

Synacor, Inc.
Form 10-Q
May 14, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2015

OR

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

For the transition period from _____ to _____

Commission File Number 001-33843

Synacor, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

40 La Riviere Drive, Suite 300

Buffalo, New York
(Address of principal executive offices)

(716) 853-1362

16-1542712
(I.R.S. Employer

Identification No.)

14202
(Zip Code)

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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 (Do not check if a smaller reporting company)

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

As of May 8, 2015, there were 27,728,568 shares of the registrant's common stock outstanding.

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Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****SYNACOR, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS UNAUDITED****AS OF DECEMBER 31, 2014 AND MARCH 31, 2015**

(In thousands except for share and per share data)

| | December 31, 2014 | March 31, 2015 |
|--|----------------------|-------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 25,600 | \$ 26,750 |
| Accounts receivable, net | 20,479 | 19,276 |
| Preferred expenses and other current assets | 2,292 | 2,315 |
| Total current assets | 48,371 | 48,341 |
| PROPERTY AND EQUIPMENT, NET | 15,128 | 14,528 |
| OTHER LONG-TERM ASSETS | 101 | 74 |
| GOODWILL | 1,565 | 1,565 |
| INVESTMENTS | 1,073 | 1,041 |
| TOTAL ASSETS | \$ 66,238 | \$ 65,549 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ 12,545 | \$ 13,490 |
| Accrued expenses and other current liabilities | 8,403 | 7,150 |
| Current portion of capital lease obligations | 1,150 | 1,101 |
| Total current liabilities | 22,098 | 21,741 |
| LONG-TERM PORTION OF CAPITAL LEASE OBLIGATION | 1,383 | 1,436 |
| OTHER LONG-TERM LIABILITIES | 275 | 227 |
| TOTAL LIABILITIES | 23,756 | 23,404 |
| Commitments and Contingencies (Note 6) | | |
| STOCKHOLDERS EQUITY: | | |
| Common stock, \$0.01 par value 100,000,000 authorized, 27,944,853 issued and 27,391,709 shares outstanding at December 31, 2014 and 28,011,390 issued and 27,432,463 outstanding at March 31, 2015 | 279 | 279 |

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| | | |
|--|------------------|------------------|
| Preferred stock, \$0.01 par value 10,000,000 shares authorized, no shares issued and outstanding at December 31, 2014 and March 31, 2015 | | |
| Treasury stock, at cost, 553,144 shares at December 31, 2014 and 578,927 shares at March 31, 2015 | (1,142) | (1,197) |
| Additional paid-in capital | 105,961 | 106,761 |
| Accumulated deficit | (62,636) | (63,709) |
| Accumulated other comprehensive income | 20 | 11 |
| Total stockholders equity | 42,482 | 42,145 |
| TOTAL LIABILITIES AND STOCKHOLDERS EQUITY | \$ 66,238 | \$ 65,549 |

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents**SYNACOR, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS UNAUDITED****FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND 2015**

(In thousands except for share and per share data)

| | Three months ended March 31, | |
|---|---|-------------------|
| | 2014 | 2015 |
| REVENUE | \$ 25,248 | \$ 26,730 |
| COSTS AND OPERATING EXPENSES: | | |
| Cost of revenue (exclusive of depreciation shown separately below) | 13,876 | 14,403 |
| Technology & Development (exclusive of depreciation shown separately below) | 7,492 | 4,866 |
| Sales and marketing | 2,137 | 3,562 |
| General and administrative (exclusive of depreciation shown separately below) | 3,099 | 3,374 |
| Depreciation | 1,058 | 1,496 |
| Total costs and operating expenses | 27,662 | 27,701 |
| LOSS FROM OPERATIONS | (2,414) | (971) |
| OTHER INCOME (EXPENSE) | 8 | (16) |
| INTEREST EXPENSE | (88) | (50) |
| LOSS BEFORE INCOME TAXES AND EQUITY INTEREST | (2,494) | (1,037) |
| (BENEFIT) PROVISION FOR INCOME TAXES | (684) | 4 |
| LOSS ON EQUITY INTEREST | (246) | (32) |
| NET LOSS | \$ (2,056) | \$ (1,073) |
| NET LOSS PER SHARE: | | |
| Basic | \$ (0.07) | \$ (0.04) |
| Diluted | \$ (0.07) | \$ (0.04) |
| WEIGHTED AVERAGE SHARES USED TO COMPUTE NET LOSS PER SHARE: | | |
| Basic | 27,434,374 | 27,407,147 |
| Diluted | 27,434,374 | 27,407,147 |

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents**SYNACOR, INC.****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS UNAUDITED****FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND 2015**

(In thousands)

| | Three months ended March 31, | |
|---|---|-------------|
| | 2014 | 2015 |
| Net income (loss) | \$(2,056) | \$(1,073) |
| Other comprehensive income: | | |
| Change in foreign currency translation adjustment | 13 | 9 |
| Comprehensive income (loss) | \$(2,043) | \$(1,064) |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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SYNACOR, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS UNAUDITED

FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND 2015

(In thousands)

| | Three months ended March 31, | |
|--|---|---------------|
| | 2014 | 2015 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | \$ (2,056) | \$ (1,073) |
| Adjustments to reconcile net loss to net cash provided (used) in operating activities: | | |
| Depreciation | 1,058 | 1,496 |
| Stock-based compensation expense | 681 | 742 |
| Provision for deferred income taxes | (709) | |
| Loss in equity investment | 246 | 32 |
| Change in assets and liabilities net of effect of acquisition: | | |
| Accounts receivable, net | (25) | 1,203 |
| Prepaid expenses and other current assets | (577) | (23) |
| Other long-term assets | 101 | 27 |
| Accounts payable | 1,292 | 995 |
| Accrued expenses and other current liabilities | (979) | (1,186) |
| Other long-term liabilities | (198) | (48) |
| Net cash provided (used) in operating activities | (1,166) | 2,165 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of property and equipment | (1,519) | (600) |
| Investment in equity interest | (245) | |
| Net cash used in investing activities | (1,764) | (600) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Repayments on capital lease obligations | (485) | (392) |
| Proceeds from exercise of common stock options | 26 | 5 |
| Purchase of treasury stock | (56) | |
| Net cash used in financing activities | (515) | (387) |
| Effect of exchange rate changes on cash and cash equivalents | 8 | (28) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (3,437) | 1,150 |
| CASH AND CASH EQUIVALENTS - Beginning of Period | 36,397 | 25,600 |

| | | |
|---|-----------|-----------|
| CASH AND CASH EQUIVALENTS - End of Period | \$ 32,960 | \$ 26,750 |
|---|-----------|-----------|

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

| | | |
|------------------------|-------|-------|
| Cash paid for interest | \$ 98 | \$ 50 |
|------------------------|-------|-------|

| | | |
|----------------------------|----|-------|
| Cash paid for income taxes | \$ | \$ 30 |
|----------------------------|----|-------|

SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING TRANSACTIONS:

| | | |
|--|--------|--------|
| Property, equipment and service contracts financed under capital lease obligations | \$ 413 | \$ 396 |
|--|--------|--------|

| | | |
|---|--------|----|
| Accrued property and equipment expenditures | \$ 149 | \$ |
|---|--------|----|

| | | |
|--|----|-------|
| Treasury stock received to satisfy minimum tax withholding liabilities | \$ | \$ 71 |
|--|----|-------|

The accompanying notes are an integral part of these condensed consolidated financial statements.

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SYNACOR, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED

AS OF DECEMBER 31, 2014 AND MARCH 31, 2015 AND FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND MARCH 31, 2015

1. The Company and Summary of Significant Accounting Policies

Synacor, Inc., together with its consolidated subsidiaries, Synacor Canada, Inc. and NTV Internet Holdings, LLC (collectively, the Company or Synacor), is the trusted technology development, multiplatform services and revenue partner for video, Internet and communications providers, and device manufacturers. Synacor delivers modern, multiscreen experiences and advertising to consumers that require scale, actionable data and sophisticated implementation.

Basis of Presentation The interim unaudited condensed consolidated financial statements and accompanying notes have been prepared in accordance with United States generally accepted accounting principles (U.S. GAAP) and include the accounts of the Company and its wholly-owned subsidiaries. Investments in entities in which the Company can exercise significant influence, but does not own a majority equity interest or otherwise have the power to control, are accounted for using the equity method and are included as investments in equity interest on the condensed consolidated balance sheets. All intercompany balances and transactions have been eliminated in consolidation. In the opinion of the Company s management, the interim unaudited condensed consolidated financial statements include all adjustments, which include only normal recurring adjustments, necessary for the fair presentation of the Company s financial position for the periods presented. These interim unaudited condensed consolidated financial statements are not necessarily indicative of the results expected for the full fiscal year or for any subsequent period and should be read in conjunction with the audited consolidated financial statements and related notes included in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2014 (as amended).

Accounting Estimates The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates, judgments and assumptions that affect the amounts reported and disclosed in the financial statements and the accompanying notes. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, actual results may differ from estimated amounts.

Concentrations of Risk As of December 31, 2014 and March 31, 2015, and for the three months ended March 31, 2014 and 2015, the Company had concentrations equal to or exceeding 10% of the Company s accounts receivable and revenue as follows:

| | Accounts Receivable | |
|-----------------------------|----------------------------|------------------|
| | December 31, | March 31, |
| | 2014 | 2015 |
| Google | 23% | 21% |
| Digital Advertising Partner | 11% | 12% |
| Portal Customer (1) | 12% | N/A |

Note:

(1) As of March 31, 2015, accounts receivable for Portal Customer was less than 10%.

| | Revenue Three Months Ended March 31, | |
|--------|---|-------------|
| | 2014 | 2015 |
| Google | 51% | 36% |

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For the three months ended March 31, 2014 and 2015, the following customers received revenue-share payments equal to or exceeding 10% of the Company's cost of revenue. The costs represent revenue share paid to customers for their supply of Internet traffic on the Company's start experiences:

| | Cost of Revenue Three Months Ended March 31, | |
|----------------|---|-------------|
| | 2014 | 2015 |
| Customer A | 23% | 24% |
| Customer B | 15% | 10% |
| Customer C | 11% | 10% |
| Customer D (1) | 10% | N/A |

Note:

- (1) For the three months ended March 31, 2015, the cost of revenue-share payments received by Customer D was less than 10%.

Rights Plan On July 14, 2014 the board of directors declared a dividend of one preferred share purchase right (a Right) for each outstanding share of the Company's common stock and adopted a stockholder rights plan (the Rights Plan). The Rights were issued July 14, 2014 to the stockholders of record at the close of business on that date. Each Right allows its holder to purchase from the Company one one-hundredth of a share of Series A Junior Participating Preferred Stock (a Series A Junior Preferred Share) for \$10.00 per share (the Exercise Price), if the Rights become exercisable. This portion of a Series A Junior Preferred Share will give the stockholder approximately the same dividend, voting, and liquidation rights as would one share of common stock. Prior to exercise, the Right does not give its holder any dividend, voting, or liquidation rights. On July 14, 2014, in conjunction with the adoption of the Rights Plan, the Company designated 2,000,000 shares of its Preferred Stock as Series A Junior Participating Preferred Stock.

The Rights will not be exercisable until 10 days after the public announcement that a person or group has become an Acquiring Person by obtaining beneficial ownership of 10% or more of the Company's outstanding common stock (the Distribution Date). If a person or group becomes an Acquiring Person, each Right will entitle its holder (other than such Acquiring Person) to purchase for \$10.00 per share, a number of shares of the Company's common stock having a market value of twice such price based on the market price of the common stock prior to such acquisition. Additionally, if the Company is acquired in a merger or similar transaction after the Distribution Date, each Right will entitle its holder (other than such Acquiring Person) to purchase for \$10.00 per share, a number of shares of the acquiring corporation with a market value of \$20.00 per share based on the market price of the acquiring corporation's stock, prior to such merger. In addition, at any time after a person or group becomes an Acquiring Person, but before such Acquiring Person or group owns 50% or more of the Company's common stock, the board of directors may exchange one share of the Company's common stock for each outstanding Right (other than Rights owned by such Acquiring Person, which would have become void). An Acquiring Person will not be entitled to exercise the Rights.

On April 20, 2015, The Company's stockholders ratified the Rights Plan. It will expire on July 14, 2017.

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2. Investments and Fair Value Measurements

In July 2013, the Company made a \$1.0 million investment (in the form of a convertible promissory note) in a privately held Delaware corporation called Blazer and Flip Flops, Inc., or B&FF (doing business as The Experience Engine). In March 2015, the note was converted into preferred stock of B&FF and is accounted for as a cost method investment. B&FF is a professional services company whose principals have experience integrating its customers systems with their consumers' devices, including smartphones and tablets.

The investment in B&FF is considered an available-for-sale security and is reported on the Company's condensed consolidated balance sheets in investments.

The provisions of the FASB ASC 820, *Fair Value Measurements and Disclosures*, establish a framework for measuring the fair value in accordance with U.S. GAAP and establish a hierarchy that categorizes and prioritizes the sources to be used to estimate fair value as follows:

Level 1 Level 1 inputs are defined as observable inputs such as quoted prices in active markets.

Level 2 Level 2 inputs include 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, inputs other than quoted prices that are observable for the asset or liability (interest rates, yield curves, etc.), and inputs that are derived principally from or corroborated by observable market data by correlation or other means (market corroborated inputs).

Level 3 Level 3 inputs are unobservable inputs that reflect the Company's determination of assumptions that market participants would use in pricing the asset or liability. These inputs are developed based on the best information available, including the Company's own data.

The Company classifies its investment in B&FF within Level 3 because it is valued using unobservable inputs. As of March 31, 2015, there have been no other than temporary impairments.

Table of Contents**3. Property and Equipment Net**

Property and equipment, net consisted of the following:

| | December 31, 2014 | March 31, 2015 |
|--|------------------------------|---------------------------|
| | (in thousands) | |
| Computer equipment (1) | \$ 21,194 | \$ 21,615 |
| Computer software | 10,741 | 11,419 |
| Furniture and fixtures | 1,847 | 1,835 |
| Leasehold improvements | 1,389 | 1,362 |
| Work in process (primarily software development costs) | 1,203 | 999 |
| Other | 173 | 173 |
| | 36,547 | 37,403 |
| Less accumulated depreciation (2) | (21,419) | (22,875) |
| Total property and equipment net | \$ 15,128 | \$ 14,528 |

Notes:

- (1) Includes equipment under capital lease obligations of \$4.8 million and \$3.1 million as of December 31, 2014 and March 31, 2015, respectively.
- (2) Includes \$2.7 million and \$1.1 million of accumulated depreciation of equipment under capital leases as of December 31, 2014 and March 31, 2015, respectively.

4. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of the following:

| | December 31, 2014 | March 31, 2015 |
|--|------------------------------|---------------------------|
| | (in thousands) | |
| Accrued compensation | \$ 4,066 | \$ 3,671 |
| Accrued content fees | 1,745 | 1,300 |
| Accrued business acquisition consideration | 495 | 495 |
| Unearned revenue on contracts | 642 | 410 |
| Other | 1,455 | 1,274 |
| Total | \$ 8,403 | \$ 7,150 |

Table of Contents**5. Information About Segment and Geographic Areas**

Operating segments are components of the Company in which separate financial information is available that is evaluated regularly by the Company's chief operating decision maker in deciding how to allocate resources and in assessing performance. The chief operating decision maker for the Company is the Chief Executive Officer. The Chief Executive Officer reviews financial information presented on a total Company basis, accompanied by information about revenue by major service line for purposes of allocating resources and evaluating financial performance. Profitability measures by service line are not routinely prepared or used. The Company has one business activity and there are no segment managers who are held accountable for operations, operating results or plans for levels or components below the Company level. Accordingly, the Company has determined that it has a single reporting segment and operating unit structure.

The following table sets forth revenue and long-lived tangible assets by geographic area:

| | Three Months Ended March 31, | |
|----------------------|---|------------------|
| | 2014 | 2015 |
| | (in thousands) | |
| Revenue | | |
| United States | \$ 25,078 | \$ 26,530 |
| International | 170 | 200 |
| Total revenue | \$ 25,248 | \$ 26,730 |

| | December 31, | March 31, |
|---|-----------------------|------------------|
| | 2014 | 2015 |
| | (in thousands) | |
| Long-lived tangible assets | | |
| United States | \$ 14,573 | \$ 13,578 |
| Canada | 502 | 796 |
| International | 53 | 154 |
| Total long-lived tangible assets | \$ 15,128 | \$ 14,528 |

6. Commitments and Contingencies

Contract Commitments The Company is obligated to make payments under various contracts with vendors and other business partners, principally for revenue-share and content arrangements. Contract commitments as of March 31, 2015 are summarized as follows:

| Year ending December 31: | (in thousands) |
|---------------------------------|-----------------------|
| 2015 (remaining nine months) | \$ 2,056 |
| 2016 | 1,300 |

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| | |
|-----------------------------------|-----------------|
| 2017 | 580 |
| 2018 | 110 |
| 2019 | |
| Due after 5 years | |
| Total contract commitments | \$ 4,046 |

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Teknision Acquisition A remaining payment of \$0.5 million for the purchase price to acquire the assets of Teknision, Inc. is due in May 2015 and recorded in accrued expenses and other current liabilities on the condensed consolidated balance sheet.

Litigation From time to time, the Company is a party to legal actions. In the opinion of management, the outcome of these matters is not expected to have a material impact on the consolidated financial statements of the Company.

7. Equity

Common Stock Effective on February 15, 2012, the Company's board of directors and stockholders approved the Fifth Amended and Restated Certificate of Incorporation. The total number of common shares that the Company is authorized to issue is 100,000,000 with a par value of \$0.01 per share.

Preferred Stock Effective on February 15, 2012, the Company's board of directors and stockholders approved the Fifth Amended and Restated Certificate of Incorporation. The total number of preferred shares that the Company is authorized to issue is 10,000,000 with a par value of \$0.01 per share, 2,000,000 of which have been designated as Series A Junior Participating Preferred Stock pursuant to the Rights Plan. None have been issued to date.

Stock Repurchases In February 2014 the board of directors approved a Stock Repurchase Program, which authorizes a repurchase of up to \$5.0 million worth of the Company's outstanding common stock. The Stock Repurchase Program has no expiration date, and may be suspended or discontinued at any time without notice. The Company repurchased all shares with cash resources.

The following table sets forth the shares of common stock repurchased through the program in the following periods:

| | Three Months Ended | |
|--|---------------------------|-------------|
| | March 31, | |
| | 2014 | 2015 |
| Shares of common stock repurchased | 22,000 | |
| Value of common stock repurchased (in thousands) | \$ 56 | \$ |

Withhold to Cover During the three months ended March 31, 2015, certain employees, in lieu of paying withholding taxes on the vesting of certain shares of restricted stock awards, authorized the withholding of 25,783 shares of the Company's common stock to satisfy their minimum statutory tax withholding requirements related to such vesting. These shares were recorded as treasury stock using the cost method at the per share closing price on the date of vesting. No shares of the Company's common stock were withheld to cover minimum statutory tax withholding requirements during the three months ended March 31, 2014.

Table of Contents**8. Stock-based Compensation**

The fair value of each stock option was determined on the date of grant using the Black-Scholes option pricing model, and stock-based compensation is recorded over the requisite service period. The Company recorded \$0.7 million of stock-based compensation expense for the three months ended March 31, 2014 and 2015, respectively. No income tax deduction is allowed for incentive stock options (ISOs). Accordingly, no deferred income tax asset is recorded for the potential tax deduction related to these options. Expense related to stock option grants of non-qualified stock options (NSOs) result in a temporary difference, which gives rise to a deferred tax asset.

Total stock-based compensation expense included in the accompanying condensed consolidated statements of operations for the periods presented, is as follows :

| | Three Months Ended March 31, | |
|--|---|-------------|
| | 2014 | 2015 |
| | (in thousands) | |
| Technology and development | \$ 327 | \$ 217 |
| Sales and marketing | 108 | 241 |
| General and administrative | 246 | 284 |
| Total stock-based compensation expense | \$ 681 | \$ 742 |

Stock Option Activity A summary of the stock option activity for the three months ended March 31, 2015 is presented below:

| | Number of Stock Options | Weighted Average Exercise Price | Aggregate Intrinsic Value (in thousands) | Weighted Average Remaining Contractual Term (in years) |
|--|--|--|---|---|
| Outstanding January 1, 2015 | 6,755,790 | \$ 2.86 | | |
| Granted (1) | 1,091,200 | \$ 2.15 | | |
| Exercised | (2,260) | \$ 2.38 | | |
| Forfeited (1) | (257,989) | \$ 2.54 | | |
| Outstanding March 31, 2015 | 7,586,741 | \$ 2.77 | \$ 569 | 7.55 |
| Vested and expected to vest March 31, 2015 | 7,093,519 | \$ 2.77 | \$ 541 | 7.42 |
| Vested and exercisable March 31, 2015 | 2,996,890 | \$ 3.21 | \$ 369 | 5.06 |

Note:

- (1) The number of options granted and forfeited includes options cancelled and replaced in conjunction with the modifications described below.

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Aggregate intrinsic value represents the difference between the Company's closing stock price of its common stock and the exercise price of outstanding, in-the-money options. The Company's closing stock price as reported on the NASDAQ as of March 31, 2015 was \$2.27 per share. The total intrinsic value of options exercised for the three months ended March 31, 2015 was minor. The weighted average fair value of options issued, excluding the options issued as replacements in the modifications below, during the three months ended March 31, 2015 amounted to \$1.20.

As of March 31, 2015, the unrecognized compensation cost related to non-vested options granted, for which vesting is probable, under the plan was approximately \$6.3 million. This cost is expected to be recognized over a weighted-average period of 2.9 years. The total fair value of shares vested was \$0.2 million for the three months ended March 31, 2015.

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9. Net Income (Loss) Per Common Share Data

Basic net income (loss) per share is computed using the weighted-average number of common shares outstanding during the period. Diluted net income (loss) per share is computed using the weighted-average number of common shares and, if dilutive, potential common shares outstanding during the period. The Company's potential common shares consist of the incremental common shares issuable upon the exercise of stock options, and to a lesser extent, shares issuable upon the release of RSUs. The dilutive effect of these potential common shares is reflected in diluted earnings per share by application of the treasury stock method.

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The following table presents the calculation of basic and diluted net loss per share for the three months ended March 31, 2014 and 2015:

| | Three Months Ended, March 31, | |
|---|--|-------------|
| | 2014 | 2015 |
| | (in thousands, except share and per share data) | |
| Basic net loss per share: | | |
| Numerator: | | |
| Net loss | \$ (2,056) | \$ (1,073) |
| Denominator: | | |
| Weighted-average common shares outstanding | 27,434,374 | 27,407,147 |
| Basic net loss per share | \$ (0.07) | \$ (0.04) |
| Diluted net loss per share: | | |
| Numerator: | | |
| Net loss | \$ (2,056) | \$ (1,073) |
| Denominator: | | |
| Number of shares used in basic calculation | 27,434,374 | 27,407,147 |
| Add weighted-average effect of dilutive securities: | | |
| None | | |
| Number of shares used in diluted calculation | 27,434,374 | 27,407,147 |
| Diluted net loss per share | \$ (0.07) | \$ (0.04) |

The following equivalent shares were excluded from the calculation of diluted net loss per share because their effect would have been anti-dilutive for the periods presented:

| | Three Months Ended, March 31, | |
|------------------------------------|--|-------------|
| | 2014 | 2015 |
| Antidilutive equity awards: | | |
| Stock options and RSUs | 5,670,083 | 8,316,190 |

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This quarterly report on Form 10-Q contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. In addition, we may make other written and oral communications from time to time that contain such statements. Forward-looking statements include statements as to industry trends and future expectations of ours and other matters that do not relate strictly to historical facts. These statements are often identified by the use of words such as may, expect, believe, anticipate, intend, could, estimate, or continue, and similar expressions or variations. These statements are based on the beliefs and assumptions of our management based on information currently available to management. Such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. These forward-looking statements include statements in this Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in the section titled Risk Factors included elsewhere in this Form 10-Q and in our other Securities and Exchange Commission filings, including our Annual Report on Form 10-K for the fiscal year ended December 31, 2014, as amended. Furthermore, such forward-looking statements speak only as of the date of this report. We undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the condensed consolidated financial statements and related notes thereto appearing elsewhere in this Form 10-Q and with the consolidated financial statements and notes thereto and management's discussion and analysis of financial condition and results of operations appearing in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014, as amended.

Overview

We are the trusted technology development, multiplatform services and revenue partner for video, Internet and communications providers, and device manufacturers. We deliver modern, multiscreen experiences and advertising to consumers that require scale, actionable data and sophisticated implementation.

Our customers are actively seeking incremental revenue opportunities. At the same time, consumer expectations are high, driving the need for new features and services, which require scale to be delivered cost-effectively. Consumers want access to digital content via PCs, tablets, smartphones and connected TVs. Video, mobile and social are typically the underpinnings of these new services, and we believe we have a role to play as a neutral partner by helping to reduce consumer and provider complexity resulting from the proliferation of content, device, technology and distribution options.

We generate revenue from consumer traffic on our start experiences through search and digital advertising revenue, which we collect from our search partner, Google Inc., or Google, our advertising network providers and directly from advertisers. We typically share a portion of this search and digital advertising revenue with our customers. We also generate recurring revenues in the form of subscriber-based fees, which we collect from our customers, for the use of our technology, premium services and paid content. Growth in our business is dependent on expansion of relationships with our existing customers and new customers adopting our solutions and their respective consumers use of our start experiences ramping up as described below. As we expand our Cloud ID, syndicated content and email offerings, we expect to generate increased subscriber-based revenue from our customers.

During the first three months of 2015, search and digital advertising revenue was \$20.6 million, an increase of 4% compared to \$19.9 million for the three months March 31, 2014. Over the same period, our multiplatform unique

visitors increased by 3%. Search revenue decreased by \$3.2 million, or 25%, in the three months ended March 31, 2015 compared to the same period in 2014. We believe the decrease was due to lower search activity associated with the increased usage of competitor search tools on other devices, such as tablets and smartphones, generally across the consumer base. In addition, a portion of the decrease was due to the residual effect of the placement of our start experiences on the second tab of the default Windows 8 Internet browser by our consumer electronics customers. We anticipate that search activity will increase on smartphones and tablets in the future, and we believe that our continuing investment in our next-generation start experiences will allow us to compete more effectively for search activity on smartphones and tablets.

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Digital advertising revenue increased by \$4.0 million, or 57%, in the three months ended March 31, 2015 compared to the same period in 2014. We anticipate video advertising may become an increasing percentage of our advertising revenue which may also serve to increase our advertising cost per thousand impressions (referred to as cost per mille or CPMs). We also anticipate that the signing, and launching, of new customers and our mobile product initiatives may help add new search and digital advertising revenue in future years.

Our subscriber-based revenue consists of fees charged for the use of our proprietary technology and for the use of, or access to, services, such as e-mail, security, Cloud ID, online games, music and other premium services and paid content. During the three months ended of 2015, subscriber-based revenue was \$6.1 million, an increase of 14% from \$5.3 million in the same period in 2014. This increase is primarily driven by growth in the hosting and management of our e-mail product and increasing adoption of our Cloud ID services with our customers. We believe there are opportunities to generate new sources of subscriber-based revenue, such as the introduction of new premium services, including those delivered on smartphones and tablets.

As we obtain new customers and those new customers introduce our start experiences to their consumers, we expect that usage of our solutions and revenue from our start experiences to increase over time. There are a variety of reasons for this ramp-up process. For example, a new customer may migrate its consumers from its existing technology to our technology over a period of time. Moreover, a new customer may initially launch a selection of our services and products, rather than our entire suite of offerings and subsequently broaden their service and product offerings over time. When a customer launches a new service or product, marketing and promotional activities may be required to generate awareness and interest among consumers.

In the three months ended March 31, 2015, we derived revenue from over 50 customers, with revenue attributable to four customers, CenturyLink, Inc., or CenturyLink, Charter Communications Inc., or Charter Communications, Verizon Corporate Services Group, Inc., or Verizon, and Toshiba America Information Systems, Inc., or Toshiba, together accounting for approximately 64% of our revenue, or \$17.1 million. One of these customers accounted for 20% or more of revenue in such period, and revenue attributable to each of the other three customers accounted for more than 10% in such period.

Revenue attributable to our customers includes the subscriber-based revenue earned directly from them, as well as the search and digital advertising revenue generated through our relationships with our search and digital advertising partners (such as Google for search advertising and advertising networks, advertising agencies and advertisers for digital advertising). This revenue is attributable to our customers because it is produced from the traffic on our start experiences. These search and advertising partners provide us with advertisements that we then deliver with search results and other content on our start experiences. Since our search advertising partner, Google, and our advertising network partners generate their revenue by selling those advertisements, we create a revenue stream for these partners. In the three months ended March 31, 2015, search advertising through our relationship with Google generated approximately 36% of our revenue, or \$9.7 million (all of which was attributable to our customers).

The initiatives described below under **Key Initiatives** are expected to contribute to our ability to maintain and grow revenue and return to profitability via increases in advertising revenue, increases in customers and our consumer reach, and increases in availability of products across more devices. We expect the period in which we experience a return on future investments in each of these initiatives to differ. For example, more direct advertising at higher CPMs would be expected to have an immediate and direct impact on profitability while expansion into international markets may require an investment that involves a longer term return.

Key Initiatives

Our strategy is supported by four key pillars to drive our business, with operational discipline and sound financial footing as its base. We plan to:

increase value for existing customers by optimizing consumer experience and monetization;

innovate on Synacor-as-a-platform for advanced services;

win new customers in current and related verticals; and

extend our product portfolio into emerging growth areas.

Table of Contents**Key Business Metric**

In addition to the line items in our financial statements, we review the number of multiplatform unique visitors to evaluate our business, determine the allocation of resources and make decisions regarding business strategies. We believe disclosing this metric is useful for investors and analysts to understand the underlying trends in our business. The following table summarizes this key business metric for the three months ended March 31, 2014 and 2015:

| | Three Months Ended March 31, | |
|-----------------------------------|-------------------------------------|-------------|
| | 2014 | 2015 |
| Key Business Metric: | | |
| Multiplatform Unique Visitors (1) | 21,297,773 | 22,009,758 |

Note:

- (1) Reflects the number of multiplatform unique visitors to our start experiences, from either desktop or mobile, computed on an average monthly basis during the applicable period.

Multiplatform Unique Visitors

We define multiplatform unique visitors as consumers who have visited one of our start experiences from either mobile or desktop sources at least once during a particular time period. We rely on comScore to provide this data. comScore estimates this data based on the U.S. portion of the Internet activity of its worldwide panel of consumers and its proprietary data collection method.

Components of our Results of Operations***Revenue***

We derive our revenue from two categories: revenue generated from search and digital advertising activities and subscriber-based revenue, each of which is described below. The following table shows the revenue in each category, both in amount and as a percentage of revenue, for the three months ended March 31, 2014 and 2015:

| | Three Months Ended March 31, | |
|-----------------------------------|-------------------------------------|---------------|
| | 2014 | 2015 |
| | (in thousands) | |
| Revenue: | | |
| Search and digital advertising | \$ 19,908 | \$ 20,647 |
| Subscriber-based | 5,340 | 6,083 |
| Total revenue | \$ 25,248 | \$ 26,730 |
| Percentage of revenue: | | |
| Search and digital advertising | 79% | 77% |
| Subscriber-based | 21 | 23 |
| Total revenue | 100% | 100% |

Search and Digital Advertising Revenue

We use Internet advertising to generate revenue from the traffic on our start experiences, categorized as search advertising and digital advertising.

In the case of search advertising, we have a revenue-sharing relationship with Google, pursuant to which we include a Google-branded search tool on our start experiences. When a consumer makes a search query using this tool, we deliver the query to Google and they return search results to consumers that include advertiser-sponsored links.

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If the consumer clicks on a sponsored link, Google receives payment from the sponsor of that link and shares a portion of that payment with us. The net payment we receive from Google is recognized as revenue.

Digital advertising includes video, image and text advertisements delivered on one of our start experiences. Advertising inventory is filled with advertisements sourced by our direct sales force, independent advertising sales representatives and advertising network partners. Revenue is generated for us when an advertisement displays, otherwise known as an impression, or when consumers view or click an advertisement, otherwise known as an action. Digital advertising revenue is calculated on a cost per impression or cost per action basis. Revenue is recognized based on amounts received from advertising customers as the impressions are delivered or the actions occur, according to contractually-determined rates.

Subscriber-Based Revenue

Subscriber-based revenue represents subscription fees and other fees that we receive from customers for the use of our proprietary technology, including the use of, or access to, e-mail, Cloud ID, security services, games and other premium services and paid content. Monthly subscriber levels typically form the basis for calculating and generating subscriber-based revenue. They are generally determined by multiplying a per-subscriber per-month fee by the number of subscribers using the particular services being offered or consumed. In other cases, the fee is fixed. Revenue is recognized from customers as the service is delivered.

Costs and Expenses

Cost of Revenue

Cost of revenue consists of revenue sharing, content acquisition costs and co-location facility costs. Revenue sharing consists of amounts accrued and paid to customers for the Internet traffic on start experiences we operate on our customers behalf and where we are the primary obligor, resulting in the generation of search and digital advertising revenue. The revenue-sharing agreements with customers are primarily variable payments based on a percentage of the search and digital advertising revenue. Content-acquisition agreements may be based on a fixed payment schedule, on the number of subscribers per month, or a combination of both. Fixed-payment agreements are expensed on a straight-line basis over the term defined in the agreement. Agreements based on the number of subscribers are expensed on a monthly basis. Co-location facility costs consist of rent and operating costs for our data center facilities.

Technology and Development

Technology and development expenses consist primarily of compensation-related expenses incurred for the research and development of, enhancements to, and maintenance and operation of our products, equipment and related infrastructure.

Sales and Marketing

Sales and marketing expenses consist primarily of compensation-related expenses to our direct sales and marketing personnel, as well as costs related to advertising, industry conferences, promotional materials and other sales and marketing programs. Advertising cost is expensed as incurred.

General and Administrative

General and administrative expenses consist primarily of compensation-related expenses for executive management, finance, accounting, human resources, professional fees and other administrative functions.

Depreciation

Depreciation includes depreciation of our computer hardware and software, furniture and fixtures, leasehold improvements and other property, as well as depreciation on capital leased assets.

Other Income (Expense)

Other income (expense) consists primarily of interest income earned and foreign exchange gains and losses.

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Interest Expense

Interest expense primarily consists of expenses associated with our capital leases.

Provision (benefit) for Income Taxes

Income tax expense provision (benefit) consists of federal and state income taxes in the United States and taxes in certain foreign jurisdictions, as well as any changes to deferred tax assets or liabilities, and deferred tax valuation allowances.

Loss in Equity Interest

Loss in equity interest represents our percentage share of losses in investments in entities in which we can exercise significant influence, but do not own a majority equity interest or otherwise control.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations is based upon our condensed consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these condensed consolidated financial statements requires us to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and the related disclosure of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances. Our estimates form the basis for our judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

An accounting policy is considered to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that reasonably could have been used, or changes in the accounting estimate that are reasonably likely to occur, could materially impact the condensed consolidated financial statements. We believe that our critical accounting policies reflect the more significant estimates and assumptions used in the preparation of the condensed consolidated financial statements.

For a discussion of our critical accounting policies and estimates, see **Critical Accounting Policies and Estimates** included in our Annual Report on Form 10-K for the year ended December 31, 2014 (as amended) under the caption **Management's Discussion and Analysis of Financial Condition and Results of Operations**. We have made no significant changes to our critical accounting policies and estimates from those described in our Annual Report on Form 10-K for the year ended December 31, 2014 (as amended).

Adjusted EBITDA

To provide investors with additional information regarding our financial results, we have disclosed within this Quarterly Report on Form 10-Q adjusted EBITDA, a non-GAAP financial measure. We have provided a reconciliation below of adjusted EBITDA to net loss, the most directly comparable GAAP financial measure.

We have included adjusted EBITDA in this Quarterly Report on Form 10-Q because it is a key measure used by our management and board of directors to understand and evaluate our core operating performance and trends, to prepare and approve our annual budget and to develop short and long-term operational plans. In particular, the exclusion of certain expenses in calculating adjusted EBITDA can provide a useful measure for period-to-period comparisons of

our core business. Additionally, adjusted EBITDA is a key financial measure used by the compensation committee of our board of directors in connection with the payment of bonuses to our executive officers. Accordingly, we believe that adjusted EBITDA provides useful information to investors and others in understanding and evaluating our operating results in the same manner as our management and board of directors.

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Our use of adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are:

although depreciation is a non-cash charge, the assets being depreciated may have to be replaced in the future, and adjusted EBITDA does not reflect capital expenditure requirements for such replacements or for new capital expenditure requirements;

adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;

adjusted EBITDA does not consider the potentially dilutive impact of equity-based compensation;

adjusted EBITDA does not reflect the impact of tax payments that may represent a reduction in cash available to us; and

other companies, including companies in our industry, may calculate adjusted EBITDA differently, which reduces its usefulness as a comparative measure.

Because of these limitations, you should consider adjusted EBITDA alongside other financial performance measures, including various cash flow metrics, net loss and our other GAAP results. The following table presents a reconciliation of adjusted EBITDA to net loss for each of the periods indicated:

| | Three Months Ended March 31, | |
|---|-------------------------------------|-----------------|
| | 2014 | 2015 |
| | (in thousands) | |
| Reconciliation of Adjusted EBITDA: | | |
| Net loss | \$ (2,056) | \$ (1,073) |
| Provision (benefit) for income taxes | (684) | 4 |
| Interest expense | 88 | 50 |
| Other (income) expense | (8) | 16 |
| Depreciation | 1,058 | 1,496 |
| Stock-based compensation | 681 | 742 |
| Loss in equity interest | 246 | 32 |
| Adjusted EBITDA | \$ (675) | \$ 1,267 |

Results of Operations

The following tables set forth our results of operations for the periods presented in amount and as a percentage of revenue for those periods. The period to period comparison of financial results is not necessarily indicative of future results.

| | Three Months Ended March 31, | |
|--|-------------------------------------|----------------|
| | 2014 | 2015 |
| | (in thousands) | |
| Revenue | \$ 25,248 | \$ 26,730 |
| Costs and operating expenses: | | |
| Cost of revenue (1) | 13,876 | 14,403 |
| Technology and development (1)(2) | 7,492 | 4,866 |
| Sales and marketing (2) | 2,137 | 3,562 |
| General and administrative (1)(2) | 3,099 | 3,374 |
| Depreciation | 1,058 | 1,496 |
| Total costs and operating expenses | 27,662 | 27,701 |
| Loss from operations | (2,414) | (971) |
| Other income (expense) | 8 | (16) |
| Interest expense | (88) | (50) |
| Loss before income taxes and equity interest | (2,494) | (1,037) |
| Provision (benefit) for income taxes | (684) | 4 |
| Loss in equity interest | (246) | (32) |
| Net loss | \$ (2,056) | \$ (1,073) |

Notes:

- (1) Exclusive of depreciation shown separately.
- (2) Includes stock-based compensation as follows:

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| | Three Months Ended March 31, | |
|----------------------------|-------------------------------------|-------------|
| | 2014 | 2015 |
| | (in thousands) | |
| Technology and development | \$ 327 | \$ 217 |
| Sales and marketing | 108 | 241 |
| General and administrative | 246 | 284 |
| | \$ 681 | \$ 742 |

| | Three Months Ended March 31, | |
|--|-------------------------------------|-------------|
| | 2014 | 2015 |
| Revenue | 100% | 100% |
| Costs and operating expenses: | | |
| Cost of revenue (1) | 55 | 54 |
| Technology and development (1) | 30 | 18 |
| Sales and marketing | 8 | 13 |
| General and administrative (1) | 12 | 13 |
| Depreciation | 4 | 6 |
| Total costs and operating expenses | 110 | 104 |
| Loss from operations | (10) | (4) |
| Other expense | | |
| Interest expense | | |
| Loss before income taxes and equity interest | (10) | (4) |
| Benefit for income taxes | (3) | |
| Loss in equity interest | (1) | |
| Net loss | (8) | (4) |

Note:

(1) Exclusive of depreciation shown separately.

*Comparison of the three months ended March 31, 2014 and 2015**Revenue*

| | Three Months Ended March 31, | | |
|--------------------------------|-------------------------------------|-------------|-----------------|
| | 2014 | 2015 | % Change |
| | (in thousands) | | |
| Revenue: | | | |
| Search and digital advertising | \$ 19,908 | \$ 20,647 | 4% |
| Subscriber-based | 5,340 | 6,083 | 14 |

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| | | | |
|--------------------------------|-----------|-----------|---|
| Total revenue | \$ 25,248 | \$ 26,730 | 6 |
| Percentage of revenue: | | | |
| Search and digital advertising | 79% | 77% | |
| Subscriber-based | 21 | 23 | |
| Total revenue | 100% | 100% | |

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Three months ended 2014 compared to 2015. Revenue increased by \$1.5 million, or 6%, compared to the same period in 2014. Digital advertising revenue increased by \$4.0 million, or 57%. The increase in digital advertising was driven by a combination of an increase in video advertising and higher contractual rates for such advertisements. Search advertising revenue decreased by \$3.2 million, or 25% compared to 2014. We believe the decrease was due to lower search activity associated with the increased usage of competitor search tools on other devices, such as tablets and smartphones, generally across the consumer base. In addition, a portion of the decrease was due to the residual effect of the placement of our start experiences on the second tab of the default Windows 8 Internet browser by our consumer electronics customers. Subscriber-based revenue increased \$0.7 million, or 14% primarily due to increased usage of our email, Cloud ID and video solutions services by our customers.

Cost of Revenue

| | Three Months Ended March 31, | | |
|-----------------------|---|-------------|-----------------|
| | 2014 | 2015 | % Change |
| | (in thousands) | | |
| Cost of revenue | \$ 13,876 | \$ 14,403 | 4% |
| Percentage of revenue | 55% | 54% | |

Three months ended 2014 compared to 2015. Our cost of revenue increased by \$0.5 million, or 4% for the three months ended March 31, 2015 compared to the same period in 2014. The increase in our cost of revenue was driven by an increase in revenue-sharing costs from digital advertising due to increase placement of video-based advertising, offset by decreased revenue-sharing costs from search due to declining search revenue. Cost of revenue as a percentage of revenue decreased, from 55% to 54%, because of changes in the mix of customers and related revenue-sharing arrangements.

Technology and Development Expenses

| | Three Months Ended March 31, | | |
|----------------------------|---|-------------|-----------------|
| | 2014 | 2015 | % Change |
| | (in thousands) | | |
| Technology and development | \$ 7,492 | \$ 4,866 | (35)% |
| Percentage of revenue | 30% | 18% | |

Three months ended 2014 compared to 2015. Technology and development expenses decreased by \$2.6 million, or 35%, in 2015 compared to 2014. The decrease was primarily due to a shift in activities of certain personnel responsible for products to be marketed from technology and development to sales and marketing. This change in activities took effect on October 1, 2014, and the resulting decrease was \$1.4 million of technology and development expense in the first quarter of 2015. Additionally, a reduction in salaries and related costs due to our cost reduction plan, implemented in 2014, resulted in a decrease of \$1.3 million in the first three months of 2015 as compared to the same period in 2014. This was partially offset by an increase of \$0.4 million due to the use of professional services and consultants on development projects.

Sales and Marketing Expenses

| | Three Months Ended | | |
|-----------------------|---------------------------|-------------|-----------------|
| | March 31, | | |
| | 2014 | 2015 | % Change |
| | (in thousands) | | |
| Sales and marketing | \$ 2,137 | \$ 3,562 | 66% |
| Percentage of revenue | 8% | 13% | |

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Three months ended 2014 compared to 2015. Sales and marketing expenses increased by \$1.4 million or 66% compared to 2015. The increase was primarily due to a shift in activities of certain personnel from technology and development to sales and marketing, resulting in additional sales and marketing expense of \$1.4 million, as discussed above.

General and Administrative Expenses

| | Three Months Ended March 31, | | |
|----------------------------|---|-------------|-----------------|
| | 2014 | 2015 | % Change |
| | (in thousands) | | |
| General and administrative | \$ 3,099 | \$ 3,374 | 9% |
| Percentage of revenue | 12% | 13% | |

Three months ended 2014 compared to 2015. General and administrative expenses increased by \$0.2 million or 9% compared to 2014. The increase is principally due to legal and consulting costs related to our 2015 annual meeting and the solicitation of proxies in connection therewith, partially offset by the effects of our cost reduction plan.

Depreciation

| | Three Months Ended March 31, | | |
|-----------------------|---|-------------|-----------------|
| | 2014 | 2015 | % Change |
| | (in thousands) | | |
| Depreciation | \$ 1,058 | \$ 1,496 | 41% |
| Percentage of revenue | 4% | 6% | |

The increase in depreciation for the three months ended March 31, 2015 compared to the three months ended March 31, 2014 was due to placing certain software development projects into service during the fourth quarter 2014, including our next generation portal, our new back-end Cloud ID technology and our internally-developed video solutions experience.

Other Income (Expense)

| | Three Months Ended March 31, | | |
|------------------------|---|-------------|-----------------|
| | 2014 | 2015 | % Change |
| | (in thousands) | | |
| Other income (expense) | \$ 8 | \$ (16) | 300% |

Other expense consists mainly of interest income coupled with foreign currency transaction losses related to our international operations.

Interest Expense

**Three Months Ended
March 31,
2014 2015 % Change
(in thousands)**

| | 2014 | 2015 | % Change |
|------------------|---------|---------|----------|
| Interest expense | \$ (88) | \$ (50) | (43)% |

Our interest expense consists mainly of interest due on our capital lease obligations, for which the fluctuation in the three months ended March 31, 2014 and 2015 is nominal.

Table of Contents*(Benefit) Provision for Income Taxes*

| | Three Months Ended March 31, | | |
|--------------------------------------|---|-------------|-----------------|
| | 2014 | 2015 | % Change |
| | (in thousands) | | |
| (Benefit) Provision for income taxes | \$ (684) | \$ 4 | 99% |

During the three months ended March 31, 2014, we recognized additional income tax benefit related to our net operating loss, or NOL, of approximately \$0.7 million. In the fourth quarter of 2014, as a result of weighing the positive and negative evidence and guidance for accounting for income taxes, which includes an evaluation of recent cumulative pre-tax results, we determined it was appropriate to record a valuation allowance against our net deferred income tax assets because it was determined that it was no longer more likely than not that such NOLs will be utilized. Due to this uncertainty as of March 31, 2015, we did not record any material income tax expense.

Loss in Equity Interest

| | Three Months Ended March 31, | | |
|-------------------------|---|-------------|-----------------|
| | 2014 | 2015 | % Change |
| | (in thousands) | | |
| Loss in equity interest | \$ (246) | \$ (32) | (87)% |

In 2013 we entered into a Joint Venture Agreement pursuant to which we own 50% of the outstanding common stock and 100% of the preferred shares of Synacor China, Ltd., or the JV Company. For the three months ended March 31, 2014, we recorded our share of the losses of the JV Company of \$0.2 million. For the three months ended March 31, 2015, we did not record any material expense related to the JV Company.

Liquidity and Capital Resources

Our primary liquidity and capital resource requirements are for financing working capital, investing in capital expenditures such as computer hardware and software, supporting research and development efforts, introducing new technology, enhancing existing technology, and marketing our services and products to new and existing customers. To the extent that existing cash and cash equivalents, cash from operations and cash from short-term borrowings are insufficient to fund our future activities, we may need to raise additional funds through public or private equity offerings or debt financings.

In September 2013, we entered into a new Loan and Security Agreement with Silicon Valley Bank, or the Lender, which was amended in October 2014 (as amended, the Loan Agreement). The Loan Agreement provides for a \$10.0 million secured revolving line of credit with a stated maturity of September 27, 2015. The credit facility is available for cash borrowings, subject to a formula based upon eligible accounts receivable. As of March 31, 2015, due to the operation of the borrowing formula, \$10.0 million was available under the revolving credit line, with no outstanding borrowings.

Borrowings under the Loan Agreement bear interest, at our election, at an annual rate of either 0.50% above the prime rate as published in The Wall Street Journal or LIBOR for the relevant period plus 3.00%. For LIBOR advances,

interest is payable (i) on the last day of a LIBOR interest period or (ii) on the last day of each calendar quarter. For prime rate advances, interest is payable (a) on the first day of each month and (b) on each date a prime rate advance is converted into a LIBOR advance.

Our obligations to the Lender are secured by a first priority security interest in all our assets, including our intellectual property. The Loan Agreement contains customary events of default, including non-payment of principal or interest, violations of covenants, material adverse changes, cross-default, bankruptcy and material judgments. Upon the occurrence of an event of default, the Lender may accelerate repayment of any outstanding balance. The Loan Agreement also contains certain financial covenants and other agreements that are customary in loan agreements of this type, including restrictions on paying dividends and making distributions to our stockholders. As of March 31, 2015, we were in compliance with the covenants and anticipate continuing to be so.

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As of March 31, 2015, we had approximately \$26.8 million of cash and cash equivalents and money market funds. We did not have any short-term or long-term investments. We believe that our existing cash and cash equivalents, along with cash flows from operations and availability under our revolving credit line, will be sufficient to meet our anticipated working capital, capital lease payment obligations and capital expenditure requirements for at least the next 12 months.

Cash Flows

| | Three Months Ended March 31, | |
|---|-------------------------------------|-------------|
| | 2014 | 2015 |
| | (in thousands) | |
| Statements of Cash Flows Data: | | |
| Cash flows provided by (used in) operating activities | \$ (1,166) | \$ 2,165 |
| Cash flows used in investing activities | \$ (1,764) | \$ (600) |
| Cash flows used in financing activities | \$ (515) | \$ (387) |

Cash Provided by (Used in) Operating Activities

In the three months ended March 31, 2014 operating activities used \$1.2 million of cash. The cash flow from operating activities primarily resulted from our net loss, adjusted for non-cash items, and changes in our operating assets and liabilities. Net loss was \$2.1 million, which included non-cash depreciation of \$1.1 million, non-cash stock-based compensation of \$0.7 million and a non-cash loss in an equity interest of \$0.2 million, offset by non-cash change in deferred income tax provision of \$0.7 million. Changes in our operating assets and liabilities used \$0.4 million of cash, primarily due to a net use of cash related to prepaid expenses and other assets of \$0.5 million, combined with an increase of our accounts payable of \$1.3 million and a decrease in our accrued expenses and other current liabilities of \$1.2 million. The decrease in accrued expenses and other current liabilities was primarily due to the decrease of accrued compensation costs of \$0.6 million primarily relating to bonuses earned and accrued in 2013 and paid in 2014. The increase in our prepaid and other current assets was primarily due to the increase of prepayments to vendors for components of our cost of revenue and insurance coverages in the three months ended March 31, 2014.

In the three months ended March 31, 2015 operating activities provided \$2.2 million of cash. The cash flow from operating activities primarily resulted from our reduced net loss and improved collections from our accounts receivable. Net loss was \$1.1 million, which included non-cash depreciation of \$1.5 million and non-cash stock-based compensation of \$0.7 million. Changes in our operating assets and liabilities provided \$1.0 million of cash, primarily due to a \$1.2 million inflow of cash related to the timing of cash collections from accounts receivable, prepaid expenses and other assets of \$0.1 million, combined with an increase of our accounts payable of \$1.0 million and a decrease in our accrued expenses and other current liabilities of \$1.1 million. The decrease in accrued expenses and other current liabilities was primarily due to the decrease of accrued compensation costs of \$1.2 million primarily relating to bonuses earned and accrued in 2014 and paid in 2015. The increase in our prepaid and other current assets was primarily due to the increase of prepayments to vendors for components of our cost of revenue and insurance coverages in the three months ended March 31, 2015.

Cash Used in Investing Activities

Our primary investing activities have consisted of purchases of property and equipment and investments made in the JV Company. Purchases of property and equipment may vary from period to period due to the timing of the expansion

of our operations and internal-use software development. We expect to continue to invest in property and equipment and in the development of software for the remainder of 2015 and thereafter.

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Cash used in investing activities in the three months ended March 31, 2014 was \$1.8 million, consisting of \$1.5 million used for purchases of property and equipment specifically related to the build out of our data centers and internal-use software development, and \$0.2 million used for an investment in an equity interest in the JV Company.

Cash used in investing activities in the three months ended March 31, 2015 was \$0.6 million used for purchases of property and equipment specifically related to the build out of our data centers and internal-use software development.

Cash Used in Financing Activities

For the three months ended March 31, 2014, net cash used in financing activities was \$0.5 million primarily for repayment of \$0.5 million on our capital lease obligations. Cash used for the purchase of treasury stock and received from the exercise of common stock options were nominal.

For the three months ended March 31, 2015, net cash used in financing activities was \$0.4 million primarily for repayment of \$0.4 million on our capital lease obligations.

Off-Balance Sheet Arrangements

As of March 31, 2015, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of Regulation S-K promulgated by the SEC, that have or are reasonably likely to have a current or future effect on our financial condition, changes in our financial condition, revenues, or expenses, results of operations, liquidity, capital expenditures, or capital resources that is material to investors.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We have operations both within the United States and internationally, and we are exposed to market risks in the ordinary course of our business. These primarily include interest rate and inflation risk.

Interest Rate Risk

Our cash and cash equivalents primarily consist of cash and money market funds. Other than our \$1.0 million investment in B&FF and our investment in the JV Company, we currently have no investments of any type. Our exposure to market risk for changes in interest rates is limited because nearly all of our cash and cash equivalents have a short-term maturity and are used primarily for working capital purposes. If we had outstanding borrowings under our Loan Agreement with Silicon Valley Bank, we would be exposed to fluctuations in interest rates that are variable to the market.

Inflation Risk

We do not believe that inflation has had a material effect on our business, financial condition or results of operations. If our costs were to become subject to significant inflationary pressures, we may not be able to fully offset such higher costs through price increases. Our inability or failure to do so could harm our business, financial condition and results of operations.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2015. The term disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Based upon the evaluation as of March 31, 2015, our Chief Executive Officer and Chief Financial Officer have concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

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Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting identified in management's evaluation pursuant to Rules 13a-15(d) or 15d-15(d) of the Exchange Act during the quarter ended March 31, 2015 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents**PART II OTHER INFORMATION****Item 1. Legal Proceedings**

From time to time we may become involved in legal proceedings arising in the ordinary course of our business. We are not presently involved in any legal proceedings, the outcome of which, if determined adversely to us, would have a material adverse effect on our business, results of operations or financial condition.

Item 1A. Risk Factors

Our business and financial results are subject to numerous risks and uncertainties, including those described below, which could adversely and materially affect our business, financial condition or results of operations. You should carefully consider these risks and uncertainties, including the following risk factors and all other information contained in this Quarterly Report on Form 10-Q, together with any other documents we file with the SEC.

Risks Related to Our Business

Our search advertising partner, Google, accounts for a significant portion of our revenue, and any loss of, or diminution in, our business relationship with Google would materially and adversely affect our financial performance.

We rely on traffic on our start experiences to generate search and digital advertising revenue, a substantial portion of which is derived from text-based links to advertisers' websites as a result of Internet searches. We have a revenue-sharing relationship with Google Inc., or Google, under which we include a Google-branded search tool on our start experiences. When a consumer makes a search request using this tool, we deliver it to Google, and Google returns search results to us that include advertiser-sponsored links. If the consumer clicks on a sponsored link, Google receives payment from the sponsor of that link and shares a portion of that payment with us. We then typically share a portion of that payment with the applicable customer. Our Google-related search advertising revenue attributable to our customers, which consists of the portion of the payment from the sponsor that Google shares with us, accounted for approximately 56%, 51%, and 42% of our revenue in 2012, 2013 and 2014, or \$68.5 million, \$57.5 million and \$45.4 million, respectively, and approximately 36% of our revenue in the three months ended March 31, 2015, or \$9.7 million. Our agreement with Google was renewed in March 2014 for a three year term and expires in February 2017 unless we and Google mutually elect to renew it. Additionally, Google may terminate our agreement if we experience a change in control, if we enter into an agreement providing for a change in control, if we do not maintain certain search and digital advertising revenue levels or if we fail to conform to Google's search policies and advertising policies. Google may from time to time change its existing, or establish new, methodologies and metrics for valuing the quality of Internet traffic. Any changes in these methodologies, metrics and advertising technology platforms could decrease the advertising rates that we receive and/or the amount of revenue that we generate from digital advertisements. If advertisers were to discontinue their advertising via Internet searches, if Google's revenue from search-based advertising were to decrease, if Google's share of the search revenue were to be increased or if our agreement with Google were to be terminated for any reason or renewed on less favorable terms, our business, financial condition and results of operations would be materially and adversely affected. Moreover, consumers' increased use of search tools other than the Google-branded search tool we provide would have similar effects.

A loss of any significant customer could negatively affect our financial performance.

We derive a substantial portion of our revenue from a small number of customers. Revenue attributable to these customers includes the subscriber-based revenue earned directly from them, as well as the search and digital advertising revenue earned through our relationships with our advertising partners, such as Google, based on traffic generated from our start experiences. Revenue attributable to Charter Communications, Inc., or Charter Communications, CenturyLink, Inc., or CenturyLink, Toshiba America Information Systems, Inc., or Toshiba, and Verizon Services Group, Inc., or Verizon, together accounted for approximately 73%, 68% and 67% of our revenue, or \$88.4 million, \$75.6 million and \$71.1 million for the years ended December 31, 2012, 2013 and 2014, respectively.

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Additionally, revenue attributable to Charter Communications, CenturyLink, Toshiba and Verizon together accounted for approximately 64% of our revenue for the three months ended March 31, 2015, or \$17.1 million. For each period, revenue attributable to one of these customers accounted for 20% or more of our revenue, and revenue attributable to each of the other three customers accounted for more than 10% of our revenue.

Our contracts with our customers generally have an initial term of approximately two to three years from the launch of their start experiences and frequently provide for one or more automatic renewal terms of one to two years each. If any one of these key contracts is not renewed or is otherwise terminated, or if revenue from these significant customers declines because of competitive or other reasons, our revenue would decline and our ability to achieve or sustain profitability would be impaired. For example, in May 2013 we entered into an amendment to our agreement with Charter Communications which enables Charter Communications to terminate the agreement upon 90 days written notice, and in June 2014 we entered into an amendment to our agreement with Charter Communications reducing the breadth of the services that we provide to Charter Communications. Accordingly, we expect revenue attributable to Charter Communications to decline in future periods. In addition to the loss of subscriber-based revenue, including start experience and paid content sales, we would also lose significant revenue from the related search and digital advertising services that we provide. In addition to the decline of revenue, we may have to impair our long-lived assets, to the extent that such assets are used exclusively to support these customers, which would adversely impact our results of operations and financial position.

We have a history of significant pre-tax net losses and may not be profitable in future periods, which would limit our ability to use our net operating loss carryforwards.

We have incurred significant losses in each year of operation other than 2009, 2011, and 2012, including a pre-tax net loss of \$3.6 million in 2010, a pre-tax net loss of \$1.5 million in 2013 and a pre-tax net loss of \$8.1 million in 2014. We have also incurred a pre-tax net loss of \$1.1 million for the three months ended March 31, 2015, as compared to a pre-tax net loss of \$2.7 million for the three months ended March 31, 2014.

Our pre-tax net income in 2009, 2011, and 2012 was \$0.3 million, \$3.9 million, and \$5.6 million, respectively. We have taken cost saving measures, including a reduction in workforce carried out in September 2014. However, our expenses may increase in future periods as we implement initiatives designed to grow our business including, among other things, the development and marketing of new services and products, licensing of content, expansion of our infrastructure and international expansion. If our revenue does not sufficiently increase to offset these expected increases in operating expenses, we may incur significant losses and may not be profitable. Our revenue in 2014 declined as compared to 2013, and our revenue in 2013 declined as compared to 2012. We may not be able to return to or maintain profitability in the future. Any failure to achieve or maintain profitability may materially and adversely affect our business, financial condition, results of operations and impact our ability to utilize our net operating loss carryforwards. In 2014, as a result of the pre-tax cumulative loss we incurred over the past three years, we established a full valuation allowance against our deferred income tax asset, which includes our net operating loss carryforwards.

Many individuals are using devices other than personal computers and software applications other than Internet browsers to access the Internet. If users of these devices and software applications do not widely adopt the applications and other solutions we develop for them, our business could be adversely affected.

The number of people who access the Internet through devices other than PCs, including tablets, smartphones and connected TVs, has increased dramatically in the past few years and is projected to continue to increase. Similarly, individuals are increasingly accessing the Internet through apps other than Internet browsers, such as those available for download through Apple Inc.'s App Store and the Android Market. We have introduced the next generation of our start experiences, which includes our mobile device portal that configures most mobile devices, as well as our desktop

portals and our custom homescreen for Android devices. If consumers do not use our new start experiences at all or use our new start experiences less frequently than our previous start experiences, our financial results could be negatively affected. Additionally, as new devices and new apps are continually being released, it is difficult to predict the problems we may encounter in developing new versions of our apps and other solutions for use on these alternative devices and apps, and we may need to devote significant resources to the creation, support and maintenance of such apps and solutions. If users of these devices and apps do not widely adopt the apps and other solutions we develop, our business, financial condition and results of operations could be adversely affected.

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Consumer tastes continually change and are unpredictable, and our sales may decline if we fail to enhance our service and content offerings to achieve continued subscriber acceptance.

Our business depends on aggregating and providing services and content that our customers will place on our start experiences, including television programming, news, entertainment, sports and other content that their subscribers find engaging, and premium services and paid content that their subscribers will buy. Accordingly, we must continue to invest significant resources in licensing efforts, research and development and marketing to enhance our service and content offerings, and we must make decisions about these matters well in advance of product releases to implement them in a timely manner. Our success depends, in part, on unpredictable and volatile factors beyond our control, including consumer preferences, competing content providers and websites and the availability of other news, entertainment, sports and other services and content. While we work with our customers to have their consumers homepages and homescreens set to our start experiences, a consumer may easily change that setting, which would likely decrease the use of our start experiences. Similarly, consumers who change their device's operating system or Internet browser may no longer have our start experiences set as their default homepage or homescreen, and unless they change it back to our start experience, their usage of our start experiences would likely decline and our results of operations could be negatively impacted. Consumers who acquire new consumer electronics devices will no longer have our start experience initially set as their default homepage, and unless they change the default to our start experience, their usage of our start experiences would likely decline and our results of operations could be negatively impacted.

If our services are not responsive to the requirements of our customers or the preferences of their consumers, or the services are not brought to market in a timely and effective manner, our business, financial condition and results of operations would be harmed. Even if our services and content are successfully introduced and initially adopted, a subsequent shift in the preferences of our customers or their consumers could cause a decline in the popularity of our services and content that could materially reduce our revenue and harm our business, financial condition and results of operations.

Our sales growth will be adversely affected if we are unable to expand the breadth of our services and products or to introduce new services and products on a timely basis.

To retain our existing customers, attract new customers and increase revenue, we must continue to develop and introduce new services and products on a timely basis and continue to develop additional features to our existing product base. If our existing and prospective customers do not perceive that we will deliver our services and products on schedule, or if they do not perceive our services and products to be of sufficient value and quality, we may lose the confidence of our existing customers and fail to increase sales to these existing customers, and we may not be able to attract new customers, each of which would adversely affect our operating results.

Our sales cycles and the contracting process with new customers are long and unpredictable and may require us to incur expenses before executing a customer agreement, which makes it difficult to project when, if at all, we will obtain new customers and when we will generate additional revenue and cash flows from those customers.

We market our services and products directly to high-speed Internet service providers and consumer electronics manufacturers. New customer relationships typically take time to obtain and finalize because of the burdensome cost of migrating from an existing solution to our platform. Due to operating procedures in many organizations, a significant time period may pass between selection of our services and products by key decision-makers and the signing of a contract. The length of time between the initial customer sales call and the realization of significant sales is difficult to predict and can range from several months to several years. As a result, it is difficult to predict when we

will obtain new customers and when we will begin to generate revenue and cash flows from these potential new customers.

As part of our sales cycle, we may incur significant expenses in the form of compensation and related expenses and equipment acquisition before executing a definitive agreement with a prospective customer so that we may be ready to launch shortly following execution of a definitive agreement. If conditions in the marketplace generally or with a specific prospective customer change negatively, it is possible that no definitive agreement will be executed, and we will be unable to recover any expenses incurred before a definitive agreement is executed, which would in turn have an adverse effect on our business, financial condition and results of operations.

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Most of our customers are high-speed Internet service providers, and consolidation within the cable and telecommunications industries could adversely affect our business, financial condition and results of operations.

Our revenue from high-speed Internet service providers, including our search and digital advertising revenue generated by online consumer traffic on our start experiences, accounted for approximately 80% of our revenue in 2012, approximately 83% in 2013, approximately 85% in 2014 and approximately 85% in the three months ended March 31, 2015. The cable and telecommunications industries have experienced consolidation over the past several years, and we expect that this trend will continue. As a result of consolidation, some of our customers may be acquired by companies with which we do not have existing relationships and which may have relationships with one of our competitors or may have the in-house capacity to perform the services we provide. As a result, such acquisitions could cause us to lose customers and the associated subscriber-based and search and digital advertising revenue. Under our agreements with some of our customers, including Charter Communications, Verizon and CenturyLink, they have the right to terminate the agreement if we are acquired by one of their competitors.

Consolidation may also require us to renegotiate our agreements with our customers as a result of enhanced customer leverage. We may not be able to offset the effects of any such renegotiations, and we may not be able to attract new customers to counter any revenue declines resulting from the loss of customers or their subscribers.

As technology continues to evolve, the use of our products by our current and prospective consumer electronics manufacturer customers may decrease and our business could be adversely affected.

The consumer electronics industry is subject to rapid change, and our contracts with our consumer electronics manufacturer customers are not exclusive. As consumer electronics manufacturers continue to develop new technologies and introduce new models and devices, there can be no assurance that we will be able to develop solutions that will persuade consumer electronics manufacturers that are our customers at such time to utilize our technology for those new devices. If our current and prospective consumer electronics manufacturer customers elect not to integrate our solutions into their new products, our business, financial condition and results of operations could be adversely affected.

Moreover, updates to Internet browser technology may adversely affect our business. For example, for our consumer electronics manufacturer customers that have the Windows 8 operating system pre-installed on some of their devices, the Windows 8 operating system places our start experience on a second tab when the Internet browser is launched, leading to decreased search and digital advertising revenue.

We invest in features and functionality designed to increase consumer engagement with our start experiences; however, these investments may not lead to increased revenue.

Our future growth and profitability will depend in large part on the effectiveness and efficiency of our efforts to provide a compelling consumer experience that increases consumer engagement with our start experiences. We have made and will continue to make substantial investments in features and functionality for our technology that are designed to drive consumer engagement. Not all of these activities directly generate revenue, and we cannot assure you that we will reap sufficient rewards from these investments to make them worthwhile. If the expenses that we incur in connection with these activities do not result in increased consumer engagement that in turn results in revenue increases that exceed these expenses, our business, financial condition and results of operations will be adversely affected.

Our services and products may become less competitive or even obsolete if we fail to respond to technological developments.

Our future success will depend, in part, on our ability to modify or enhance our services and products to meet customer and consumer needs, to add functionality and to address technological advancements that would improve their performance. For example, if our smartphone and tablet products fail to capture the increased search activity on such devices or if our services and products do not adapt to the increasing video usage on the Internet or to take into account evolving developments in social networking, then they could begin to appear obsolete. Similarly, if we fail to develop new ways to deliver content and services through apps other than traditional Internet browsers, consumers could seek alternative means of accessing content and services.

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To remain competitive, we will need to develop new services and products and adapt our existing ones to address these and other evolving technologies and standards. However, we may be unsuccessful in identifying new opportunities or in developing or marketing new services and products in a timely or cost-effective manner. In addition, our product innovations may not achieve the market penetration or price levels necessary for profitability. If we are unable to develop enhancements to, and new features for, our existing services and products or if we are unable to develop new services and products that keep pace with rapid technological developments or changing industry standards, our services and products may become obsolete, less marketable and less competitive, and our business will be harmed.

We depend on third parties for content that is critical to our business, and our business could suffer if we do not continue to obtain high-quality content at a reasonable cost.

We license the content that we aggregate on our start experiences from numerous third-party content providers, and our future success is highly dependent upon our ability to maintain and enter into new relationships with these and other content providers. In the future, some of our content providers may not give us access to high-quality content, may fail to adapt to changes in consumer tastes or may increase the royalties, fees or percentages that they charge us for their content, any of which could have a material negative effect on our operating results. Our rights to the content that we offer to our customers and their consumers are not exclusive, and the content providers could license their content to our competitors. Our content providers could even grant our competitors exclusive licenses. In addition, our customers are not prohibited from entering into content deals directly with our content providers. Any failure to enter into or maintain satisfactory arrangements with content providers would adversely affect our ability to provide a variety of attractive services and products to our customers. Our reputation and operating results could suffer as a result, and it may be more difficult for us to develop new relationships with potential customers.

Our revenue and operating results may fluctuate, which makes our results difficult to predict and could cause our results to fall short of expectations.

As a result of the rapidly changing nature of the markets in which we compete, our quarterly and annual revenue and operating results are likely to fluctuate from period to period. These fluctuations may be caused by a number of factors, many of which are beyond our control, including but not limited to the various factors set forth in this Risk Factors section, as well as:

any failure to maintain strong relationships and favorable revenue-sharing arrangements with our search and digital advertising partners, in particular Google, including a reduction in the quantity or pricing of sponsored links that consumers click on or a reduction in the pricing of digital advertisements by advertisers;

the timing of our investment in, or the timing of our monetization of, our products and services, such as our end-to-end video solutions portfolio;

any failure of significant customers to renew their agreements with us;

our ability to attract new customers;

our ability to increase sales of premium services and paid content to existing subscribers;

any development by our significant customers of the in-house capacity to replace the services we provide;

the release of new product and service offerings by our competitors or our customers;

variations in the demand for our services and products and the implementation cycles of our services and products by our customers;

changes to Internet browser technology that renders our start experiences less competitive;

changes in our pricing policies or those of our competitors;

changes in the prices our customers charge for premium services and paid content;

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service outages, other technical difficulties or security breaches;

limitations relating to the capacity of our networks, systems and processes;

our failure to accurately estimate or control costs, including costs related to the initial launch of new customers;

maintaining appropriate staffing levels and capabilities relative to projected growth;

the timing of costs related to the development or acquisition of technologies, services or businesses to support our existing customers and potential growth opportunities; and

general economic, industry and market conditions and those conditions specific to Internet usage and online businesses.

For these reasons and because the market for our services and products is relatively new and rapidly changing, it is difficult to predict our future financial results.

Expansion into international markets, which is an important part of our strategy, but where we have limited experience, will subject us to risks associated with international operations.

We plan to expand our product offerings internationally, particularly in Asia, Canada, Latin America and Europe. We have limited experience in marketing and operating our services and products in international markets, and we may not be able to successfully develop our business in these markets. Our success in these markets will be directly linked to the success of relationships with potential customers, content partners and other third parties.

As the international markets in which we plan to operate continue to grow, we expect that competition in these markets will intensify. Local companies may have a substantial competitive advantage because of their greater understanding of, and focus on, the local markets. Some of our domestic competitors who have substantially greater resources than we do may be able to more quickly and comprehensively develop and grow in international markets. International expansion may also require significant financial investment including, among other things, the expense of developing localized products, the costs of acquiring foreign companies and the integration of such companies with our operations, expenditure of resources in developing customer and content relationships and the increased costs of supporting remote operations.

Other risks of doing business in international markets include the increased risks and burdens of complying with different legal and regulatory standards, difficulties in managing and staffing foreign operations, recruiting and retaining talented direct sales personnel, limitations on the repatriation of funds and fluctuations of foreign exchange rates, varying levels of Internet technology adoption and infrastructure and our ability to enforce contracts and our intellectual property rights in foreign jurisdictions. In addition, our success in international expansion could be limited by barriers to international expansion such as tariffs, adverse tax consequences and technology export controls. If we cannot manage these risks effectively, the costs of doing business in some international markets may be prohibitive or our costs may increase disproportionately to our revenue. Some of our business partners also have international operations and are subject to the risks described above. Even if we are able to successfully manage the risks of

international operations, our business may be adversely affected if our business partners are not able to successfully manage these risks.

Our agreements with some of our customers and content providers require fixed payments, which could adversely affect our financial performance.

Certain of our agreements with customers and content providers require us to make fixed payments to them. The aggregate amount of such fixed payments for the years ending December 31, 2015 (nine months remaining), 2016 and 2017 are approximately \$2.1 million, \$1.3 million and \$0.6 million, respectively. We are required to make these fixed payments regardless of the achievement of any revenue objectives or subscriber or usage levels. If we do not achieve our financial objectives, these contractual commitments would constitute a greater percentage of our revenue than originally anticipated and would adversely affect our profitability.

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Our agreements with some of our customers and content providers contain penalties for non-performance, which could adversely affect our financial performance.

We have entered into service level agreements with most of our customers. These agreements generally call for specific system up times and 24 hours per day, seven days per week support and include penalties for non-performance. We may be unable to fulfill these commitments due to circumstances beyond our control, which could subject us to substantial penalties under those agreements, harm our reputation and result in a reduction of revenue or the loss of customers, which would in turn have an adverse effect on our business, financial condition and results of operations. To date, we have never incurred any material penalties.

System failures or capacity constraints could harm our business and financial performance.

The provision of our services and products depends on the continuing operation of our information technology and communications systems. Any damage to or failure of our systems could result in interruptions in our service. Such interruptions could harm our business, financial condition and results of operations, and our reputation could be damaged if people believe our systems are unreliable. Our systems are vulnerable to damage or interruption from snow storms, terrorist attacks, floods, fires, power loss, telecommunications failures, security breaches, computer malware, computer hacking attacks, computer viruses, computer denial of service attacks or other attempts to, or events that, harm our systems. Our data centers are also subject to break-ins, sabotage and intentional acts of vandalism and to potential disruptions if the operators of the facilities have financial difficulties. Although we maintain insurance to cover a variety of risks, the scope and amount of our insurance coverage may not be sufficient to cover our losses resulting from system failures or other disruptions to our online operations. For example, the limit on our business interruption insurance is approximately \$27.1 million. Any system failure or disruption and any resulting losses that are not recoverable under our insurance policies may materially harm our business, financial condition and results of operations. To date, we have never experienced any material losses.

Our data centers are not on full second-site redundancy, however we have the capability to do so; only certain customers require us to. We regularly back-up our systems and store the system back-ups in Atlanta, Georgia, Dallas, Texas, Lewis Center, Ohio, Denver, Colorado, Toronto, Canada, Amsterdam, the Netherlands, and Buffalo, New York. If we were forced to relocate to an alternate site and to rely on our system back-ups to restore the systems, we would experience significant delays in restoring the functionality of our platform and could experience loss of data, which could materially harm our business and our operating results.

Security breaches, computer viruses and computer hacking attacks could harm our business, financial condition and results of operations.

Security breaches, computer malware and computer hacking attacks are prevalent in the technology industry. Any security breach caused by hacking, which involves efforts to gain unauthorized access to information or systems, or to cause intentional malfunctions or loss or corruption of data, software, hardware or other computer equipment, and the inadvertent transmission of computer viruses could harm our business, financial condition and results of operations. We have previously experienced hacking attacks on our systems, and may in the future experience hacking attacks. Though it is difficult to determine what harm may directly result from any specific interruption or breach, any failure to maintain performance, reliability, security and availability of our technology infrastructure to the satisfaction of our customers and their consumers may harm our reputation and our ability to retain existing customers and attract new customers.

We may not maintain acceptable website performance for our customers, which may negatively impact our relationships with our customers and harm our business, financial condition and results of operations.

A key element to our continued growth is the ability of our customers – consumers in all geographies to access our start experiences within acceptable load times. We refer to this as website performance. We may in the future experience platform disruptions, outages and other performance problems due to a variety of factors, including infrastructure changes, human or software errors, capacity constraints due to an overwhelming number of users accessing our technology simultaneously, and denial of service or fraud or security attacks. In some instances, we may not be able to identify the cause or causes of these website performance problems within an acceptable period of time.

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It may become increasingly difficult to maintain and improve website performance, especially during peak usage times, and as our solutions become more complex and our user traffic increases. If our start experiences are unavailable when consumers attempt to access them or do not load as quickly as they expect, consumers may seek other alternatives to obtain the information for which they are looking, and may not return to our start experiences as often in the future, or at all. This would negatively impact our relationships with our customers. We expect to continue to make significant investments to maintain and improve website performance. To the extent that we do not effectively address capacity constraints, upgrade our systems as needed and continually develop our technology and network architecture to accommodate actual and anticipated changes in technology, our business and operating results may be harmed.

We rely on our management team and need additional personnel to expand our business, and the loss of key officers or an inability to attract and retain qualified personnel could harm our business, financial condition and results of operations.

We depend on the continued contributions of our senior management and other key personnel, especially Himesh Bhise, our President and Chief Executive Officer, George G. Chamoun, our President of Sales and Marketing and William J. Stuart, our Chief Financial Officer. The loss of the services of any of our executive officers or other key employees could harm our business and our prospects. All of our executive officers and key employees are at-will employees, which means they may terminate their employment relationship with us at any time.

Our future success also depends on our ability to identify, attract and retain highly skilled technical, managerial, finance, marketing and creative personnel. Further, we will need to hire personnel outside the United States to pursue an international expansion strategy, and we will need to hire additional advertising salespeople to sell more advertisements directly. We face intense competition for qualified individuals from numerous technology, marketing and media companies, and we may incur significant costs to attract them. We may be unable to attract and retain suitably qualified individuals, or we may be required to pay increased compensation in order to do so. If we were to be unable to attract and retain the qualified personnel we need to succeed, our business could suffer.

Volatility or lack of performance in the trading price of our common stock may also affect our ability to attract and retain qualified personnel. Many of our senior management personnel and other key employees have become, or will become, vested in a substantial amount of stock or stock options. Employees may be more likely to leave us if the shares they own or the shares underlying their options have significantly appreciated in value relative to the original purchase prices of the shares or the exercise prices of the options or if the exercise prices of the options that they hold are significantly above the trading price of our common stock. If we are unable to retain our employees, our business, financial condition and results of operations would be harmed.

If we fail to manage our growth effectively, our business, financial condition and results of operations may suffer.

Following the merger of our predecessor companies, Chek, Inc., or Chek, and MyPersonal.com, Inc., or MyPersonal, to form Synacor, we expanded our business primarily through organic growth. We have sought to, and may continue to seek to, grow through strategic acquisitions. Our goal of returning to growth may place significant demands on our management and our operational and financial infrastructure. Our ability to manage our growth effectively and to integrate new technologies and acquisitions into our existing business will require us to continue to expand our operational, financial and management information systems and to continue to retain, attract, train, motivate and manage key employees. Growth could strain our ability to:

develop and improve our operational, financial and management controls;

enhance our reporting systems and procedures;

recruit, train and retain highly skilled personnel;

maintain our quality standards; and

maintain customer and content owner satisfaction.

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Managing our growth will require significant expenditures and allocation of valuable management resources. If we fail to achieve the necessary level of efficiency in our organization as it grows, our business, financial condition and results of operations would be harmed.

We may expand our business through acquisitions of, or investments in, other companies or new technologies, or joint ventures or other strategic alliances with other companies, which may divert our management's attention or prove not to be successful.

In January 2015, we purchased assets from, and hired the personnel of, NimbleTV, Inc.; in November 2013, we completed an acquisition of certain mobile device software and technology from Teknision; in January 2012, we completed an acquisition of certain mobile device software and technology from Carbyn; and in March 2013, we entered into a Joint Venture Agreement with Maxit to form Synacor China, Ltd., a company incorporated under the laws of the Cayman Islands, or the JV Company, a joint venture in China. We may decide to pursue other acquisitions of, investments in, or joint ventures involving other technologies and businesses in the future. Such transactions could divert our management's time and focus from operating our business.

Our ability as an organization to integrate acquisitions is relatively unproven. Integrating an acquired company, business or technology is risky and may result in unforeseen operating difficulties and expenditures, including, among other things, with respect to:

incorporating new technologies into our existing business infrastructure;

consolidating corporate and administrative functions;

coordinating our sales and marketing functions to incorporate the new business or technology;

maintaining morale, retaining and integrating key employees to support the new business or technology and managing our expansion in capacity; and

maintaining standards, controls, procedures and policies (including effective internal controls over financial reporting and disclosure controls and procedures).

In addition, a significant portion of the purchase price of companies we may acquire may be allocated to acquired goodwill and other intangible assets, which must be assessed for impairment at least annually. In the future, if our acquisitions do not yield expected returns, we may be required to take charges to our earnings based on this impairment assessment process, which could harm our operating results.

Future acquisitions could result in potentially dilutive issuances of our equity securities, including our common stock, or the incurrence of debt, contingent liabilities, amortization expenses or acquired in-process research and development expenses, any of which could harm our business, financial condition and results of operations. Future acquisitions may also require us to obtain additional financing, which may not be available on favorable terms or at all.

Finally, our skill at investing our funds in illiquid securities issued by other companies, such as our investment in a privately held Delaware corporation called Blazer and Flip Flops, Inc., or B&FF (doing business as The Experience Engine), is untested. Although we review the results and prospects of such investments carefully, it is possible that our investments could result in a total loss. Additionally, we will typically have little or no control in the companies in which we invest, and we will be forced to rely on the management of companies in which we invest to make reasonable and sound business decisions. If the companies in which we invest are not successfully able to manage the risks facing them, such companies could suffer, and our own business, financial condition and results of operations could be harmed.

We may require additional capital to grow our business, and this capital may not be available on acceptable terms or at all.

The operation of our business and our growth strategy may require significant additional capital, especially if we were to accelerate our expansion and acquisition plans. If the cash generated from operations and otherwise available to us is not sufficient to meet our capital requirements, we will need to seek additional capital, potentially through debt or equity financings, to fund our growth.

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We may not be able to raise needed capital on terms acceptable to us or at all. Financings, if available, may be on terms that are dilutive or potentially dilutive to our stockholders, and the prices at which new investors would be willing to purchase our securities may cause our existing stockholders to suffer substantial dilution. The holders of new securities may also receive rights, preferences or privileges that are senior to those of existing holders of our common stock. Any debt financing obtained by us in the future could contain restrictive covenants that may potentially restrict our operations, and if we do not effectively manage our business to comply with those covenants, our business, financial condition and results of operations could be adversely affected. If new sources of financing are required but are insufficient or unavailable, we could be required to delay, abandon