SYNCHRONOSS TECHNOLOGIES INC
Form 10-Q
July 09, 2018

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

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

For the quarterly period ended March 31, 2017

Or

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

For the transition period from to

Commission file number 000-52049

SYNCHRONOSS TECHNOLOGIES, INC.
(Exact name of registrant as specified in its charter)

Delaware	06-1594540
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
200 Crossing Boulevard, 8th Floor Bridgewater, New Jersey	08807
(Address of principal executive offices)	(Zip Code)

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

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

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. Yes No x

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

Class	Outstanding at June 30, 2018
Common stock, $0.0001 par value	42,168,400

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PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AND NOTES

SYNCHRONOSS TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited) (In thousands)

	March 31, 2017	December 31, 2016 (Restated)
ASSETS		
Current assets:		
Cash and cash equivalents	$221,178	$169,801
Restricted cash**	19,579	41,632
Marketable securities	9,963	12,506
Accounts receivable, net of allowances of $2,078 and $1,459 at March 31, 2017 and December 31, 2016, respectively**	92,494	107,474
Prepaid and other current assets	58,838	38,277
Assets held for sale, current*	63,154	—
Total current assets	465,206	369,690
Marketable securities	1,680	2,974
Property and equipment, net	147,120	158,205
Goodwill	224,954	224,651
Intangible assets, net	149,941	162,968
Deferred tax assets	15,796	13,286
Other assets	16,343	8,658
Note receivable from related party**	73,021	70,269
Equity method investment	44,398	43,650
Assets held for sale, non-current*	909,682	—
Total assets	$2,048,141	$1,054,351
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	26,707	17,057
Accrued expenses	55,194	76,882
Deferred revenues	88,263	57,430
Contingent consideration obligation	2,831	2,833
Short-term debt	6,051	29,000
Liabilities held for sale, current*	55,998	—
Total current liabilities	235,044	183,202
Lease financing obligation	12,124	12,450
Convertible debt, net of debt issuance costs	226,644	226,291
Long term debt- term loan	874,678	—
Deferred tax liabilities	16,639	3,508
Deferred revenues	51,060	65,630
Other liabilities	8,516	8,193
Liabilities held for sale, non-current*	112,118	—
Commitments and contingencies (Note 13)		
Redeemable noncontrolling interest	25,280	25,280
Stockholders' equity:		

Common stock, $0.0001 par value; 100,000 shares authorized, 50,973 and 50,388 shares issued; 45,914 and 45,292 outstanding at March 31, 2017 and December 31, 2016, respectively	5	5
Treasury stock, at cost (5,059 and 5,096 shares at March 31, 2017 and December 31, 2016, respectively)	(105,584)	$(106,631)
Additional paid-in capital	584,377	571,153
Accumulated other comprehensive loss	(38,489)	(42,350)
Retained earnings	45,729	107,620
Total stockholders’ equity	486,038	529,797
Total liabilities and stockholders’ equity	$2,048,141	$1,054,351

* See Note 4 -Acquisitions and Divestitures for transactions classified as held for sale.

** See Note 6 -Investments in Affiliates and Related Transactions for related party transactions reflected in this account

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended March 31, 2017	2016 (Restated)
Net revenues	$86,097	$78,246
Costs and expenses:		
Cost of revenues**	46,055	46,151
Research and development	25,489	25,827
Selling, general and administrative	38,815	25,914
Net change in contingent consideration obligation	—	5
Restructuring charges	2,998	2,910
Depreciation and amortization	24,087	22,782
Total costs and expenses	137,444	123,589
Loss from continuing operations	(51,347)	(45,343)
Interest income	2,857	630
Interest expense	(10,617)	(1,576)
Other income (expense), net	4,186	(381)
Equity method investment income	748	—
Loss from continuing operations, before taxes	(54,173)	(46,670)
Benefit for income taxes	8,721	15,520
Net loss from continuing operations	(45,452)	(31,150)
Net loss from discontinued operations, net of tax*	(16,134)	(1,186)
Net (loss)	(61,586)	(32,336)
Net loss attributable to redeemable noncontrolling interests	(2,889)	(3,007)
Net loss attributable to Synchronoss	$(58,697)	$(29,329)
Basic:		
Continuing operations	$(0.96)	$(0.65)
Discontinued operations*	(0.37)	(0.03)
	$(1.33)	$(0.68)
Diluted:		
Continuing operations	$(0.96)	$(0.65)
Discontinued operations*	(0.37)	(0.03)
	$(1.33)	$(0.68)
Weighted-average common shares outstanding:		
Basic	44,212	43,423
Diluted	44,212	43,423

* See Note 4 -Acquisitions and Divestitures for transactions classified as held for sale.
**Cost of revenues excludes depreciation and amortization which is shown separately.

See accompanying notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
(Unaudited) (In thousands)

	Three Months Ended March 31,	
	2017	2016 (Restated)
Net (loss)	$(61,586)	$(32,336)
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments	3,660	9,463
Unrealized gain on available for sale securities	8	20
Net income (loss) on intra-entity foreign currency transactions	193	(262)
Total other comprehensive income, net of tax	3,861	9,221
Comprehensive loss	(57,725)	(23,115)
Comprehensive loss attributable to redeemable noncontrolling interests	(2,889)	(3,007)
Comprehensive loss attributable to Synchronoss	$(54,836)	$(20,108)

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

	Three Months Ended March 31,	
	2017	2016 (Restated)
Operating activities:		
Net loss from continuing operations	$(45,452)	$(31,150)
Net loss from discontinued operations*	(16,134)	(1,186)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization expense	24,087	22,782
Discontinued operations non-cash and working capital adjustments*	26,183	1,295
Stock-based compensation	8,112	7,790
Contingent consideration obligation	(2)	5
Amortization of debt issuance costs	1,870	375
Accrued PIK interest	(2,752)	—
Earnings from equity method investments	(748)	—
Gain on disposals	(4,947)	—
Amortization of bond premium	91	373
Deferred income taxes	5,119	(47)
Non-cash interest on leased facility	269	229
Changes in operating assets and liabilities:		
Accounts receivable, net of allowance for doubtful accounts	9,320	(22,910)
Prepaid expenses and other current assets	(21,055)	20,194
Other assets	(4,925)	957
Accounts payable	11,082	8,317
Accrued expenses	(18,821)	(1,486)
Other liabilities	(39)	(7,662)
Deferred revenues	16,143	25,482
Net cash (used in) provided by operating activities	(12,599)	23,358
Investing activities:		
Purchases of fixed assets	(4,402)	(10,003)
Purchases of intangible assets and capitalized software	(2,409)	(1,346)
Proceeds from the sale of Speechcycle	13,500	—
Purchases of marketable securities available-for-sale	(219)	(8,598)
Maturities of marketable securities available-for-sale	3,975	12,565
Investing activities in discontinued operations*	(2,704)	—
Businesses acquired, net of cash	(815,008)	(86,482)
Net cash (used in) investing activities	(807,267)	(93,864)

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	Three Months Ended March 31, 2017	2016 (Restated)
Financing activities:		
Share-based compensation-related proceeds, net of taxes paid on withholding shares	2,406	1,755
Debt issuance costs related to the Credit Facility	(3,692)	—
Debt issuance costs related to long term debt	(19,887)	
Proceeds from issuance of long term debt	900,000	—
Borrowings on revolving line of credit	—	50,000
Repayment of revolving line of credit	(29,000)	—
Excess tax benefit from the exercise of stock options	—	—
Repurchases of common stock	—	(16,581)
Proceeds from sale of Treasury Shares	1,047	955
Payments on capital obligations	(664)	(253)
Net cash provided by financing activities	850,210	35,876
Effect of exchange rate changes on cash	(1,020)	(158)
Net increase (decrease) in cash and cash equivalents	29,324	(34,788)
Cash, restricted cash and cash equivalents at beginning of period	211,433	147,872
Cash, restricted cash and cash equivalents at end of period	$240,757	$113,084
Supplemental disclosures of cash flow information:		
Cash paid for income taxes	$1,488	$1,780
Cash paid for interest	$1,379	$1,533
Supplemental disclosures of non-cash investing and financing activities:		
Issuance of common stock in connection with Openwave acquisition	$—	$22,000
Issuance of common stock in connection with Intralinks acquisition	$4,700	$—
Cash and cash equivalents per the Consolidated Balance Sheets	$221,178	$86,782
Restricted cash per the Consolidated Balance Sheets	$19,579	$26,302
Total cash, cash equivalents and restricted cash	$240,757	$113,084

* See Note 4 - Acquisitions and Divestitures for transactions classified as discontinued operations.

See accompanying notes to condensed consolidated financial statements.

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SYNCHRONOSS TECHNOLOGIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED
(Amounts in tables in thousands, except for per share data or unless otherwise noted)

1. Description of Business

General

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

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

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

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

The Company’s products and platforms provide end-to-end seamless integration between customer-facing channels/applications, communication services, or devices and “back-office” infrastructure-related systems and processes. Synchronoss’ customers rely on these solutions and technology to automate the process of activation and content and settings management for their subscribers’ devices while delivering additional communication services. Synchronoss’ portfolio includes: cloud-based sync, backup, storage and content engagement capabilities, broadband connectivity solutions, analytics, white label messaging, identity/access management that enable communications service providers (“CSPs”), cable operators/multi-services operators (“MSOs”) and original equipment manufacturers (“OEMs”) with embedded connectivity (e.g. smartphones, laptops, tablets and mobile internet devices (“MIDs”) such as automobiles, wearables for personal health and wellness, and connected homes), multi-channel retailers, as well as other customers to accelerate and monetize value-add services for secure and broadband networks and connected devices.

2. Basis of Presentation and Consolidation

The condensed consolidated financial statements as of March 31, 2017 and for the three months ended March 31, 2017 and 2016 are unaudited, but in the opinion of management, include all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the Company’s financial position, results of operations and cash flows for the interim periods. They do not include all of the information and footnotes required by U.S. generally accepted accounting principles (“GAAP”) for complete financial statements and should be read in conjunction with the Company’s audited consolidated financial statements and related notes for 2017 and 2016 included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017, as they have been filed prior to this quarterly report on Form 10-Q and certain prior year amounts have been restated. Refer to Note 3 - Restatement of Previously Issued Consolidated Financial Statements and Note 14 - Subsequent Events Review for background on the restatement of previously issued financial statements and Nasdaq compliance, respectively. The results of operations for the three months ended March 31, 2017 are not necessarily indicative of the results to be expected for the year ended December 31, 2017.

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SYNCHRONOSS TECHNOLOGIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED
(Amounts in tables in thousands, except for per share data or unless otherwise noted)

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

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

Restricted Cash

Restricted cash includes amounts to various deposits, escrows and other cash collateral that are restricted by contractual obligation. The amounts held in escrow, related to the Company's guarantee of STIH's Third Party Note was $6.2 million as of March 31, 2017. During the quarter ended March 31, 2017, $23.8 million was released from escrow upon assignment of certain customer contracts contributed in the sale of our BPO business. Remaining amounts were primarily attributed to cash held in transit (see Note 6 - Investments in Affiliates and Related Transactions), and operating cash held by Zentry, which cannot be used to fulfill the obligations of the Company as a whole.

Recently Issued Accounting Standards

Recent accounting pronouncements adopted

Standard	Description	Effect on the financial statements
ASU 2017-04 Simplifying the Test for Goodwill Impairment	In January 2017, the Financial Accounting Standards Board ("FASB") issued guidance which eliminates Step 2 from the goodwill impairment test. Under the amendments in this Update, an entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Accounting Standard Update ("ASU") 2017-04 also eliminates the requirement for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. ASU 2017-04 is effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017.	The Company elected to early adopt this ASU for annual and interim goodwill impairment testing dates after January 1, 2017. The adoption of this ASU had no impact on the Company's consolidated financial statements.

Date of adoption:
January 1, 2020.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED
(Amounts in tables in thousands, except for per share data or unless otherwise noted)

Standard	Description	Effect on the financial statements
ASU 2017-01 Business Combinations (Topic 805), Clarifying the Definition of a Business	In January 2017, FASB changed its definition of a business in an effort to help entities determine whether a set of transferred assets and activities is a business. The guidance requires an entity to first evaluate whether substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets. If this threshold is met, the set of transferred assets and activities is not a business. If the threshold is not met, the entity evaluates whether the set meets the requirement that a business include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. The guidance narrows the definition of outputs by more closely aligning it with how outputs are described in the new revenue guidance. The guidance is effective for public business entities for annual periods beginning after 15 December 2017, and interim periods within those periods. For all other entities, it is effective for annual periods beginning after 15 December 2018, and interim periods within annual periods beginning after 15 December 2019. Early adoption is permitted.	The Company adopted this ASU on January 1, 2017 on a prospective basis. The adoption of this ASU had no impact on the Company's condensed consolidated financial statements.
Date of adoption: January 1, 2017.		
ASU 2016-18 Statement of Cash Flows (Topic 230)	In November 2016, the FASB issued ASU 2016-18, which amends the guidance in ASC 230, including providing additional guidance related to transfers between cash and restricted cash and how entities present, in their statement of cash flows, the cash receipts and cash payments that directly affect the restricted cash accounts. ASU 2016-18 is effective for annual reporting periods beginning after December 15, 2017, and interim periods within those years, with early adoption permitted.	The Company adopted this ASU on January 1, 2017 to each period presented and applied the changes to the condensed consolidated statements of cash flows.
Date of adoption: January 1, 2017.		
ASU 2016-17 Consolidation: Interest Held through Related Parties That Are under Common Control	In October 2016, the FASB issued ASU 2016-17, to amend the consolidation guidance on how a reporting entity that is the single decision maker of a variable interest entity should treat indirect interests in the entity held through related parties that are under common control within the reporting entity when determining whether it is the primary beneficiary of that variable interest entity. The standard is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted.	The Company adopted this ASU on January 1, 2017 on a prospective basis. The adoption of this ASU had no significant impact on the Company's condensed consolidated financial statements.
Date of adoption: January 1, 2017.		
ASU 2016-16 Intra-Entity Transfers of Assets	In October 2016, the FASB issued ASU 2016-16, which requires entities to recognize at the transaction date the income tax effects for intra-entity transfers of assets other than inventory. The standard is	The Company adopted this ASU on January 1, 2017 on a modified

Other Than Inventory Date of adoption: January 1, 2017.	effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted.	retrospective basis through a cumulative-effect adjustment directly to retained earnings of $3.2 million as of January 1, 2017.
ASU 2016-15 Statement of Cash Flows Date of adoption: January 1, 2017.	In August 2016, the FASB issued ASU 2016-15 which will make eight targeted changes to how cash receipts and cash payments are presented and classified in the statement of cash flows. ASU 2016-15 is effective for fiscal years beginning after December 15, 2017. ASU 2016-15 will require adoption on a retrospective basis unless it is impracticable to apply, in which case the Company would be required to apply the amendments prospectively as of the earliest date practicable.	The Company adopted this ASU on January 1, 2017 using a retrospective transition method. The adoption of this ASU had no impact on the Company’s condensed consolidated financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED
(Amounts in tables in thousands, except for per share data or unless otherwise noted)

Standards issued not yet adopted

Standard	Description	Effect on the financial statements
ASU 2017-09 Stock Compensation (Topic 718), Scope of Modification Accounting Date of adoption: January 1, 2018.	In May 2017, FASB issued guidance which clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. Entities will apply the modification accounting guidance if the value, vesting conditions or classification of the award changes. The guidance also clarifies that a modification to an award could be significant and therefore require disclosure, even if modification accounting is not required. ASU 2017-09 is effective for fiscal years, and interim periods within those years, beginning after December 31, 2017. Early adoption is permitted as of the beginning of an annual period for which financial statements have not been issued. ASU 2017-09 should be applied prospectively to an award modified on or after the adoption date.	The Company is currently evaluating the impact of the adoption of this ASU on its condensed consolidated financial statements.
ASU 2016-13 Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments Date of adoption: January 1, 2020.	In June 2016, the FASB issued ASU 2016-13 which replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The ASU is effective for public companies in annual periods beginning after December 15, 2019, and interim periods within those years. Early adoption is permitted beginning after December 15, 2018 and interim periods within those years.	The Company is currently evaluating the impact of the adoption of this ASU on its condensed consolidated financial statements.
ASU 2016-02 Leases (Topic 842) Date of adoption: January 1, 2019.	In February 2016, the FASB issued ASU 2016-02 which requires lessees to recognize, for all leases of 12 months or more, a liability to make lease payments and a right-of-use asset representing the right to use the underlying asset for the lease term. Additionally, the guidance requires improved disclosures to help users of financial statements better understand the nature of an entity's leasing activities. This ASU is effective for public reporting companies for interim and annual periods beginning after December 15, 2018, with early adoption permitted, and must be adopted using a modified retrospective approach.	The Company is in the process of evaluating the effect of the new guidance on its condensed consolidated financial statements and disclosures.

In May 2014, the FASB issued a new accounting standard related to revenue recognition, ASU 2014-09, "Revenue from Contracts with Customers," ("ASC 606" or "Topic 606"). The new standard supersedes the existing revenue recognition requirements under U.S. GAAP and requires entities to recognize revenue when they transfer control of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. It also requires increased disclosures regarding the nature, amount, timing, and uncertainty of revenues and cash flows arising from contracts with customers.

On January 1, 2018, we adopted Topic 606 applying the modified retrospective method to all contracts that were not completed as of January 1, 2018. We recorded a net reduction to opening retained earnings of approximately $10.1 million as of January 1, 2018 due to the cumulative impact of adopting Topic 606.

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

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

In connection with the adoption of Topic 606 and the related cost accounting guidance under ASC 340, we are required to capitalize certain contract acquisition costs consisting primarily of commissions and bonuses paid when contracts are signed. As of January 1, 2018, the date we adopted Topic 606, we capitalized $0.7 million in contract acquisition costs related to contracts that were not completed.

3. Restatement of Previously Issued Consolidated Financial Statements

The Company has restated its audited consolidated financial statements for the years ended December 31, 2016 and 2015 for the matters described below. The effects of these restatement adjustments on (i) the Company’s Consolidated Balance Sheet at December 31, 2016, (ii) the Company’s Consolidated Statement of Operations for the years ended December 31, 2016 and 2015, (iii) the Company’s Consolidated Statements of Comprehensive Income for the years ended December 31, 2016 and 2015, (iv) the Company’s Consolidated Statements of Stockholders’ Equity for the years ended December 31, 2016 and 2015 and (v) the Company’s Consolidated Statement of Cash Flows for the years ended December 31, 2016 and 2015 are presented in the Company’s 2017 Form 10-K.

The effects of the restatement adjustments on the Company’s unaudited Condensed Consolidated financial statements as of March 31, 2016 and for the three month period then ended are reflected in the tables below.

The individual restatement matters that underlie the restatement adjustments are described below.

Revenue Recognition Adjustments Related to Hosting Services

The Company typically sells hosting services to its subscription services customers, as well as to certain software license customers. As part of the Company’s review of its historical accounting, it has determined that adjustments are required related to certain transactions in each of these two categories of customers that purchase hosting services.

It was observed that in certain instances, the Company has historically entered into hosting arrangements that included various components to the fee structure with certain fees accelerated during the initial years of the arrangement. Historically, the Company recognized the accelerated fees as billed and maintenance and support fees were recognized on a straight-line basis through the term of the arrangement. However, the Company has determined to revise its accounting treatment for certain hosting services to reflect revenue recognition on a straight-line basis for such fees over the appropriate period of time during which (i) the benefits of hosting services were provided to the customer or (ii) the customer benefited from the set-up fees. The revised accounting treatment for the revenue recognition is reflected in the restated consolidated financial statements, whereby there has been a deferral of a portion of the accelerated fees out of the initial period of the arrangement, and recognition of those deferred amounts in the later periods of the hosting services arrangement.

In the case of certain perpetual software license customers, the Company historically recognized the perpetual software license fee revenue on an upfront basis. The Company has determined to revise its accounting treatment of that software license fee revenue to recognize it ratably over a period of time due to the inclusion of hosting services, as part of the same multiple element arrangement. In certain of these cases, the Company had entered into a separate hosting services contract with the customer that the Company has now determined should have been combined with the software license agreement and treated as part of a larger multiple element arrangement.

In accordance with the software revenue recognition rules, since the Company cannot establish vendor specific objective evidence of fair value of the hosting services, the software license element cannot be separated from the hosting services. The

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revised accounting treatment for the revenue recognition is reflected in the restated consolidated financial statements, whereby the bundled arrangement fees have been recognized ratably over the economic life of the hosting services.

Revenue Recognition Adjustments Related to Establishing Persuasive Evidence of an Arrangement and Other Revenue Adjustments

The Company historically has had, and continues to have, contractual arrangements with certain customers whereby there is an established master services agreement that includes general terms and conditions. Such master services agreements contemplate the delivery by the customer of purchasing documentation for purposes of completing orders, indicating the nature, price and quantity of products and services ordered. In certain cases, the Company historically formed a view that persuasive evidence of an arrangement existed relating to such orders based upon its receipt from a customer of written confirmation of the order and commitment to pay the agreed price, such as a quote approval sent by the customer in response to a quote issued by the Company, but prior to that customer's subsequent delivery to the Company an executed statement of work or, in some instances, a purchase order, pursuant to a master services agreement.

The Company has determined, in certain situations, to revise the timing of revenue recognition to when it received final formal contract documentation, which occurred in a future period. In those cases where the adjustment to defer revenue has been recorded prior to when cash payment was received from the customer, the balance sheet impact has been to reduce the related accounts receivable balance, whereas the balance sheet impact of these adjustments after the receipt of cash payment from the customer has been to increase accrued liabilities.

The Company also adjusted revenue recognition in connection with certain other transactions, including (i) where the payment obligation on the date of sale was found not to have been fixed and determinable; (ii) where collectability was not reasonably assured; (iii) where the software delivered to the customer was ultimately deemed not to have met acceptance criteria; or (iv) where formal acceptance was not obtained.

In certain situations, these adjustments represent issues related to the timing of revenue recognition, while in other cases, these adjustments represent amounts that had subsequently been written-off to bad debt expense (whereby now both the revenue and the related bad debt expense has been reversed).

Adjustments Related to Accounting for Acquisitions and Divestiture

The Company has identified and corrected errors related to fees received under license agreements entered into with parties of certain historical acquisitions and a divestiture. In each case, the Company had originally treated the license agreement as a separate transaction and recorded the license fees on a gross basis as revenue. The Company has determined to revise its accounting treatment of the license arrangements, to record the license fees as part of the accounting for the acquisition or divestiture, as follows:

- In certain cases, the Company entered into a license agreement as part of settling prior intellectual property infringement claims against an acquired entity and/or its selling parent company and affiliates. Historically, the Company had recognized these license fees separately as revenue. However, the Company has determined to net these license fees against the consideration paid as part of the acquisitions, resulting in a reduction of the goodwill and/or intangible assets recorded in purchase accounting.
- The Company's consolidated joint venture Zentry LLC ("Zentry") and the Company's partner in that joint venture entered into a license agreement in December 2015 at the same time as the formation of the joint venture. Historically, the

Company recorded the license fees as revenue separately from the Zentry formation. The Company has determined to net these license fees against the cash contributions paid as part of the joint venture formation, resulting in a reduction of the goodwill and intangible assets recorded in purchase accounting.

- The Company entered into a licensing agreement in December 2016 with Sequential Technology International, LLC ("STIN") shortly after closing the divestiture of its activation business to Sequential Technology International Holdings, LLC ("STIH"). Historically, the Company recorded the license fees as revenue separately from the accounting for the divestiture. The Company has determined to classify these license fees as additional gain on sale of the activation exception handling business.
- The Company made adjustments to reduce the contingent consideration payable to shareholders of Razorsight Corporation ("Razorsight"), which was acquired by the Company in August 2015, and the related losses previously recorded to adjust that liability to fair value, as a result of the determination that many of the sales of Razorsight software that had originally been included in the earn-out calculation have now been adjusted as part of the restatement.

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- The Company made adjustments to record the fair value of the Company's guarantee of certain of STIN's debt as part of the divestiture of its activation exception handling business to STIH in December 2016, to record the sellers note extended in the transaction at fair value, and to adjust certain receivables and other assets sold in the transaction.
- The Company made certain adjustments to the opening balances of Openwave Messaging, Inc. ("Openwave") and SNCR, LLC ("SNCR, LLC"); impacting deferred revenue, goodwill and intangibles. Adjustments in deferred revenue and intangibles resulted were reported post-acquisition as revenues and costs were realized.

Other Adjustments and Capitalized Software

The Company also identified and corrected certain errors in the amounts reported as capitalized software development. These adjustments were primarily around (i) the recognition of impairment or immediate expensing of certain previously capitalized software development costs and (ii) revisions of amounts capitalized and the timing of when such capitalized costs are amortized. Adjustments pertaining to capitalized software development were driven primarily due to misalignment on the unit of account being measured in tracking project progress and ultimately general release as well as the appropriateness of the capitalization of certain administrative costs.

The Company also identified and corrected certain other errors, primarily due to timing of recognition of (i) stock-based compensation arrangements, (ii) accruals and reserves, (iii) noncontrolling interests and (iv) impairment charges. Impairment charges were primarily due to long-lived asset impairments realized on SNCR, LLC assets, due to continued delays in product development and sales. Additionally, the Company identified certain prior year balance sheet classification adjustments requiring, the most significant of which, a reclassification between cash and restricted cash due to certain contractual restrictions on cash balances, and reclassifications between treasury stock and additional paid-in-capital due to share issuances from the Company's common stock pool, rather than its treasury stock.

Income Taxes

The Company recorded adjustments to income taxes to reflect the impact of the restatement adjustments, as well as a discrete tax adjustment to record a valuation allowance at a specific foreign jurisdiction in an earlier year than originally recorded. See Note 11 - Income Taxes for discussion of the related impact to the Company's effective tax rate.

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SYNCHRONOSS TECHNOLOGIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED
(Amounts in tables in thousands, except for per share data or unless otherwise noted)

The following table presents the Condensed Consolidated Balance Sheet as previously reported, restatement adjustments and the Condensed Consolidated Balance Sheet as restated at December 31, 2016:

		Adjustments					
	As Previously Reported **	Revenue - Hosting	Revenue - Evidence of Arrangement and Other Revenue	Acquisitions & Divestiture	Capitalized Software and Other	Income Taxes	As Restated
ASSETS							
Current assets:							
Cash and cash equivalents	$ 181,018	$ —	$ —	$ —	$ (11,217)	$ —	$ 169,801
Restricted cash	—	—	—	—	41,632	—	41,632
Marketable securities	12,506	—	—	—	—	—	12,506
Accounts receivable, net	137,233	(344)	(36,509)	7,896	(802)	—	107,474
Prepaid expenses and other assets	33,696	—	—	1,408	(1,166)	4,339	38,277
Total current assets	364,453	(344)	(36,509)	9,304	28,447	4,339	369,690
Restricted cash	30,000	—	—	—	(30,000)	—	—
Marketable securities	2,974	—	—	—	—	—	2,974
Property and equipment, net	155,599	—	—	(823)	3,429	—	158,205
Goodwill	269,905	—	—	(41,358)	—	(3,896)	224,651
Intangible assets, net	203,864	—	—	(19,830)	(21,066)	—	162,968
Deferred tax assets	1,503	—	—	—	—	11,783	13,286
Other assets	7,541	—	—	(70)	1,187	—	8,658
Note receivable from related party	83,000	—	—	(12,731)	—	—	70,269
Equity method investment	45,890	—	—	(2,240)	—	—	43,650
Total Assets	1,164,729	(344)	(36,509)	(67,748)	(18,003)	12,226	1,054,351

** Certain amounts reflected in this column have been adjusted for retrospective application of discontinued operations.

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SYNCHRONOSS TECHNOLOGIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED
(Amounts in tables in thousands, except for per share data or unless otherwise noted)

		Adjustments					
	As Previously Reported **	Revenue - Hosting	Revenue - Evidence of Arrangement and Other Revenue	Acquisitions & Divestiture	Capitalized Software and Other	Income Taxes	As Restated
Current liabilities:							
Accounts payable	$15,770	$—	$—	$—	$1,287	$—	$17,057
Accrued expenses	69,435	—	5,274	971	246	956	76,882
Deferred revenues	27,542	33,398	(151)	(3,360)	1	—	57,430
Contingent consideration obligation	11,860	—	—	(9,027)	—	—	2,833
Short-term debt	29,000	—	—	—	—	—	29,000
Total current liabilities	153,607	33,398	5,123	(11,416)	1,534	956	183,202
Lease financing obligation - long term	12,121	—	—	41	288	—	12,450
Convertible debt, net of debt issuance costs	226,291	—	—	—	—	—	226,291
Deferred tax liability	49,822	—	—	—	—	(46,314)	3,508
Deferred revenues	12,134	52,965	531	—	—	—	65,630
Other liabilities	3,783	—	—	—	1,679	2,731	8,193
Redeemable noncontrolling interests	49,856	—	—	(28,813)	4,237	—	25,280
Commitments and contingencies							
Common stock	5	—	—	—	—	—	5
Treasury stock	(95,183)	—	—	—	(11,448)	—	(106,631)
Additional paid-in capital	575,093	—	—	(7,667)	3,727	—	571,153
Accumulated other comprehensive loss	(43,253)	—	658	—	138	107	(42,350)
Retained earnings	220,453	(86,707)	(42,821)	(19,893)	(18,158)	54,746	107,620
Total stockholders' equity	657,115	(86,707)	(42,163)	(27,560)	(25,741)	54,853	529,797
Total liabilities & stockholders' equity	$1,164,729	$(344)	$(36,509)	$(67,748)	$(18,003)	$12,226	$1,054,351

** Certain amounts reflected in this column have been adjusted for retrospective application of discontinued operations.

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SYNCHRONOSS TECHNOLOGIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED
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The following table presents the Condensed Consolidated Statement of Operations as previously reported, restatement adjustments and the Condensed Consolidated Statement of Operations as restated for the three months ended March 31, 2016:

		Adjustments					
	As Previously Reported**	Revenue - Hosting	Revenue - Evidence of Arrangement and Other Revenue	Acquisitions & Divestiture	Capitalized Software and Other	Income Taxes	As Restated
Net revenues	$ 104,219	$ 2,119	$ (18,086)	$ (10,006)	$ —	$ —	$ 78,246
Costs and expenses:							
Cost of revenues*	46,448	—	—	(1)	(296)	—	46,151
Research and development	24,097	—	—	—	1,730	—	25,827
Selling, general and administrative	26,923	—	—	84	(1,093)	—	25,914
Net change in contingent consideration obligation	341	—	—	(336)	—	—	5
Restructuring charges	2,910	—	—	—	—	—	2,910
Depreciation and amortization	24,055	—	—	(1,111)	(162)	—	22,782
Total costs and expenses	124,774	—	—	(1,364)	179	—	123,589
Loss from continuing operations	(20,555)	2,119	(18,086)	(8,642)	(179)	—	(45,343)
Interest income	630	—	—	—	—	—	630
Interest expense	(1,576)	—	—	—	—	—	(1,576)
Other expense, net	(884)	—	503	—	—	—	(381)
Loss from continuing operations, before taxes	(22,385)	2,119	(17,583)	(8,642)	(179)	—	(46,670)
Benefit for income taxes	361	—	—	—	—	15,159	15,520
Net loss from continuing operations	(22,024)	2,119	(17,583)	(8,642)	(179)	15,159	(31,150)
Net income (loss) from discontinued operations, net of tax	10,941	—	(2,111)	—	—	(10,016)	(1,186)
Net loss	(11,083)	2,119	(19,694)	(8,642)	(179)	5,143	(32,336)
Net loss attributable to redeemable noncontrolling interests	(3,129)	—	—	—	122	—	(3,007)
Net loss attributable to Synchronoss	$ (7,954)	$ 2,119	$ (19,694)	$ (8,642)	$ (301)	$ 5,143	$ (29,329)
Basic:							
Continuing operations	$ (0.44)						$ (0.65)
Discontinued operations	0.26						(0.03)
	$ (0.18)						$ (0.68)
Diluted:							
Continuing operations	$ (0.44)						$ (0.65)
Discontinued operations	0.26						(0.03)
	$ (0.18)						$ (0.68)
Weighted-average common shares outstanding:							
Basic	43,423						43,423
Diluted	43,423						43,423

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

** Certain amounts reflected in this column have been adjusted for retrospective application of discontinued operations.

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SYNCHRONOSS TECHNOLOGIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED
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The following table presents the Condensed Consolidated Statement of Comprehensive Income (Loss) as previously reported, restatement adjustments and the Condensed Consolidated Statement of Comprehensive Income (Loss) as restated for the three months ended March 31, 2016:

		Adjustments					
	As Previously Reported**	Revenue - Hosting	Revenue - Evidence of Arrangement and Other Revenue	Acquisitions & Divestiture	Capitalized Software and Other	Income Taxes	As Restated
Net loss	$ (11,083)	$2,119	$ (19,694)	$ (8,642)	$ (179)	$5,143	$(32,336)
Other comprehensive income (loss), net of tax:							
Foreign currency translation adjustments	9,668	—	(224)	—	19	—	9,463
Unrealized gain (loss) on available for sale securities	20	—	—	—	—	—	20
Net income (loss) on intra-entity foreign currency transactions	(262)	—	—	—	—	—	(262)
Total other comprehensive income (loss), net of tax	9,426	—	(224)	—	19	—	9,221
Comprehensive income (loss)	(1,657)	2,119	(19,918)	(8,642)	(160)	5,143	(23,115)
Comprehensive income (loss) attributable to redeemable noncontrolling interests	(3,129)	—	—	—	122	—	(3,007)
Comprehensive income (loss) attributable to Synchronoss	$ 1,472	$2,119	$ (19,918)	$ (8,642)	$ (282)	$5,143	$(20,108)

** Certain amounts reflected in this column have been adjusted for retrospective application of discontinued operations.

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SYNCHRONOSS TECHNOLOGIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED
(Amounts in tables in thousands, except for per share data or unless otherwise noted)

The following table presents the Condensed Consolidated Statement of Cash Flows as previously reported, adjustments, and the Condensed Consolidated Statement of Cash Flows as restated for the three months ended March 31, 2016:

	As Previously Reported	Adjustments	As Restated
Operating activities:			
Net loss from continuing operations	$(22,024)	$ (9,126)	$(31,150)
Net income (loss) from discontinued operations	10,941	(12,127)	(1,186)
Adjustments to reconcile net loss to net cash provided by operating activities:	38,770	(5,968)	32,802
Changes in operating assets and liabilities:	9,421	13,471	22,892
Net cash provided by operating activities	37,108	(13,750)	23,358
Investing activities:			
Net cash used in investing activities	(107,614)	13,750	(93,864)
Financing activities:			
Net cash provided by financing activities	35,876	—	35,876
Effect of exchange rate changes on cash	80	(238)	(158)
Net decrease in cash and cash equivalents	(34,550)	(238)	(34,788)
Cash, restricted cash and cash equivalents at beginning of period	147,634	238	147,872
Cash, restricted cash and cash equivalents at end of period	113,084	—	113,084
Cash and cash equivalents per the Condensed Consolidated Balance Sheet	113,084	(26,302)	86,782
Restricted cash per the Condensed Consolidated Balance Sheet	—	26,302	26,302
Total cash, cash equivalents and restricted cash	$113,084	$ —	$113,084
Supplemental disclosures of cash flow information:			
Cash paid for income taxes	1,780	—	1,780
Cash paid for interest	$1,533	$ —	$1,533

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

4. Acquisitions and Divestitures

Acquisitions

2017 Transactions

Intralinks

On January 19, 2017, the Company purchased all outstanding shares of Intralinks Holdings, Inc. (“Intralinks”). In connection with the acquisition, the Company entered into a $900.0 million senior secured term loan (the “2017 Term Facility”), as of the date of acquisition. Intralinks is a global technology provider of Software as a service (“SaaS”) solutions for secure enterprise content collaboration within and among organizations. Intralinks’ cloud-based solutions enable organizations to securely manage, control, track, search, exchange and collaborate on sensitive information inside and outside the firewall. The total purchase price consideration consisted of the repayment of existing Intralinks indebtedness, and non-cash consideration for services rendered on unvested Intralinks equity awards that were converted into the Company equity awards on the acquisition date. The acquisition was primarily funded from the proceeds of the $900.0 million credit agreement as of the date of acquisition (See Note 7 - Debt for further discussion regarding the credit agreement).

The following is a summary of the components of the consideration transferred as part of the acquisition:

Cash consideration for outstanding Intralinks' common shares	$746,071
Cash consideration for accelerated equity awards to Intralinks' employees upon change in control	7,873
Cash consideration for vested unexercised Intralinks' stock options	19,838
Cash consideration for existing Intralinks' debt	77,800
Cash consideration for shareholders purchase price settlement	2,794
Total cash consideration transferred	854,376
Fair value of replacement awards	4,702
Total consideration transferred	$859,078

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SYNCHRONOSS TECHNOLOGIES, INC.
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The purchase price allocation as of the date of the acquisition was as follows:

	Weighted Average Life in Years	Purchase Price Allocation
Cash		$ 39,370
Accounts receivable		46,182
Prepaid expenses and other assets		9,775
Property and equipment, net	4	14,075
Goodwill		482,822
Intangible Assets:		
Developed technology	6	79,400
Capitalized software costs	1	277
Trade name	18	47,800
Customer relationships	10	284,100
		411,577
Other assets, long-term		3,865
Investment in unconsolidated affiliate		5,800
Total assets acquired		1,013,466
Accounts payable		4,853
Accrued expenses		21,421
Deferred revenues, short-term		12,449
Deferred tax liability		110,044
Deferred revenues, long-term		1,051
Other liabilities, long-term		4,570
Total liabilities		154,388
Net assets acquired		$ 859,078

The goodwill recorded in connection with this acquisition was primarily attributed to 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.

Assets Held For Sale Classification

In the second quarter of 2017, the Company received a non-binding indication of interest from Siris to acquire the Company and the Company's Board of Directors decided to explore a broad range of strategic alternatives to a sale of the Company, which included the sale of Intralinks. With the closing of the Intralinks Transaction on November 14, 2017, and as a result of this plan of disposal, the assets and liabilities of Intralinks have been classified as held for sale in our Consolidated Condensed Balance Sheet at March 31, 2017. The Company has also presented the operations of the business as discontinued operations in the Consolidated Condensed Statement of Operations for the three months ended March 31, 2017 to provide consistent presentation with our recently filed Form 10-K for the year ended December 31, 2017 and with our subsequent filings of all of the Company's quarterly reports on Form 10-Q in 2017, following the filing of our annual report on Form 10-K for the year ended December 31, 2017. The Company's election to disclose such amounts as held for sale are due to continued reporting delays of this Form 10-Q as part of the Company's restatement process.

2016 Transactions

Openwave Messaging, Inc. ("Openwave")

On March 1, 2016, the Company acquired all outstanding shares of Openwave for $114.5 million, net of working capital adjustments and liabilities assumed, comprised of $92.5 million paid in cash and $22.0 million paid in shares of the Company's common stock, based upon the average market value of the common stock for the ten trading days prior to the acquisition date.

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Openwave's product portfolio includes its core complete messaging platform optimized for today's most complex messaging requirements worldwide with a particular geographic strength in Asia-Pacific. With this acquisition and combined with Synchronoss' current global footprint, Synchronoss will have increased direct access to subscribers around the world for the Synchronoss Personal Cloud™ platform and bolster the Company's go-to-market efforts internationally.

In connection with the acquisition of Openwave, the Company entered into $10.0 million patent settlement agreement. The Company determined that the transaction was negotiated in the overall consideration paid for the purchase of Openwave, and as result, the proceeds were reflected as a reduction in the Company's purchase price.

The following is a summary of the components of the consideration transferred as part of the acquisition:

	(Restated)
Cash consideration for outstanding common shares	$102,538
Issuance of Common Stock	22,000
Intellectual Property Settlement	(10,000)
Total consideration transferred	114,538
Issuance of Common Stock	(22,000)
Cash Consideration Transferred	$92,538

The Company determined the fair value of the net assets acquired as follows:

(Restated)	Purchase Price Allocation	
Cash	$ 4,110	
Prepaid expenses and other assets	3,005	
Property, Plant & Equipment	2,882	
Long term assets	1,870	
Intangible assets:		Wtd. Avg.
Trade name	1,000	1 year
Technology	32,100	7 years
Customer relationships	29,000	10 years
Goodwill	81,015	
Total assets acquired	154,982	
Accounts payable and accrued liabilities	17,622	
Deferred revenues	7,331	
Long term liabilities	15,491	
Net assets acquired	$ 114,538	

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

Total acquisition-related costs recognized during the three months ended March 31, 2017 and 2016 including transaction costs such as legal, accounting, valuation and other professional services, were $11.8 million and $1.3

million, respectively, and are included in selling, general and administrative expense in the Condensed Consolidated Statements of Operations.

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SYNCHRONOSS TECHNOLOGIES, INC.
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Divestitures

2017 Transactions

SpeechCycle

On February 1, 2017 the Company completed a divestiture of its SpeechCycle business, to an unrelated third party, for consideration of $13.5 million. As part of the divestiture, the Company entered into a one year transition services agreement with the acquiring company to support various indirect activities such as customer software support, technical support services, maintenance and general administrative support services.

The Company recorded a pre-tax gain of $4.9 million as a result of the divestiture which is included in other income (expense), net in the Condensed Consolidated Statement of Operations.

2016 Transactions

Sequential Technology International, LLC (“STIN”)

On December 16, 2016, Synchronoss completed a divestiture of a portion of its business process outsourcing (“BPO”) carrier activation business to a newly formed entity named STIN which had a total value of $140.8 million. As part of the sales arrangement, Synchronoss will retain a 30% investment in STIN. Sequential Technology International Holdings, LLC (“STIH”), an unrelated third party that was formerly named Omniglobe International LLC, will own the remaining 70% of STIN. STIH financed the purchase of these assets through cash of $27.3 million (including $10.0 million of license), a new term loan with Goldman Sachs Bank (“Goldman”), and a related party subordinated seller’s note receivable with a par value of $83.0 million issued by Synchronoss, which is secured by STIH’s interest in STIN. The sellers note was issued at a discount, with a transaction value of $69.8 million. The sellers note earns interest at a rate of LIBOR plus 1100 bps per annum and matures on June 16, 2022. On December 22, 2016, the Company entered into a non-exclusive perpetual license agreement with STIH, for the consideration of $10.0 million. The Company determined that the license agreement was negotiated with the sale, and in the overall consideration paid for the purchase of STIN, and as a result, the proceeds from sale of the perpetual license were reflected as additional consideration received from the sale of its BPO business, resulting in additional gain recognized on the sale.

Additionally, as part of its divestiture, the Company provided a guarantee to Goldman for $30.0 million of the $40.0 million in senior debt extended by Goldman to STIH which is referenced as the Third Party Note in Note 6 - Investments in Affiliates and Related Transactions.” The Company recognized the guarantee on the date of the transaction as a reduction in the gain on sale in the amount of $0.6 million.

The Company and STIH agreed to a put and call option in regards to the Company’s equity interest in STIN. The Company will have the right to exercise a put option at any time to sell its interest in STIN, at the fair market value determined at the date of exercise. Additionally, STIH will have the right to exercise a call option at any time to purchase the interest in STIN at the fair market value determined at the date of exercise.

The Company determined that the put and call options are embedded within the host contract and do not require bifurcation and separate accounting treatment. STIN has been determined to be a VIE of which the Company is not the primary beneficiary.

As part of the divestiture, Synchronoss entered into a three year MSA with STIN to provide for access to certain platforms, and assets necessary to perform certain tasks, as part of the exception handling process. See Note 6 - Investments in Affiliates and Related Transactions.

SYNCHRONOSS TECHNOLOGIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED
(Amounts in tables in thousands, except for per share data or unless otherwise noted)

The following is a summary of the operating results of BPO which have been reflected within income from discontinued operations, net of tax:

	Three Months Ended March 31, 2016 (Restated)
Net revenues	$ 36,356
Costs and expenses:	
Cost of services	21,858
Selling, general and administrative	719
Total costs and expenses	22,577
Income from discontinued operations before taxes	13,779
Provision for income taxes	(14,965)
Discontinued operations, net of taxes	$ (1,186)

The financial results reflected above may not represent the BPO's stand-alone operating results, as the results reported within income from discontinued operations, net of tax only include certain costs that are directly attributable to the BPO and exclude certain overhead costs that were previously allocated to the BPO for each period.

Mirapoint

On December 29, 2016, the Company completed the divestiture of the Company's Mirapoint business to an unrelated third party and recorded a gain of $1.4 million on the sale, which is included in other income (expense), net in the Condensed Consolidated Statements of Operations.

Subsequent Events - Divestiture of Intralinks

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

Subject to the terms and conditions set forth in the Share Purchase Agreement, dated as of October 17, 2017 (the "Share Purchase Agreement"), among Synchronoss, Intralinks and Impala Private Holdings II, LLC, an affiliate of Siris ("Impala"), a related party, due to its significant interest in common stock. Impala agreed to acquire from the Company the issued and outstanding shares of common stock of Intralinks for approximately $977.3 million in cash plus a potential contingent payment of up to $25.0 million, subject to an adjustment for cash, debt and working capital (the "Intralinks Transaction"). The total amount of funds used to complete the Intralinks Transaction and related transactions and pay related fees and expenses was approximately $1.0 billion, which was funded through a combination of equity and debt financing obtained by Impala.

Under the terms of the Share Purchase Agreement, the Company also provided Siris with a Siris Put Right (“Siris Put Right”), which would allow Silver to put shares held at the time, to Synchronoss at price of $14.56 per share, or $87.3 million in the aggregate. The Company determined that the Call option on the issuance of preferred and the Siris Put Right, together, represented one mandatorily redeemable financial instrument with a fair value of $33.6 million, which reduced the gain on sale of Intralinks.

At the closing of the Intralinks Transaction on November 14, 2017, Impala acquired all of the issued and outstanding shares of Intralinks for approximately $991.0 million in cash, subject to post-closing adjustments for changes in cash, debt and working capital. If, in the future, Impala receives net cash proceeds in excess of $440.0 million from any sale of equity or assets of Intralinks, or a dividend or distribution in respect of the shares of Intralinks, then Impala is required to pay the Company up to an additional $25.0 million in cash or publicly traded securities. Immediately following the consummation of the Intralinks Transaction, the

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Company paid to Impala $5.0 million as partial reimbursement of the out-of-pocket fees and expenses incurred by Impala, Siris and their respective affiliates in connection with the execution of the Share Purchase Agreement and the Intralinks Transaction. Amounts reimbursed were recorded as a reduction to the gain on sale.

In accordance with the terms of the Share Purchase Agreement, dated as of October 17, 2017 (the “PIPE Purchase Agreement”), with Silver Private Holdings I, LLC, an affiliate of Siris (“Silver”), on February 15, 2018, we issued to Silver 185,000 shares of our newly issued Series A Convertible Participating Perpetual Preferred Stock (the “Series A Preferred Stock”), par value $0.0001 per share, with an initial liquidation preference of $1,000 per share, in exchange for $97.7 million in cash and the transfer from Silver to us of the 5,994,667 shares of our common stock held by Silver (the “Preferred Transaction”). In connection with the issuance of the Series A Preferred Stock, we (i) filed a Certificate of Designation with the State of Delaware setting forth the rights, preferences, privileges, qualifications, restrictions and limitations on the Series A Preferred Stock (the “Series A Certificate”) and (ii) entered into an Investor Rights Agreement with Silver setting forth certain registration, governance and preemptive rights of Silver with respect to us (the “Investor Rights Agreement”). See Note 9 - Stockholder’s Equity for further discussion.

The following is a summary of the operating results of Intralinks during the quarter ended March 31, 2017, which have been reflected within income from discontinued operations, net of tax:

Net revenues	$39,259
Costs and expenses:	
Cost of services	8,756
Research and development	5,423
Selling, general and administrative	29,468
Net change in contingent consideration obligation	—
Restructuring charges	8,026
Depreciation and amortization	10,138
Total costs and expenses	61,811
Loss from discontinued operations	(22,552)
Other income, net	270
Loss from discontinued operations, before taxes	(22,282)
Benefit for income taxes	6,148
Discontinued operations, net of taxes	$(16,134)

Subsequent Events - SNCR, LLC

During the fourth quarter of 2017, the Company entered into a termination agreement with Goldman to terminate the venture with Goldman, referred to as SNCR, LLC, and provide a perpetual, irrevocable license of the venture’s intellectual property for use in Goldman’s back-office. As part of the agreement, the Company was relieved of any future obligations to support Goldman’s use of the software. As a result, the Company recognized impairment charges of $1.0 million during the fourth quarter of 2017 upon the venture’s termination. The venture formally ended in the first quarter of 2018 resulting in the elimination of the associated redeemable noncontrolling interest balance of the first quarter of 2018, and an increase to Additional Paid In Capital balance of $12.8 million.

5. Fair Value Measurements of Assets and Liabilities

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

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

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

	March 31, 2017			
	Total	(Level 1)	(Level 2)	(Level 3)
Assets				
Cash, cash equivalents and restricted cash (1)	$240,757	$240,757	$—	$—
Marketable securities-short term (2)	9,963	—	9,963	—
Marketable securities-long term (2)	1,680	—	1,680	—
Total assets	$252,400	$240,757	$11,643	$—
Liabilities				
Contingent interest derivative (3)	$288	$—	$—	$288
Contingent consideration obligation	2,831	—	—	2,831
Total liabilities	$3,119	$—	$—	$3,119
Temporary Equity				
Redeemable noncontrolling interests (4)	$25,280	$—	$—	$25,280
Total temporary equity	$25,280	$—	$—	$25,280

	December 31, 2016			
	Total	(Level 1)	(Level 2)	(Level 3)
Assets	(Restated)			
Cash, cash equivalents and restricted cash (1)	$211,433	$211,433	$—	$—
Marketable securities-short term (2)	12,506	—	12,506	—
Marketable securities-long term (2)	2,974	—	2,974	—
Total assets	$226,913	$211,433	$15,480	$—
Liabilities				
Contingent consideration obligation	$2,833	$—	$—	$2,833
Total liabilities	$2,833	$—	$—	$2,833
Temporary Equity				
Redeemable noncontrolling interests (4)	$			