in operating assets and liabilities:		
Accounts receivable, net of allowance for doubtful accounts	4,399	(7,994)
Prepaid expenses and other current assets	(4,069)	(626)
Other assets	(65)	10
Accounts payable	(833)	1,941
Accrued expenses	(2,611)	(95)
Tax benefit from stock option exercise	(1,128)	—
Other liabilities	19	—
Deferred revenues	670	(15)
Net cash provided by operating activities	<u>9,460</u>	<u>5,996</u>
Investing activities:		
Purchases of fixed assets	(1,805)	(7,640)
Purchases of marketable securities available for sale	(2,755)	(2,463)
Sale of marketable securities available for sale	<u>1,780</u>	<u>3,089</u>
Net cash used in investing activities	(2,780)	(7,014)
Financing activities:		
Proceeds from the exercise of stock options	723	610
Excess tax benefit from stock option exercises	1,128	—
Repurchase of common stock	(10,444)	—
Repayments of equipment loan	<u>—</u>	<u>(333)</u>
Net cash provided by (used in) financing activities	<u>(8,593)</u>	<u>277</u>
Net decrease in cash and cash equivalents	(1,913)	(741)
Cash and cash equivalents at beginning of year	<u>92,756</u>	<u>73,905</u>
Cash and cash equivalents at end of period	<u>\$ 90,843</u>	<u>\$ 73,164</u>

See Notes to Consolidated Financial Statements

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED
(in thousands, except per share data unless otherwise noted)

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

1. Description of Business

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

2. Recent Accounting Pronouncements

Impact of Recently Issued Accounting Standards

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

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

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

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED (Continued)
(in thousands, except per share data unless otherwise noted)

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

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

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

	Level 1	Level 2	Total
Money Market Funds	\$ 91,153	\$ —	\$ 91,153
Certificates of Deposit	—	4,056	4,056
Total	<u>\$ 91,153</u>	<u>\$ 4,056</u>	<u>\$ 95,209</u>

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

3. Earnings per Common Share

The Company calculates net income per share in accordance with SFAS No. 128, *Earnings Per Share*. The following table provides a reconciliation of the numerator and denominator used in computing basic and diluted net income attributable to common stockholders per common share. Stock options that are anti-dilutive and excluded from the following table totaled 789 and 0 for the three months ended June 30, 2008 and 2007, respectively, and 761 and 0 for the six months ended June 30, 2008 and 2007, respectively.

	Three Months Ended		Six Months Ended	
	June 30,	June 30,	June 30,	June 30,
	2008	2007	2008	2007
Numerator:				
Net income	<u>\$ 2,555</u>	<u>\$ 5,436</u>	<u>\$ 6,861</u>	<u>\$ 9,130</u>
Denominator:				
Weighted average common shares outstanding — basic	32,400	32,150	32,465	32,116
Dilutive effect of:				
Options and unvested restricted shares	<u>650</u>	<u>1,210</u>	<u>737</u>	<u>1,070</u>
Weighted average common shares outstanding — diluted	<u>33,050</u>	<u>33,360</u>	<u>33,202</u>	<u>33,186</u>

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED (Continued)
(in thousands, except per share data unless otherwise noted)

4. 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 June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Expected stock price volatility	.56	.62	.66	.60
Risk-free interest rate	3.11%	4.60%	3.33%	4.66%
Expected life of options (in years)	4.69	6.23	4.29	6.15
Expected dividend yield	0%	0%	0%	0%

The weighted-average fair value (as of the date of grant) of the options granted was \$6.86 and \$14.98 per share for the three months ended June 30, 2008 and 2007, respectively, and \$12.37 and \$13.28 for the six months ended June 30, 2008 and 2007, respectively. During the three and six months ended June 30, 2008, the Company recorded total pre-tax stock-based compensation expense of \$1.7 million (\$1.2 million after tax or \$0.04 per diluted share) and \$3.4 million (\$2.3 million after tax or \$0.07 per diluted share), respectively, which includes both intrinsic value for equity awards issued prior to 2006 and fair value for equity awards issued after January 1, 2006. The total stock-based compensation cost related to non-vested equity awards not yet recognized as an expense as of June 30, 2008 was approximately \$13.6 million. That cost is expected to be recognized over a weighted-average period of approximately 2.9 years. In May 2008, the Company amended its 2006 Equity Incentive Plan to increase the number of shares available for issuance by 2.0 million.

The following table summarizes information about stock options outstanding.

	Shares Available for Grant	Number of Shares	Options Outstanding	
			Option Exercise Price per Share Range	Weighted- Average Exercise Price
Balance at December 31, 2007	754	2,831	\$ 0.29 – 42.77	\$ 15.51
Options granted	(535)	535	\$ 12.30 – 35.62	\$ 15.25
Options exercised	—	(138)	\$ 0.29 – 15.44	\$ 5.23
Options forfeited	257	(257)	\$ 0.29 – 42.77	\$ 27.55
Expansion of Pool in May 2008	2,000	—		
Balance at June 30, 2008	2,476	2,971	\$ 0.29 – 38.62	\$ 14.89

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

Non-Vested Restricted Stock	Number of Awards
Non-vested at January 1, 2008	180
Vested	(34)
Forfeited	(13)
Non-vested at June 30, 2008	133

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO FINANCIAL STATEMENTS — UNAUDITED (Continued)
(in thousands, except per share data unless otherwise noted)

Treasury Stock

On May 5, 2008, the Company's board of directors authorized a stock repurchase program to purchase up to \$25 million of the Company's outstanding common stock. The duration of the repurchase program is up to twelve months. Under the program, the Company may purchase shares of its common stock in the open market, through block trades or otherwise at prices deemed appropriate by the Company. The timing and amount of repurchase transactions under the program will depend on market conditions and corporate and regulatory considerations. The purchases will be funded from available working capital. The stock repurchase program may be suspended or discontinued at any time. As of June 30, 2008, a total of 875 shares have been repurchased for an aggregate purchase price of approximately \$10.4 million. During July 2008, a total of 500 shares were repurchased for an aggregate purchase price of \$5.2 million. The Company classifies common stock repurchased as treasury stock on its balance sheet.

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

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

Overview

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

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

Revenues

We generate a substantial portion of our revenues on a per-transaction basis, most of which is derived from contracts that extend up to 48 months from execution. We have increased our revenues rapidly, growing at a compound annual growth rate of 67% from 2001 to 2007. For the three months ended June 30, 2008, we derived approximately 80% of our revenues from transactions processed. Most of the remainder of our revenues were generated by professional services.

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

We currently derive a significant portion of our revenues from one customer, AT&T. For the three months ended June 30, 2008, AT&T accounted for approximately 67% of our revenues, compared to 81% for the three months ended June 30, 2007. Our five largest customers, AT&T, Vonage, Level 3 Communications, Comcast and Cablevision, accounted for approximately 90% of our revenues for the three months ended June 30, 2008, compared to 94% of our revenues for the three months ended June 30, 2007. See "Risk Factors" for certain matters bearing risks on our future results of operations.

Costs and Expenses

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

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

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

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

Depreciation relates to our property and equipment and includes our network infrastructure and facilities.

Current Trends Affecting Our Results of Operations

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

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

To support the 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. We believe that these opportunities will continue to provide future benefits and position us to support revenue growth. In addition, we anticipate further automation of the transactions generated by our more mature customers and additional transaction types. These development efforts are expected to reduce exception handling costs. Loss of revenue related to the activation of iPhones on AT&T’s network, which is a higher margin product because of higher levels of automation, caused total gross margins for the three months ended June 30, 2008 to decline compared to the same period last year. However, as transactions mature and become more automated, we expect margins relating to these transactions to grow in the future.

Critical Accounting Policies and Estimates

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

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

- Revenue Recognition and Deferred Revenue
- Service Level Standards
- Allowance for Doubtful Accounts
- Income Taxes
- Stock-Based Compensation

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

Results of Operations

Three months ended June 30, 2008 compared to the three months ended June 30, 2007

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

	Three Months Ended June 30,				Three Months Ended June 30,	
	2008		2007		2008 vs. 2007	
	\$	% of Revenue	\$	% of Revenue	\$ Change	% Change
	(in thousands)					
Net revenue	\$24,315	100.0%	\$31,321	100.0%	\$ (7,006)	(22.4)%
Cost of services*	11,865	48.8%	14,505	46.3%	(2,640)	(18.2)%
Research and development	2,388	9.8%	2,534	8.1%	(146)	(5.8)%
Selling, general and administrative	4,861	20.0%	4,630	14.8%	231	5.0%
Depreciation	1,480	6.1%	1,290	4.1%	190	14.7%
	<u>20,594</u>	<u>84.7%</u>	<u>22,959</u>	<u>73.3%</u>	<u>(2,365)</u>	<u>(10.3)%</u>
Income from operations	\$ 3,721	15.3%	\$ 8,362	26.7%	\$ (4,641)	(55.5)%

*

Cost of services excludes depreciation which is shown separately.

Net Revenue. Net revenues decreased \$7.0 million to \$24.3 million for the three months ended June 30, 2008, compared to the three months ended June 30, 2007. This decline was due primarily to decreased revenues associated with the activation of iPhones on to AT&T's network; net revenues related to AT&T decreased \$9.1 million to \$16.2 million for the three months ended June 30, 2008 compared to the same period in 2007. During the three months ended June 30, 2007, we significantly scaled our operations to support the launch of the iPhone which included running numerous transaction processing tests to ensure the scalability of our platform. AT&T represented 67% and 81% of our revenues for the three months ended June 30, 2008 and 2007, respectively. Net revenues outside of AT&T generated \$8.1 million of our revenues during the three months ended June 30, 2008 as compared to \$6.0 million last year. Net revenues outside of AT&T represented 33% and 19% of our revenues during the three months ended June 30, 2008 and 2007, respectively. Transaction revenues recognized for the three months ended June 30, 2008 and 2007 represented 80% or \$19.4 million and 85% or \$26.6 million of net revenues, respectively. This reduction in transactional revenue is primarily attributed to a decrease in revenues related to activations of iPhones on AT&T's network. Professional service revenues increased as a percentage of sales to 19% or \$4.7 million for the three months ended June 30, 2008, compared to 14% or \$4.5 million for the previous three months ended June 30, 2007. This percentage increase is due to a lower total revenue base as transaction revenue and automation rates declined while professional services revenue remained relatively unchanged.

Expense

Cost of Services. Cost of services decreased \$2.6 million to \$11.9 million for the three months ended June 30, 2008, compared to the three months ended June 30, 2007, due primarily to a decrease of \$3.0 million in personnel and related costs and third party consulting service costs required to support transaction volumes submitted to us by our customers. This decrease in cost of services corresponds to the decrease in revenue for the period due to declining revenue associated with activation of iPhones on AT&T's network. This decrease was partially offset by \$193 in additional stock-based compensation expense. Cost of services as a percentage of revenues increased to 48.8% for the three months ended June 30, 2008, as compared to 46.3% for the three months ended June 30, 2007, due to a decline in transaction revenue associated with activation of iPhones on AT&T's network and lower automation rates experienced as we add new customer business.

Research and Development. Research and development expense decreased \$146 to \$2.4 million for the three months ended June 30, 2008, compared to the three months ended June 30, 2007, due to a reduced use of outside consultants. Research and development expense as a percentage of revenues increased to 9.8% for the three months ended June 30, 2008, as compared to 8.1% for the three months ended June 30, 2007 due to a lower revenue base for comparative purposes.

Selling, General and Administrative. Selling, general and administrative expense increased \$231 to \$4.9 million for the three months ended June 30, 2008, compared to the three months ended June 30, 2007, due primarily to increases in stock-based compensation expense of \$564, partially offset by a decrease in personnel and related costs of \$332. Selling, general and administrative expense as a percentage of revenues increased to 20.0% for the three months ended June 30, 2008, as compared to 14.8% for the three months ended June 30, 2007 due to a lower revenue base for comparative purposes.

Depreciation. Depreciation expense increased \$190 to \$1.5 million for the three months ended June 30, 2008, compared to the same period in 2007, due to continued growth in the invested value of our infrastructure. Depreciation expense as a percentage of revenues increased to 6.1% for the three months ended June 30, 2008, as compared to 4.1% for the same period in 2007.

Income from Operations. Income from operations decreased \$4.6 million to \$3.7 million for the three months ended June 30, 2008, compared to the same period in 2007. Income from operations decreased as a percentage of revenues to 15.3% for the three months ended June 30, 2008, as compared to 26.7% for the three months ended June 30, 2007. This decrease was due to lower gross margin of \$4.4 million due to a decline in transaction revenue and lower automation rates and higher expenditures related to stock-based compensation of \$972.

Income Tax. Our effective tax rate was approximately 41.2% and approximately 41.6% during the three months ended June 30, 2008 and 2007, respectively. We review the expected annual effective income tax rate and make changes on a quarterly basis as necessary based on certain factors such as changes in forecasted annual operating income, changes to the actual and forecasted permanent book-to-tax differences, or changes resulting from the impact of a tax law change. During the three months ended June 30, 2008 and 2007, we recognized approximately \$1.8 million and \$3.9 million in related tax expense, respectively.

Six months ended June 30, 2008, compared to the six months ended June 30, 2007

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

	Six Months Ended June 30,				Six Months Ended June 30, 2008 vs 2007	
	2008		2007		\$ Change	% Change
	\$	% of Revenue	\$	% of Revenue		
	(in thousands)					
Net revenue	\$53,425	100.0%	\$52,650	100.0%	\$ 775	1.5%
Cost of services (excluding depreciation shown separately below)	25,272	47.3%	24,147	45.9%	1,125	4.7%
Research and development	4,810	9.0%	4,466	8.5%	344	7.7%
Selling, general and administrative	10,128	19.0%	7,870	14.9%	2,258	28.7%
Depreciation	2,945	5.5%	2,377	4.5%	568	23.9%
	<u>43,155</u>	<u>80.8%</u>	<u>38,860</u>	<u>73.8%</u>	<u>4,295</u>	<u>11.1%</u>
Income from operations	\$10,270	19.2%	\$13,790	26.2%	\$ (3,520)	(25.5)%

Net Revenue. Net revenues increased \$775 to \$53.4 million for the six months ended June 30, 2008, compared to the six months ended June 30, 2007. This increase was primarily due to increased revenues from existing customers. Net revenues related to AT&T decreased \$2.6 million to \$37.3 million for the six months ended June 30, 2008 compared to the same period in 2007. AT&T represented 70% and 76% of our revenues for the six months ended June 30, 2008 and 2007, respectively. Net revenues outside of AT&T generated \$16.1 million of our revenues during the six months ended June 30, 2008 as compared to \$12.8 million during the six months ended June 30, 2007. Net revenues outside of AT&T represented 30% and 24% of our revenues during the six months ended June 30, 2008 and 2007, respectively. Transaction revenues recognized for the six months ended June 30, 2008 and 2007 represented 83% or \$44.5 million and 83% or \$43.9 million of net revenues, respectively. Professional service revenues as a percentage of sales were 16% or \$8.4 million for the six months ended June 30, 2008, compared to 16% or \$8.3 million for the six months ended June 30, 2007.

Expense

Cost of Services. Cost of services increased \$1.1 million to \$25.3 million for the six months ended June 30, 2008, compared to the six months ended June 30, 2007. In particular, personnel and related costs and third party consulting service costs for management of exception handling increased \$138 and stock-based compensation expense increased \$371. Also, additional telecommunication and maintenance expense in our data facilities, contributed approximately \$525 to the increase in cost of services. Cost of services as a percentage of revenues increased to 47.3% for the six months ended June 30, 2008, as compared to 45.9% for the six months ended June 30, 2007, due to a decline in higher margin for the revenue associated with the activation of iPhones on AT&T's network, and a decrease in automation rates experienced as we add new customer business.

Research and Development. Research and development expense increased \$344 to \$4.8 million for the six months ended June 30, 2008, compared to the six months ended June 30, 2007, due to increases in stock compensation of \$294. Research and development expense as a percentage of revenues increased to 9.0% for the six months ended June 30, 2008, as compared to 8.5% for the six months ended June 30, 2007.

Selling, General and Administrative. Selling, general and administrative expense increased \$2.3 million to \$10.1 million for the six months ended June 30, 2008, compared to the six months ended June 30, 2007, due primarily to increases in personnel and investments in international operations totaling \$357 and increased stock-based compensation expense of \$1.4 million. Selling, general and administrative expense as a percentage of revenues increased to 19.0% for the six months ended June 30, 2008, as compared to 14.9% for the six months ended June 30, 2007.

Depreciation. Depreciation expense increased \$568 to \$2.9 million for the six months ended June 30, 2008, compared to the six months ended June 30, 2007, due to continued growth in the invested value of our infrastructure. Depreciation expense as a percentage of revenues increased to 5.5% for the six months ended June 30, 2008, as compared to 4.5% for the six months ended June 30, 2007.

Income from Operations. Income from operations decreased \$3.5 million to \$10.3 million for the six months ended June 30, 2008, compared to the six months ended June 30, 2007. Income from operations decreased as a percentage of revenues to 19.2% for the six months ended June 30, 2008, as compared to 26.2% for the six months ended June 30, 2007. This decrease was primarily due to increases in selling, general and administrative expenditures and cost of services.

Income Tax. Our effective tax rate was approximately 41.6% and approximately 41.7% during the six months ended June 30, 2008 and 2007, respectively. We review the expected annual effective income tax rate and make changes on a quarterly basis as necessary based on certain factors such as changes in forecasted annual operating income, changes to the actual and forecasted permanent book-to-tax differences, or changes resulting from the impact of a tax law change. During the six months ended June 30, 2008 and 2007, we recognized approximately \$4.9 million and \$6.5 million in related tax expense, respectively.

Liquidity and Capital Resources

Our principal source of liquidity has been cash provided by operations and cash provided from our IPO which was completed on June 20, 2006. The net proceeds from our IPO and the exercise of the over-allotment option by our IPO underwriters were approximately \$52.8 million, which enabled us to strengthen our balance sheet. Our cash, cash equivalents and marketable securities balance was \$94.9 million at June 30, 2008, a decrease of \$1.0 million as compared to the end of 2007. This decrease was due

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primarily to the repurchase of \$10.4 million of our common stock partially offset by \$9.5 million of cash provided by operating activities. 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, to continue repurchasing shares of our outstanding common stock under the terms of the stock repurchase program as outlined below, and to expand our customer base internationally. Uses of cash will include facility expansion, capital expenditures and working capital.

On May 5, 2008, our board of directors authorized a stock repurchase program to purchase up to \$25 million of our outstanding common stock. The duration of the repurchase program is up to twelve months. Under the program, we may purchase shares of our common stock in the open market, through block trades or otherwise at prices deemed appropriate by us. The timing and amount of repurchase transactions under the program will depend on market conditions and corporate and regulatory considerations. The purchases will be funded from available working capital. The stock repurchase program may be suspended or discontinued at any time. As of June 30, 2008, we have been repurchased a total of 875 shares for an aggregate purchase price of approximately \$10.4 million. During July 2008, we repurchased a total of 500 shares at an aggregate purchase price of \$5.2 million.

Discussion of Cash Flows

Cash flows from operations. Net cash provided by operating activities for the six months ended June 30, 2008 was \$9.5 million compared to \$6.0 million for the six months June 30, 2007. The increase of \$3.5 million is primarily due to a decrease to accounts receivable balance due to the timing of sales and collections. This amount is partially offset by an increase to prepaid expenses and other current assets of \$3.4 million due primarily to timing of tax payments, a decrease to accounts payable of \$2.8 million and a decrease to accrued expenses of \$2.5 million from June 30, 2007.

Cash flows from investing. Net cash used in investing activities for the six months ended June 30, 2008 was \$2.8 million compared to \$7.0 million for the six months June 30, 2007. The decrease of \$4.2 million was primarily due to the decreased purchases of fixed assets of \$5.8 million offset by a net increase in investments of marketable securities of \$1.6 million. Expenditures related to fixed assets in 2007 were higher than 2008 due to increased spending to support customer initiatives that required a higher volume of transactions.

Cash flows from financing. Net cash used in financing activities for the six months ended June 30, 2008 was \$8.6 million compared to cash provided by financing activities of \$277 for the six months ended June 30, 2007. In May 2008, we initiated a stock repurchase program that, as of June 30, 2008, repurchased 875 shares for an aggregate purchase price of approximately \$10.4 million. The remaining difference was due to increased net proceeds from the issuance of common stock of \$113 through the exercise of stock options, increased tax benefits received from the exercise of stock options of \$1.1 million and decreased repayments of an equipment loan of \$333.

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

Effect of Inflation

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

Impact of Recently Issued Accounting Standards

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

used when evaluating goodwill, other intangible assets and other long-lived assets for impairment and valuing asset retirement obligations and liabilities for exit or disposal activities. We adopted SFAS No. 157 effective January 1, 2008.

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

Off-Balance Sheet Arrangements

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk

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

The primary objective of our investment activities is to preserve our capital for the purpose of funding operations, while at the same time maximizing the income we receive from our investments without significantly increasing risk. To achieve these objectives, our investment policy allows us to maintain a portfolio of cash equivalents and short- and long-term investments in a variety of securities, which could include commercial paper, money market funds and corporate debt securities. Our cash and cash equivalents at June 30, 2008 and December 31, 2007 were invested in liquid money market accounts. All market-risk sensitive instruments were entered into for non-trading purposes. We do not expect the current rate of inflation to have a material impact on our business.

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

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

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures.

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

Changes in internal controls over financial reporting

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

Inherent Limitations on Effectiveness of Controls

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

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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.

ITEM 1A. RISK FACTORS

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

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

On May 5, 2008, our board of directors authorized a stock repurchase program to purchase up to \$25 million of our outstanding common stock. The duration of the repurchase program is up to twelve months. Under the program, we may purchase shares of our common stock in the open market, through block trades or otherwise at prices deemed appropriate under our program. The timing and amount of repurchase transactions under our program will depend on market conditions and corporate and regulatory considerations. The purchases will be funded from available working capital. The stock repurchase program may be suspended or discontinued at any time. As of June 30, 2008, a total of 875 shares of our common stock have been repurchased for an aggregate purchase price of approximately \$10.4 million. During July 2008, a total of 500 shares were repurchased for an aggregate purchase price of \$5.2 million. We classify common stock repurchased as treasury stock on our balance sheet.

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

	Total Number of Shares Purchased	Average Price Paid Per Share (1)	Total Number of Shares Purchased as Part of Publicly Announced Program	Approximate Dollar Value That May Yet be Purchased under the Program
May 20, 2008 to May 31, 2008	250,000	\$12.61	250,000	\$21,847,325
June 1, 2008 to June 30, 2008	<u>625,000</u>	11.67	<u>625,000</u>	\$14,556,110
Total	875,000	\$11.94	875,000	

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

Use of Proceeds

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

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

At our Annual Meeting of Stockholders held on May 15, 2008, our stockholders elected the director nominee, ratified the selection of our independent registered public accounting firm, approved an amendment to our 2006 Equity Incentive Plan and authorized the establishment of an Employee Stock Purchase Plan. Proxies for the Annual Meeting were solicited pursuant to Section 14(a) of the Securities Exchange Act of 1934 and there was no solicitation in opposition of management's solicitation. The votes cast at our Annual Meeting of Stockholders held on May 15, 2008 were as follows:

	Number of Shares		
	Voted For	Voted Against	Abstain
1. The election of one (1) director to serve for a three-year term until the 2011 Annual Meeting of Stockholders or until his successor has been elected or appointed.			
Thomas J. Hopkins	29,935,559	1,065,078	

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The other directors whose terms as directors continued after the Annual Meeting of Stockholders are: William J. Cadogan, Charles E. Hoffman, James M. McCormick, Donnie M. Moore and Stephen G. Waldis.

	Number of Shares			
	Voted For	Voted Against	Abstain	Broker Non-Votes
2. Ratification of the appointment of Ernst & Young LLP as our independent registered accounting firm for our fiscal year ending December 31, 2008.	30,791,383	188,127	21,217	
3. Amendment of the 2006 Equity Incentive Plan	15,005,080	10,141,467	34,309	5,819,782
4. Authorization of the establishment of an Employee Stock Purchase Plan	24,885,587	276,521	18,750	5,819,780

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

<u>Exhibit No.</u>	<u>Description</u>
3.2*	Restated Certificate of Incorporation of the Company
3.4*	Amended and Restated Bylaws of the Company
4.2*	Form of Company's Common Stock certificate
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

*

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

SIGNATURES

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

Synchronoss Technologies, Inc.

/s/ Stephen G. Waldis

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

August 6, 2008

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECURITIES AND EXCHANGE COMMISSION RULE 13a-14(a)**

I, Stephen G. Waldis, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Synchronoss Technologies, Inc. for the quarter ended June 30, 2008;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 6, 2008

/s/ Stephen G. Waldis

Stephen G. Waldis
Chairman of the Board of Directors,
President & Chief Executive Officer

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECURITIES AND EXCHANGE COMMISSION RULE 13a-14(a)**

I, Lawrence R. Irving, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Synchronoss Technologies, Inc. for the quarter ended June 30, 2008;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 6, 2008

/s/ Lawrence R. Irving

Lawrence R. Irving
Executive Vice President, Chief Financial Officer &
Treasurer

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Synchronoss Technologies, Inc. (the "Company") for the quarter ending June 30, 2008, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Stephen G. Waldis, the Chairman of the Board of Directors, President & Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge and belief that:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended, and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

This certification is being provided pursuant to 18 U.S.C. 1350 and is not to be deemed a part of the Report, nor is it to be deemed to be "filed" for any purpose whatsoever.

Date: August 6, 2008

/s/ Stephen G. Waldis
Stephen G. Waldis
Chairman of the Board of Directors,
President & Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Synchronoss Technologies, Inc. (the "Company") for the quarter ending June 30, 2008, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Lawrence R. Irving, the Chief Financial Officer & Treasurer of the Company, hereby certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge and belief that:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended, and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

This certification is being provided pursuant to 18 U.S.C. 1350 and is not to be deemed a part of the Report, nor is it to be deemed to be "filed" for any purpose whatsoever.

Date: August 6, 2008

/s/ Lawrence R. Irving
Lawrence R. Irving
Executive Vice President, Chief Financial Officer &
Treasurer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.