Synacor, Inc.
Form 10-Q
May 15, 2012
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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, 2012

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	**16-1542712**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**
40 La Riviere Drive, Suite 300	
Buffalo, New York	**14202**
(Address of principal executive offices)	**(Zip Code)**

(716) 853-1362

(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 x 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 x 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 x (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 x

As of April 12, 2012, there were 26,880,005 shares of the registrant s common stock outstanding. All share and per share amounts in this Quarterly Report on Form 10-Q reflect the 1-for-2 reverse stock split of the registrant s common stock which took effect immediately prior to the effectiveness of the registration statement for the registrant s initial public offering.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

Synacor, Inc.

CONDENSED CONSOLIDATED BALANCE SHEETS UNAUDITED

AS OF DECEMBER 31, 2011 AND MARCH 31, 2012

(In thousands except for share and per share data)

	December 31, 2011	March 31, 2012
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 10,925	$ 33,120
Accounts receivable net of allowance of $25 and $25	14,336	15,117
Deferred income taxes	3,534	3,433
Prepaid expenses and other current assets	1,811	2,600
Total current assets	30,606	54,270
PROPERTY AND EQUIPMENT Net	8,301	10,387
DEFERRED INCOME TAXES, NON-CURRENT	2,549	2,255
OTHER LONG-TERM ASSETS	1,926	765
GOODWILL		819
TOTAL ASSETS	$ 43,382	$ 68,496
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 12,498	$ 12,368
Accrued expenses and other current liabilities	5,492	3,749
Current portion of bank financing	250	125
Current portion of capital lease obligations	1,593	2,338
Total current liabilities	19,833	18,580
LONG-TERM PORTION OF CAPITAL LEASE OBLIGATIONS	2,098	3,294
OTHER LONG-TERM LIABILITIES	71	604
Total liabilities	22,002	22,478
COMMITMENTS AND CONTINGENCIES (Note 7)		
STOCKHOLDERS EQUITY:		
Common stock, $0.01 par value 30,000,000 shares authorized, 3,052,856 issued and 2,733,356 outstanding at December 31, 2011, and 100,000,000 authorized, 27,197,264 issued and 26,877,764 shares outstanding at March 31, 2012	31	272
Preferred stock, $0.01 par value 10,000,000 shares authorized, no shares issued and outstanding at March 31, 2012		
Convertible preferred stock, $0.01 par value Series A, 5,709,638 shares authorized and 5,548,508 shares issued and outstanding at December 31, 2011, and no shares authorized, issued and outstanding at March 31, 2012	5,077	

Convertible preferred stock, $0.01 par value Series A-1, 570,344 shares authorized and 570,344 shares issued and outstanding at December 31, 2011, and no shares authorized, issued and outstanding at March 31, 2012	730	
Convertible preferred stock, $0.01 par value Series B, 3,500,000 shares authorized, 2,737,500 shares issued and outstanding at December 31, 2011, and no shares authorized, issued and outstanding at March 31, 2012	5,401	
Convertible preferred stock, $0.01 par value Series C, 2,740,407 shares authorized, 2,740,407 shares issued and outstanding at December 31, 2011, and no shares authorized, issued and outstanding at March 31, 2012	17,224	
Treasury stock at cost, 319,500 shares at December 31, 2011 and March 31, 2012	(569)	(569)
Additional paid-in capital	45,639	97,294
Accumulated deficit	(52,153)	(50,979)
Total stockholders equity	21,380	46,018
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 43,382	$ 68,496

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

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SYNACOR, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME UNAUDITED

FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2012

(In thousands except for share and per share data)

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2012
REVENUE	$ 18,694	$ 30,670
COSTS AND OPERATING EXPENSES:		
Cost of revenue (exclusive of depreciation shown separately below)	9,980	16,764
Research and development (exclusive of depreciation shown separately below)	4,602	6,288
Sales and marketing	1,796	2,377
General and administrative (exclusive of depreciation shown separately below)	1,551	2,840
Depreciation	620	781
Total costs and operating expenses	18,549	29,050
INCOME FROM OPERATIONS	145	1,620
OTHER INCOME	1	
INTEREST EXPENSE	(32)	(47)
INCOME BEFORE INCOME TAXES	114	1,573
PROVISION FOR INCOME TAXES	3	399
NET INCOME	111	1,174
COMPREHENSIVE INCOME	111	1,174
UNDISTRIBUTED EARNINGS ALLOCATED TO PREFERRED STOCKHOLDERS	101	
NET INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS	$ 10	$ 1,174
NET INCOME PER SHARE ATTRIBUTABLE TO COMMON STOCKHOLDERS:		
Basic	$ 0.01	$ 0.07
Diluted	$	$ 0.04
WEIGHTED AVERAGE SHARES USED TO COMPUTE NET INCOME PER SHARE ATTRIBUTABLE TO COMMON STOCKHOLDERS:		
Basic	1,929,909	16,603,579
Diluted	22,211,922	26,778,455

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, 2011 AND 2012

(In thousands)

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 111	$ 1,174
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	620	781
Stock-based compensation expense	222	558
Deferred income taxes		395
Change in assets and liabilities, net of effect of acquisition:		
Accounts receivable, net	(981)	(781)
Prepaid expenses and other current assets	16	(534)
Other long-term assets	(503)	123
Accounts payable	1,481	236
Accrued expenses and other current liabilities	(590)	(1,232)
Other long-term liabilities	(9)	33
Net cash provided by operating activities	367	753
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(230)	(879)
Cash paid for business acquisition		(600)
Net cash used in investing activities	(230)	(1,479)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment on bank financing	(125)	(125)
Repayments on capital lease obligations	(628)	(402)
Proceeds from exercise of common stock options	14	559
Proceeds from initial public offering		25,364
Initial public offering costs		(2,475)
Net cash (used in) provided by financing activities	(739)	22,921
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(602)	22,195
CASH AND CASH EQUIVALENTS Beginning of period	5,412	10,925
CASH AND CASH EQUIVALENTS End of period	$ 4,810	$ 33,120
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest	$ 32	$ 47
Cash paid for income taxes		27

SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING TRANSACTIONS:

Property and equipment acquired under capital lease obligations	$	$ 2,343
Accrued business acquisition consideration		500
Accrued initial public offering costs		278
Accrued property and equipment expenditures	496	122

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, 2011 AND MARCH 31, 2012, AND

FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2012

(In thousands except for share and per share data)

1. The Company and Summary of Significant Accounting Policies

Synacor, Inc. and its wholly-owned subsidiary, Synacor Canada Inc. (collectively, the Company), is a leading provider of authentication and aggregation solutions for delivery of online content and services. The Company delivers solutions as a set of services through its hosted and managed platform, enabling cable and telecom service providers and consumer electronics manufacturers to provide the online content and services that their consumers increasingly demand. The Company s platform allows its customers to package a wide array of online content and services with their high-speed Internet, communications, television and other offerings. Synacor s customers offer the Company s services under their own brands on Internet-enabled devices such as PCs, tablets, smartphones and connected TVs.

Initial Public Offering In February 2012, the Company completed its initial public offering whereby 6,818,170 shares of common stock were sold to the public at a price of $5.00 per share. The Company sold 5,454,545 common shares and selling stockholders sold 1,363,625 common shares. The Company received aggregate proceeds of $25,364 from the initial public offering, net of underwriters discounts and commissions but before deducting offering expenses of $3,016.

In connection with the initial public offering in February 2012, the Board of Directors of the Company approved a 1-for-2 reverse stock split of the Company s common stock. All common shares, stock options, and per share information presented in these condensed consolidated financial statements reflect the reverse stock split on a retroactive basis for all periods presented. There was no change in the par value of the Company s common stock. The ratio by which shares of preferred stock were convertible into shares of common stock was adjusted to reflect the effects of the reverse stock split. In addition, in accordance with their rights and consistent with the conversion rates discussed in Note 8 *Equity*, all shares of the Company s outstanding preferred stock were converted into common stock upon the closing of the initial public offering.

Basis of Presentation The accompanying interim condensed consolidated financial statements are unaudited and have been prepared by the Company s management in accordance with accounting principles generally accepted in the United States of America (GAAP). In the opinion of management, all significant adjustments, which include all normal recurring adjustments, considered necessary for the fair presentation of the unaudited condensed consolidated financial statements have been included, and the unaudited condensed consolidated financial statements present fairly the financial position and results of operations for the interim periods presented. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP. These unaudited condensed consolidated financial statements should be read in conjunction with the financial statements and related notes included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011 filed with the SEC on March 30, 2012.

Basis of Consolidation The condensed consolidated financial statements include the accounts of Synacor, Inc. and its wholly-owned subsidiary, Synacor Canada Inc. All intercompany balances and transactions have been eliminated.

Accounting Estimates The preparation of financial statements in conformity with GAAP in the U.S. requires management to make estimates, judgments and assumptions that affect the amounts reported and disclosed in the financial statements and the accompanying notes. We base our 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, 2011 and March 31, 2012, and for the three months ended March 31, 2011 and 2012, the Company had concentrations equal to or exceeding 10% of the Company s accounts receivable and revenue as follows:

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED (continued)

	Accounts Receivable	
	December 31, 2011	March 31, 2012
Google	45%	45%
Platform Customer A	11	10

	Revenue Three months ended March 31,	
	2011	2012
Google	56%	61%

For the three months ended March 31, 2011 and 2012, the following platform customers received revenue-share payments equal to or exceeding 10% of the Company s cost of revenue. The costs represent revenue share paid to them for their supply of Internet traffic on our customer branded platforms.

	Cost of Revenue Three months ended March 31,	
	2011	2012
Platform Customer A	17%	20%
Platform Customer B (1)	N/A	18
Platform Customer C	23	13
Platform Customer D (1)	N/A	11

Note:

(1) For the three months ended March 31, 2011, the revenue share payments received by Platform Customers B and D were less than 10%.

Fair Value Measurements The provisions of the Financial Accounting Standards Board (FASB) Accounting Standard Codification (ASC) 820, *Fair Value Measurements and Disclosures*, establishes a framework for measuring the fair value in accounting principles generally accepted in the U.S. and establishes 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.

In accordance with ASC 820, included within the Company s cash and cash equivalents at March 31, 2012 are $1,296 of money market funds that are classified as Level 1 financial assets. The fair value of cash and cash equivalents are primarily composed of the Company s investments in money market instruments with original maturities of three months or less. The Company s cash and cash equivalent balances excluded above are composed of cash, certificates of deposits with original maturities of one month or less, and overnight investments.

In May 2011, the FASB issued guidance that establishes a global standard for applying fair value measurement. In addition to a few updates to the measurement guidance it includes enhanced disclosure requirements. The most significant change for companies reporting under GAAP is an expansion of the disclosures required for Level 3 measurements; that is, measurements based on unobservable inputs, such as a company s own data. The Company adopted this authoritative guidance in the first quarter of 2012 and the adoption did not have a material impact on the financial statements.

The estimated fair value of the bank financing liabilities and capital lease obligations approximate their carrying value.

Recently Issued Accounting Standards In the normal course of business, management evaluates all new accounting pronouncements issued by the Financial Accounting Standards Board, Securities and Exchange Commission, Emerging Issues Task Force, American Institute of Certified Public Accountants or other authoritative accounting bodies to determine the potential impact

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED (continued)

they may have on the Company s Financial Statements. Based upon this review, except as noted below, management does not expect any of the recently issued accounting pronouncements, which have not already been adopted, to have a material impact on the Company s Financial Statements. In September 2011, the Financial Accounting Standards Board (FASB) issued a revised accounting standard, which is intended to reduce the cost and complexity of the annual goodwill impairment test by providing entities an option to perform a qualitative assessment to determine whether further impairment testing is necessary. Specifically, an entity has the option to first assess qualitative factors to determine whether it is necessary to perform the current two-step test. If an entity believes, as a result of its qualitative assessment, that it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test is required. Otherwise, no further testing is required. This standard is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The Company has adopted this standard in the first quarter of 2012 and the adoption will not have a material impact on the financial statements.

In June 2011, the FASB issued new authoritative guidance on comprehensive income that eliminates the option to present the components of other comprehensive income as part of the statement of shareholders equity. Instead, the Company must report comprehensive income in either a single continuous statement of comprehensive income which contains two sections, net income and other comprehensive income, or in two separate but consecutive statements. In December 2011, the requirement regarding the presentation of reclassification adjustments out of accumulated other comprehensive income was deferred indefinitely. The Company adopted this authoritative guidance in the first quarter of 2012 and the adoption did not have a material impact on the financial statements.

Acquisition In January 2012, the Company acquired the assets of Carbyn Inc., or Carbyn, an Ontario, Canada-based company. The assets acquired are principally comprised of mobile device software and technology and other intellectual property, which the Company expects to enhance its efforts in the development of next generation web applications for mobile devices. The aggregate purchase price is up to $1,100 for the acquired assets, of which $600 was paid upon consummation of the acquisition and the remaining $500 is due in April 2013 unless such amount is offset in satisfaction of certain indemnification obligations of Carbyn. In addition, the Company hired seven employees from Carbyn who have accepted employment with Synacor Canada, Inc., a newly-formed and wholly-owned subsidiary of the Company. The acquisition and its impact on the balance sheet and results of operations are not material. The purchase price was allocated to the assets acquired based on their respective fair values as of the acquisition date, with the amount exceeding the fair value recorded as goodwill of $819.

2. Property and Equipment Net

Property and equipment, net consisted of the following (in thousands):

	December 31, 2011	March 31, 2012
Computer equipment (1)	$ 13,032	$ 15,473
Computer software	1,409	2,098
Furniture and fixtures	1,049	1,049
Leasehold improvements	690	690
Other	933	669
	17,133	19,979
Less accumulated depreciation (2)	(8,812)	(9,592)
Total property and equipment net	$ 8,301	$ 10,387

Notes:

(1)

Includes equipment under capital lease obligations of approximately $3,442 and $5,819 as of December 31, 2011 and March 31, 2012, respectively.

(2) Includes $687 and $889 of accumulated depreciation of equipment under capital leases as of December 31, 2011 and March 31, 2012, respectively.

3. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of the following (in thousands):

	December 31, 2011	March 31, 2012
Accrued compensation	$ 3,612	$ 1,987
Accrued content fees	334	641
Unearned revenue on contracts	255	335

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED (continued)

	December 31, 2011	March 31, 2012
Other	1,291	786
Total	$ 5,492	$ 3,749

4. Capital Lease Obligations

The Company leases certain equipment under capital lease agreements with interest rates ranging from 3% to 7%.

Capital lease commitments as of March 31, 2012 can be summarized as follows (in thousands, unaudited):

Year ending December 31:	
2012	$ 1,965
2013	2,229
2014	1,654
2015	213
Gross lease commitment	6,061
Less interest	(429)
Net lease commitments	$ 5,632

5. Income Taxes

In order to determine the quarterly provision for income taxes, the Company considers the estimated annual effective tax rate, which is based on expected annual income and statutory tax rates in the various jurisdictions in which the Company operates, and also the current income taxes based on actual quarterly income. Certain significant or unusual items are separately recognized in the quarter during which they occur and can be a source of variability in the effective tax rates from quarter to quarter.

The Company is subject to income tax in the United States, as well as other tax jurisdictions in which it conducts business. Earnings from non-U.S. activities are subject to local country income tax and may also be subject to current U.S. income tax.

The Company recorded income tax expense of $3 and $399 for the three months ended March 31, 2011 and 2012, respectively, resulting in an effective tax rate of 3% and 25%, respectively.

During the current period, the Company performed an analysis of its research and development activities for periods prior to 2012. As a result, the Company recognized a tax benefit of $304 for the three months ended March 31, 2012. The effective tax rate for the three months ended March 31, 2012 is not necessarily indicative of the effective tax rate that may be expected for the fiscal year ending December 31, 2012. Factors that impact the income tax provision include, but are not limited to, stock-based compensation expense and the recognition of research and development tax benefits.

6. Information About Segment and Geographic Areas

The Company considers operating segments to be 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. 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 of providing personalized Internet platforms and online entertainment services to high-speed Internet subscribers.

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

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED (continued)

	XXXXXX	XXXXXX
	Three Months Ended March 31,	
	2011	2012
Revenue		
United States	$ 18,533	$ 30,515
United Kingdom	161	155
Total revenue	$ 18,694	$ 30,670

	XXXXXXXX	XXXXXXXX
	December 31, 2011	March 31, 2012
Long-lived tangible assets		
United States	$ 7,680	$ 9,821
Netherlands	621	566
Total long-lived tangible assets	$ 8,301	$ 10,387

7. Commitments and Contingencies

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

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, 2012 can be summarized as follows (in thousands, unaudited):

Year ending December 31:	
2012	$ 5,643
2013	4,480
2014	1,434
2015	1,080
2016 and thereafter	1,401
Total contract commitments	$ 14,038

8. 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 million 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.

Conversion Each share of Series A, A-1, B, and C preferred stock was convertible at the option of the holder at any time into common stock. The conversion rate was the quotient obtained by dividing the original issue price of the Series A, A-1, B, or C by the conversion price. Subsequent to the Second Certificate of Amendment to the Fourth Amended and Restated Certificate of Incorporation, the conversion price was adjusted to effect a conversion of one preferred share into one and one-half common shares, as explained in Note 1, *The Company and Summary of Significant Accounting Policies*. The conversion price was subject to adjustment as set forth in the restated certificate of incorporation for certain dilutive issuances, splits, and combinations, as therein defined. Conversion was automatic upon either the consent of the holders of 66% of the outstanding shares of preferred stock or the effective date of a firm commitment underwritten public offering of the Company s common stock in which the post-offering valuation on a fully diluted basis was at least $150 million and the proceeds are not less than $25 million. All shares of the Company s outstanding preferred stock were converted into common stock in February 2012 in connection with the Company s initial public offering.

9. Stock-based Compensation

The Company recorded stock-based compensation expense of $222 and $558 for the three months ended March 31, 2011 and 2012, respectively. No income tax deduction is allowed for incentive stock options. Accordingly, no deferred income tax asset is recorded for the expense related to these options. Stock option grants of non-qualified stock options result in the creation of a deferred tax asset, which is a temporary difference, until the time that the option is exercised.

Total stock-based compensation expense included in the accompanying condensed consolidated statements of operations and comprehensive income for the three months ended March 31, 2011 and 2012, is as follows (in thousands):

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED (continued)

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2012
Research and development	$ 71	$ 107
Sales and marketing	49	74
General and administrative	102	377
Total stock-based compensation expense	$ 222	$ 558

Stock Option Plans The Company has adopted three stock option plans, which authorize the grant of up to 8,296,777 options to officers and other key employees to purchase the Company s common stock, subject to the terms of the plans. The options generally vest ratably over four years. The options are generally exercisable after the date of grant, and typically expire 10 years from their respective grant dates or earlier if employment is terminated. In connection with the early exercise of stock options, the Company has the right, but not the obligation, to repurchase unvested shares of common stock upon termination of the individual s service to the Company at the original price per share. During the three months ended March 31, 2012 there were no early exercises.

A summary of the status of options granted under all option plans is presented below:

	Number of Stock Options	Weighted Average Exercise Price
Outstanding January 1, 2012	5,082,776	$ 2.14
Granted	238,000	5.96
Exercised	(1,294,727)	0.43
Forfeited	(86,932)	3.25
Outstanding March 31, 2012	3,939,117	2.90
Expected to vest March 31, 2012	3,600,727	2.82
Vested and exercisable March 31, 2012	1,733,894	1.75

The weighted-average remaining contractual life of the options outstanding and expected to vest was 7.4 years as of March 31, 2012. The aggregate intrinsic value for outstanding, expected to vest, and vested and exercisable shares were $18,356, $17,067, and $10,074, respectively, as of March 31, 2012. The total intrinsic value of options exercised during the three months ended March 31, 2012 was $6,797. The aggregate intrinsic value represents the total pre-tax intrinsic value (the difference between the Company s estimated stock value and the exercise price, multiplied by the number of in-the-money stock options) had all stock option holders exercised their stock options on the balance sheet date. This amount will change based on the fair market value of the Company s stock.

The Company uses the Black-Scholes-Merton option-pricing model to determine the fair value of stock options. The determination of the grant date fair value of options using an option-pricing model is affected by the estimated common stock fair value as well as assumptions regarding a number of other complex and subjective variables. These variables include the fair value of the Company s common stock, the Company s expected stock price volatility over the expected term of the options, stock option exercise and cancellation behaviors, risk-free interest rates, and expected dividends, which are estimated as follows:

Fair Value of Common Stock Because the Company s stock had not been publicly traded at the time of grants, it estimated the fair value of common stock.

Expected Term The expected term represents the period of time the stock options are expected to be outstanding and is based on the simplified method allowed under SEC guidance. The Company uses the simplified method due to the lack of sufficient historical exercise data to provide a reasonable basis upon which to otherwise estimate the expected life of the stock options.

Volatility Since the Company does not have a significant trading history for its common stock, the expected stock price volatility was estimated by taking the average historic price volatility for publicly-traded options of comparable industry peers similar in size, stage of life cycle and financial leverage, based on daily price observations over a period equivalent to the expected term of the stock option grants. The Company did not rely on implied volatilities of traded options in its industry peers common stock because the volume of activity was

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED (continued)

relatively low. The Company intends to continue to consistently apply this process using the same or similar public companies until a sufficient amount of historical information regarding the volatility of its common stock share price becomes available, or unless circumstances change such that the identified companies are no longer similar, in which case, more suitable companies whose share prices are publicly available would be utilized in the calculation.

Risk-Free Interest Rate The risk-free interest rate is based on the yields of U.S. Treasury securities with maturities similar to the expected term of the options for each option group.

Dividend Yield The expected dividend yield is 0% based upon the Company s historical practice of electing not to declare or pay cash dividends on its common stock.

In addition, the Company is required to estimate the expected forfeiture rate and only recognize expense for those shares expected to vest. The forfeiture rate is estimated based on historical experience. To the extent the actual forfeiture rate is different from the estimate, stock-based compensation expense is adjusted accordingly.

In connection with the preparation of the Company s financial statements, the Company engaged an unrelated valuation specialist, or Valuation Specialist, as defined under the American Institute of Certified Public Accountants Practice Guide, *Valuation of Privately-Held Company Equity Securities Issued as Compensation*, to assist Company management in estimating the fair value of its common stock in connection with options granted. In the valuation report dated December 2011, the Valuation Specialist retrospectively valued the Company s common stock as of December 15, 2011.

The following is the valuation date and corresponding common stock fair value used for the January 2012 grant:

Valuation Date	Common Stock Fair Value Per Share
December 15, 2011	$ 5.96

For the December 15, 2011 valuation, the Company began using the probability-weighted expected return method, or PWERM, to determine the fair value of common stock. Under this method, the assumptions regarding various exit scenarios were as follows: 55% staying private, 30% initial public offering, 10% strategic sale and 5% distressed sale/dissolution. The valuation analysis indicated an aggregate equity value of $185.2 million and a fair value for common stock of $5.96 per share.

A summary of the option grants and assumptions used in the Black-Scholes option-pricing model to value the options during the three months ended March 31, 2012, is as follows:

Grant Date	Options Granted	Weighted-Average Fair Value	Expected Life of Options (In years)	Risk-Free Interest Rate	Expected Volatility	Expected Dividend Yield
January 6, 2012	238,000	$ 5.96	6.25	1.40%	53%	%

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED (continued)

Stock option information at March 31, 2012, is as follows:

	000000	000000	000000	000000
Exercise Price	**Number of Options Outstanding**	**Weighted-Average Exercise Price**	**Number of Options Vested and Exercisable**	**Weighted-Average Exercise Price**
$ 0.04	51,633	$ 0.04	51,633	$ 0.04
0.20	285,032	0.20	285,032	0.20
0.93	398,089	0.92	398,089	0.92
2.40	53,974	2.40	29,760	2.40
2.52	646,007	2.52	628,040	2.52
2.58	59,769	2.58	48,681	2.58
2.68	252,136	2.68	106,123	2.68
2.88	547,406	2.88	186,536	2.88
3.32	1,043,321	3.32		3.32
3.70	95,500	3.70		3.70
5.96	506,250	5.96		5.96
	3,939,117	2.90	1,733,894	1.75

As of March 31, 2012, the unrecognized compensation cost related to non-vested options granted, for which vesting is probable, under the plan was approximately $3,333. This cost is expected to be recognized over a weighted-average period of 1.4 years. The total fair value of shares vested was $423 during the three months ended March 31, 2012.

10. Net Income Per Common Share Data

Basic and diluted net income per common share for the three months ended March 31, 2011 is presented in conformity with the two-class method required for participating securities. The Company determined that its Series C, B, A, and A-1 convertible preferred stock represented participating securities because they participated with common stock in dividends and unallocated income. Historically, the Company has not paid dividends. The holders of the Series C, B, A, and A-1 convertible preferred stock did not have a contractual obligation to share in the losses of the Company. The Company considered its preferred stock to be participating securities and, in accordance with the two-class method, earnings allocated to preferred stock and the related number of outstanding shares of preferred stock have been excluded from the computation of basic and diluted net income per common share.

The following table presents the calculation of basic and diluted net income per share for the three-month periods ended March 31, 2011 and 2012 (in thousands, except share and per share amounts):

	Three Months Ended, March 31,	
	2011	**2012**
Net income	$ 111	$ 1,174
Less: undistributed earnings allocated to preferred stockholders	(101)	
Net income attributable to common stockholders	$ 10	$ 1,174
Weighted-average common shares used to compute net income per share attributable to common stockholders	1,929,909	16,603,579

Basic net income per share attributable to common stockholders	$	0.01	$	0.07
Diluted net income per share attributable to common stockholders:				
Net income	$	10	$	1,174
Add: Undistributed earnings allocated to preferred stockholders		101		
Net income attributable to common stockholders	$	111	$	1,174
Number of shares used in basic calculation		1,929,909		16,603,579
Weighted-average effect of dilutive securities				
Add:				
Conversion of preferred stock (as-if converted basis)		17,395,136		7,837,369
Stock options		2,886,877		2,337,507
Number of shares used in diluted calculation		22,211,922		26,778,455
Diluted net income per share attributable to common stockholders	$		$	0.04

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED (continued)

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

	Three Months Ended March 31,	
	2011	2012
Antidilutive equity awards		
Stock options	574,875	506,250

* * * * * *

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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, will, 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, 2011. 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 operation appearing in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

Overview

We are a leading provider of authentication and aggregation solutions for delivery of online content and services. We deliver our solutions as a set of services through our hosted and managed platform, enabling cable and telecom service providers and consumer electronics manufacturers to provide the online content and services that their consumers increasingly demand. Our platform allows our customers to package a wide array of online content and services with their high-speed Internet, communications, television and other offerings. Our customers offer our services under their own brands on Internet-enabled devices such as PCs, tablets, smartphones and connected TVs.

We generate revenue from search and display advertising and by charging subscriber-based fees for services and products delivered through our platform. Our results are driven primarily by our customer mix, the product and service mix preferences of those customers and the pricing of those products and services. We generate the majority of our revenue from search and display advertising on our customers branded websites, which comprise consumer-facing components of our platform. Adding new customers with large consumer bases and expansion of our relationships with existing customers have resulted in an increasing shift in our revenue mix towards search and display advertising revenue. In addition, as new customers adopt our platform, and as their respective consumers use of our platform ramps up as described below, our growth is increasingly driven by search and display advertising revenue. These increases are largely driven by our model of sharing a portion of this search and advertising revenue with our customers. As we expand our value added services offerings, we expect to generate increased subscriber-based revenue from our customers.

Growth in search and display advertising revenue is driven largely by increasing consumer use of our platform. As more consumers use our customers websites and as consumers spend more time on these websites, we have a greater number of opportunities to deliver advertisements. During the three months ended March 31, 2012, search and display advertising revenue was $25.8 million, a growth of 81% over $14.2 million for the three months ended March 31, 2011. Over the same period, our unique visitors increased by 81%, our search queries increased by 85% and our advertising impressions increased by 47%. We expect consumer engagement on our customers websites to continue to grow in the future as our customers deliver more services through their websites.

Our subscriber-based revenue consists of fees charged for the use of our proprietary technology platform and for the use of, or access to, services, such as e-mail, security, online games, music and other value added services and paid content. During the three months ended March 31, 2012, subscriber-based revenue was $4.9 million, an increase of 10% from $4.5 million during the three months ended March 31, 2011. We believe there are opportunities to generate new sources of subscriber-based revenue, such as fees for TV Everywhere authentication and the introduction of new value added services. We believe that the variety of value added services and the introduction of new value added services will also drive increased search and display advertising revenue.

As new customers introduce their branded websites to their consumers, usage of our platform and our revenue from our customers websites tends to increase over time. There are a variety of reasons for this ramp-up period. For example, a new customer may migrate its consumers from its existing platform to our platform 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. Search and display advertising revenue typically grows significantly during the first two to three years after a customer launch, although there can be notable variances from customer to customer. Thereafter, changes in revenue tend to mirror changes in the consumer base of the applicable customer.

For the three months ended March 31, 2012, we derived revenue from over 45 customers, with revenue attributable to four customers, CenturyLink, Inc. or CenturyLink (including revenue attributable to Qwest Communications International, Inc. or Qwest, which merged with CenturyLink in April 2011), Toshiba America Information Systems, Inc., or Toshiba, Charter Communications Inc., or Charter, and Verizon Corporate Services Group, Inc., or Verizon, together accounting for approximately 73% of our revenue for the three months ended March 31, 2012, or $22.5 million. Two of these customers accounted for 20% or more of revenue in such period, and revenue attributable to each of the other two 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 display advertising revenue generated through our relationships with our search and display advertising partners (such as Google, Inc., or Google, for search advertising and advertising networks, advertising agencies and advertisers for display advertising). This revenue is attributable to our customers because it is produced from the traffic on our customers websites. These partners provide us with advertisements that we then deliver with search results and other content on our customers websites. 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, 2012, search advertising through our relationship with Google generated approximately 61% of our revenue, or $18.8 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 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 cost-per-thousand impressions (referred to as cost per mille, or CPM) 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. We expect that some of the net proceeds of our initial public offering will be utilized in research and development, with a goal of enhancing our technology and our systems capabilities to more efficiently support our customers, develop new products and features; and report upon, analyze and manage the financial performance of the business in order to improve our ability to achieve consistent profitability in the future. As of the date of this Quarterly Report on Form 10-Q, we have not yet determined the specific uses of the net proceeds of our initial public offering.

Key Initiatives

We are focused on several key initiatives to drive our business:

- increase the content and services we provide to our customers and their consumers, enhance our direct advertising sales effort to increase the CPMs derived from advertising and increase the number of customers using our TV Everywhere authentication platform;
- add new customers from the high-speed Internet service provider and consumer electronics industries to expand our consumer reach;
- extend the availability of our existing and new products and services to additional devices including tablets and smartphones; and
- expand our presence into international markets.

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Key Business Metrics

In addition to the line items in our financial statements, we regularly review a number of business metrics related to Internet traffic and search and display advertising to evaluate our business, determine the allocation of resources and make decisions regarding business strategies. We believe disclosing these metrics is useful for investors and analysts to understand the underlying trends in our business. The following table summarizes our key business metrics, which are unaudited, for the three months ended March 31, 2011 and 2012:

	Three Months Ended March 31, 2011	2012
Key Business Metrics:		
Unique Visitors (1)	11,792,076	21,293,075
Search Queries (2)	146,278,350	270,777,789
Advertising Impressions (3)	5,785,304,866	8,485,227,382

Notes:
(1) Reflects the number of unique visitors to our customers websites computed on an average monthly basis during the applicable period.
(2) Reflects the total number of search queries during the applicable period.
(3) Reflects the total number of advertising impressions during the applicable period.

Unique Visitors

We define unique visitors as consumers who have visited one of our customers websites 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.

Search Queries

We define search queries as the number of instances in which a consumer entered a query into a search bar on our platform during a particular time period. We rely on reports from our search partner, Google, to measure the number of such instances.

Advertising Impressions

We define advertising impressions as graphical, textual or video paid advertisements displayed to consumers on our platform during a particular time period. We rely on reports from technology and advertising partners, including DoubleClick (a division of Google), to measure the number of advertising impressions delivered on our platform.

Components of our Results of Operations

Revenue

We derive our revenue from two categories: revenue generated from search and display advertising activities and subscriber-based revenue, each of which is described below. We record our search and display advertising revenue on a gross basis, which includes the net amount received from Google under our agreement with them. 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, 2011 and 2012.

	Three Months Ended March 31, 2011 (in thousands)	2012
Revenue:		
Search and display advertising	$ 14,235	$ 25,780
Subscriber-based	4,459	4,890

Total revenue	$ 18,694	$ 30,670

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Percentage of revenue:		
Search and display advertising	76%	84%
Subscriber-based	24	16
Total revenue	100%	100%

Search and Display Advertising Revenue

We use Internet search and display advertising to generate revenue from the traffic on our customers websites.

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 customers websites. 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. 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, which we in turn share with the applicable customer. The net payment we receive from Google is recognized as revenue.

We generate display advertising revenue when consumers view or click on a text, graphic or video advertisement that was delivered on a Synacor-operated website. We fill our advertising inventory with advertisements sourced by our direct sales force, independent advertising sales representatives and advertising network partners. Revenue may be calculated differently depending on our agreements with our advertisers or the agreements between our advertising network partners and their advertisers. It may be calculated on a cost per impression basis, which means the advertiser pays based on the number of times its advertisements appear, or a cost per action basis, which means that an advertiser pays when a consumer performs an action after engaging one of its advertisements. Historically only a small percentage of our display advertising revenue has been calculated on a cost per action basis.

Subscriber-Based Revenue

We define subscriber-based revenue as subscription fees and other fees that we receive from our customers for the use of our proprietary technology platform and the use of, or access to, e-mail, security, games and other services, including value added 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. We recognize revenue from our 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 our customers for the traffic on their websites resulting in the generation of search and display advertising revenue. The revenue-sharing agreements with our customers are primarily variable payments based on a percentage of the search and display 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 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.

Research and Development

Research and development expenses consist primarily of compensation-related expenses incurred for the development of, enhancements to, and maintenance and operation of our technology platform 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.

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General and Administrative

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

Depreciation

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

Other Income (Expense)

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

Interest Expense

Interest income (expense) primarily consists of expenses associated with our long-term debt, capital leases, and amortization of debt issuance costs.

Provision for Income Taxes

Income tax expense consists of federal and state income taxes in the United States and taxes in certain foreign jurisdictions.

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, 2011 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, 2011.

Recent Accounting Pronouncements

For information with respect to recent accounting pronouncements and the impact of these pronouncements on our consolidated financial statements, see Note 1 The Company and Summary of Significant Accounting Policies in the notes to the condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q.

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 income (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 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 income and our other GAAP results. The following table presents a reconciliation of adjusted EBITDA to net income for each of the periods indicated:

	Three Months Ended March 31, 2011	2012
	(in thousands)	
Reconciliation of Adjusted EBITDA:		
Net income	$ 111	$ 1,174
Provision for income taxes	3	399
Interest expense	32	47
Other (income) expense	(1)	
Depreciation	620	781
Stock-based compensation	222	558
Adjusted EBITDA	987	2,959

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, 2011	2012
	(in thousands)	
Revenue	$ 18,694	$ 30,670
Costs and operating expenses:		
Cost of revenue (1)	9,980	16,764
Research and development (1)(2)	4,602	6,288
Sales and marketing (2)	1,796	2,377

General and administrative (1)(2)	1,551	2,840
Depreciation	620	781
Total costs and operating expenses	18,549	29,050
Income from operations	145	1,620
Other income	1	
Interest expense	(32)	(47)
Income before income taxes	114	1,573
Provision for income taxes	3	399
Net income	$ 111	$ 1,174

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Notes:

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

	Three Months Ended March 31, 2011	2012
	(in thousands)	
Research and development	$ 71	$ 107
Sales and marketing	49	74
General and administrative	102	377

	Three Months Ended March 31, 2011	2012
Revenue	100%	100%
Costs and operating expenses:		
Cost of revenue (1)	53	55
Research and development (1)	25	21
Sales and marketing	10	8
General and administrative (1)	8	9
Depreciation	3	3
Total costs and operating expenses	99	95
Income from operations	1	5
Other income	0	0
Interest expense	0	0
Income before income taxes	1	5
Provision for income taxes	0	1
Net income	1%	4%

Note:

(1) Exclusive of depreciation shown separately.

Comparison of the Three Months Ended March 31, 2011 and 2012

Revenue

	Three Months Ended March 31, 2011	2012	% Change
	(in thousands)		
Revenue:			
Search and display advertising	$ 14,235	$ 25,780	81%
Subscriber-based	4,459	4,890	10
Total revenue	$ 18,694	$ 30,670	64

Percentage of revenue:		
Search and display advertising	76%	84%
Subscriber-based	24	16
Total revenue	100%	100%

Three months ended 2011 compared to 2012. Revenue increased by $12.0 million, or 64%, to $30.7 million from $18.7 million. Search and display advertising revenue increased by $11.5 million, or 81%, to $25.8 million from $14.2 million as a result of increased search queries and advertising impressions on our platform, driven in part by the launch of a significant new customer in July 2011. The total number of search queries increased by 85% and the total number of advertising impressions increased by 47%. The increase in search queries accounted for approximately 73% of the increase in search and display advertising revenue, while the increase in advertising impressions accounted for approximately 27%. Subscriber-based revenue increased $0.4 million, or 10%, to $4.9 million from $4.5 million mainly driven by the launch of services on existing customers.

Cost of Revenue

	Three Months Ended March 31, 2011	2012	% Change
	(in thousands)		
Cost of revenue	$ 9,980	$ 16,764	68%
Percentage of revenue	53%	55%	

Three months ended 2011 compared to 2012. Our cost of revenue increased by $6.8 million, or 68%, to $16.8 million from $10 million. The increase in our cost of revenue was driven by additional revenue-sharing costs from increased search and display advertising. Cost of revenue as a percentage of revenue increased to 55% of revenue from 53% of revenue because of changes in search and display advertising revenue attributable to the mix of customers with revenue-sharing arrangements.

Research and Development Expenses

	Three Months Ended March 31, 2011	2012	% Change
	(in thousands)		
Research and development	$ 4,602	$ 6,288	37%
Percentage of revenue	25%	21%	

Three months ended 2011 compared to 2012. Research and development expenses increased by $1.7 million, or 37%, to $6.3 million from $4.6 million. The increase was primarily due to a $0.9 million increase in employee-related costs as a result of the increase in headcount to support new product initiatives and customer deployments and higher overall compensation. In addition, there was a $0.5 million increase in expenses for contractors.

Sales and Marketing Expenses

	Three Months Ended March 31, 2011	2012	% Change
	(in thousands)		
Sales and marketing	$ 1,796	$ 2,377	32%
Percentage of revenue	10%	8%	

Three months ended 2011 compared to 2012. Sales and marketing expenses increased by $0.6 million, or 32%, to $2.4 million from $1.8 million. The increase was primarily due to a $0.4 million increase in employee-related costs as a result of the increase in headcount as we hired salespeople in our advertising department.

General and Administrative Expenses

	Three Months Ended March 31, 2011	2012	% Change
	(in thousands)		
General and administrative	$ 1,551	$ 2,840	83%
Percentage of revenue	8%	9%	

Three months ended 2011 compared to 2012. General and administrative expenses increased by $1.3 million, or 83%, to $2.8 million from $1.6. The increase was primarily due to $0.4 million increase in spending on administrative expenses associated with being a public company, $0.3 million increase in employee-related costs as a result of hiring in our finance department as well as higher overall compensation. The remainder of the increase includes $0.3 million for stock-based compensation primarily driven by the accelerated vesting of stock options upon retirement of service of our former board members upon our initial public offering.

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Depreciation

	Three Months Ended March 31, 2011	2012	% Change
	(in thousands)		
Depreciation	$ 620	$ 781	26%
Percentage of revenue	3%	3%	

Three months ended 2011 compared to 2012. Depreciation increased by $0.2 million, or 26%, to approximately $0.8 million from $0.6 million. This increase was driven by the purchase of assets to support the addition of a new customer.

Interest Expense

	XXXXXXXX		XXXXXXXX	
	Three Months Ended March 31, 2011		2012	
	(in thousands)			
Interest expense	$	32	$	47

Interest expense increased as a result of higher average capital lease balances. The interest rates applied to those balances remained substantially the same.

Provision for Income Taxes

	XXXXXXXX		XXXXXXXX	
	Three Months Ended March 31, 2011		2012	
	(in thousands)			
Provision for income taxes	$	3	$	399

We had historically incurred operating losses generating net operating loss carryforwards (NOLs) which are available to offset taxable income. Due to the uncertainty at March 31, 2011 to generate sufficient taxable income in the future and utilize the NOLs before they expire, we had recorded a valuation allowance to reduce our net deferred tax asset to zero. Consequently, we did not incur any material income tax expense in the three months ended March 31, 2011.

In the fourth quarter of 2011, as a result of weighing the positive and negative evidence we determined that we will more likely than not be able to generate sufficient taxable income in the future and we will be able to fully utilize our NOLs. As a result, our income tax expense for the three months ended March 31, 2012 included $0.7 million of deferred income tax expense, partially offset by a tax benefit of $0.3 million relating to a research and development credit.

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, cash from short-term borrowings and the net proceeds from our initial public offering are insufficient to fund our future activities, we may need to raise additional funds through public or private equity offerings or debt financings.

We have historically funded our operations and met our capital expenditure requirements primarily through private sales of preferred stock. In connection with our initial public offering in February 2012, we received aggregate gross proceeds of $27.3 million. The net proceeds to Synacor from the offering were approximately $22.4 million after deducting underwriting discounts of $1.9 million and offering costs of $3.0 million.

In July 2011 we entered into an amended and restated loan and security agreement with a commercial bank. As of March 31, 2012, the outstanding principal amount of the existing term loan was $0.1 million. We are in the process of repaying the principal amount of the existing term loan in 24 equal monthly installments, with the last such installment due in June 2012. Interest on the existing term loan is payable monthly at a per annum rate equal to the greater of 4.0% or the bank s prime rate plus 0.5%.

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The amended and restated loan and security agreement also provides us with a revolving credit line of $6.0 million, which we can draw on at any time before July 2013, subject to a borrowing base calculation. Borrowings under the revolving credit line accrue interest at a per annum rate equal to the bank s prime rate plus 0.25%, subject to a minimum rate of 4.0% per annum, and must be repaid by July 2013. As of March 31, 2012, $6.0 million was fully available under the revolving credit line, with no outstanding borrowings.

The amended and restated loan and security agreement contains provisions that allow the bank to accelerate repayment of both the existing term loan, the new term loan, if any, and the revolving credit line upon a material adverse change, as defined in the agreement, as well as other events of default. Our obligations under the agreement are secured by a blanket lien on all of our assets in favor of the bank. The agreement contains certain financial performance, reporting and other covenants, including restrictions on paying dividends and making distributions to our stockholder. As of March 31, 2012, we were in compliance with the covenants.

As of March 31, 2012, we had approximately $33.1 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 term loan and revolving credit line, will be sufficient to meet our anticipated working capital and capital expenditure requirements for at least the next 12 months.

Cash Flows

	Three Months Ended March 31,	
	2011	2012
	(in thousands)	
Statements of Cash Flows Data:		
Cash flows provided by operating activities	$ 367	$ 753
Cash flows used in investing activities	(230)	(1,479)
Cash flows (used in) provided by financing activities	(739)	22,921

Cash Provided by Operating Activities

In the three months ended March 31, 2011, operating activities provided $0.4 million of cash. The cash flow from operating activities primarily resulted from our net income, adjusted for non-cash items, and changes in our operating assets and liabilities. We had net income of $0.1 million, which included non-cash depreciation of $0.6 million and non-cash stock-based compensation of $0.2 million. Changes in our operating assets and liabilities used $0.6 million of cash, primarily due to an increase of $1.5 million in our accounts payable partially offset by an increase in our accounts receivable of $1.0 million, an increase in our other long term assets of $0.5 million, and a decrease of accrued expenses and other current liabilities of $0.6 million. The increase in accounts payable was the result of increased spending due to the growth of our revenue-share payments associated with our revenue growth and the timing of payments to customers for revenue-sharing agreements and to content providers. The increase in our accounts receivable was primarily due to our revenue growth. The increase in other long term assets was primarily due to prepayments made to vendors for a component of our cost of revenue. The decrease in accrued expenses and other current liabilities was primarily driven by the payment of bonuses earned and expensed in 2010.

In the three months ended March 31, 2012, operating activities provided $0.8 million of cash in 2012. The cash flow from operating activities primarily resulted from our net income, adjusted for non-cash items, and changes in our operating assets and liabilities. We had net income of $1.2 million, which included a non-cash benefit from deferred income taxes of $0.4 million, non-cash depreciation of $0.8 million and non-cash stock-based compensation of $0.6 million. Changes in our operating assets and liabilities used $2.2 million of cash, primarily due to a decrease of our accrued expenses and other current liabilities of $1.2 million, an increase of our accounts receivable of $0.8 million, and an increase of our prepaid expenses and other current assets of $0.5 million, partially offset by an increase of our accounts payable of $0.2 million. The decrease in accrued expenses and other current liabilities was primarily driven by the payment of bonuses earned and expensed in 2011. The increase in our accounts receivable was primarily due to our revenue growth. The increase in prepaid expenses and other current assets was primarily due to prepayments made to vendors for components of our cost of revenue. The increase in accounts payable was the result of increased spending due to the growth of our revenue-share payments associated with our revenue growth.

Cash Used in Investing Activities

Cash used in investing activities in the three months ended March 31, 2011 was $0.2 million consisting principally of purchases of property, equipment and software to build out our data centers.

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Cash used in investing activities in the three months ended March 31, 2012 was $1.5 million consisting of $0.9 million of purchases of property, equipment and software to build out our data centers and $0.6 million paid for the acquisition of Carbyn.

Cash (Used in) Provided by Financing Activities

For the three months ended March 31, 2011, net cash used in financing activities was $0.7 million primarily for repayments on our capital lease obligations and bank financing. For the three months ended March 31, 2012, net cash provided by financing activities was $22.9 million, consisting of $25.4 million of proceeds from issuance of common stock in our IPO, partially offset by cash paid for issuance costs of $2.5 million, $0.6 million of proceeds from the exercise of common stock options, partially offset by $0.5 million for repayments on our capital lease obligations and bank financing.

Off-Balance Sheet Arrangements

As of March 31, 2012, we did not have any off-balance sheet arrangements.

Item 3. Quantitative and Qualitative Disclosure 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. 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.

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, 2012. 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, 2012, 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. 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, 2012 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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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 is subject to numerous risks. You should carefully consider 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. If any of the following events actually occur or risks actually materialize, our business, financial condition or results of operations could be materially and adversely affected. The risks described below are not the only risks facing our company. Risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition and results of operations.

Risks Related to Our Business

We have a history of significant net losses and may not be profitable in future periods.

We have incurred significant losses in each year of operation other than 2009 and 2011, including a net loss of $5.8 million in 2008 and a net loss of $3.6 million in 2010. Our net income in 2009 and 2011 was $0.3 million and $9.9 million, respectively, and our net income in the three months ended March 31, 2012 was $1.2 million. We expect that our expenses will 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, international expansion, licensing of content, expansion of our infrastructure and general and administrative expenses associated with being a public company. 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 growth in recent periods may not be indicative of our future performance. In fact, in future periods, our revenue could decline. Accordingly, we may not be able to maintain profitability in the future. Any failure to maintain profitability may materially and adversely affect our business, financial condition and results of operations.

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 platform to generate search and display 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 under which we include a Google-branded search tool on our customers websites. 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 45%, 49% and 57% of our revenue in 2009, 2010 and 2011, or $27.7 million, $32.6 million and $51.5 million, respectively, and approximately 61% of our revenue in the three months ended March 31, 2012, or $18.8 million. Our agreement with Google expires in February 2014 unless we and Google mutually elect to renew it. Additionally, Google may terminate our agreement if we experience a change in control or enter into an agreement providing for a change in control, if we do not maintain certain search and display advertising revenue levels, or upon the two-year anniversary of the agreement, in February 2013. 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.

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. For example, revenue attributable to two customers, Charter and CenturyLink (including our revenue attributable to Qwest), together accounted for approximately 62% and 60% of our revenue for the years ended December 31, 2009 and 2010, or $37.8 million and $39.8 million, respectively. Revenue attributable to each of these customers accounted for 20% or more in 2009 and 2010. Revenue attributable to Charter, CenturyLink (including revenue attributable to Qwest) and Toshiba together accounted for approximately 62% of our revenue for the year ended December 31, 2011, or $56.9 million, with revenue attributable to one of these customers accounting for 20% or more in such period and revenue attributable to each of the other two customers accounting for more than 10% in such period. Revenue attributable to Charter, CenturyLink (including revenue attributable to Qwest), Toshiba and Verizon together accounted for approximately 74% of our revenue for the quarter ended March 31, 2012, or $22.5 million, with revenue attributable to two of these customers accounting for 20% or more in such period and revenue attributable to each of the other two customers accounting for more than 10% in such period. Revenue attributable to these customers includes the subscriber-based revenue earned directly from them, as well as the search and display advertising revenue earned through our relationships with our advertising partners, such as Google, based on traffic generated from our customers websites.

Our contracts with our customers generally have an initial term of approximately two to three years from the launch of their websites and frequently provide for one or more automatic renewal terms of one to two years each. Our agreement with Embarq Management Company, or Embarq, a subsidiary of CenturyLink, is currently in such a renewal term. 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. In addition to loss of subscriber-based revenue, including website and paid content sales, we would also lose significant revenue from the related search and display advertising services that we provide.

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 applications, or apps, other than Internet browsers, such as those available for download through Apple Inc. s App Store and the Android Market. While we are developing solutions to these alternative means of accessing the Internet, including through our acquisition of mobile device software and technology from Carbyn in January 2012, we do not currently offer our customers and their subscribers a wide variety of apps and other non-browser solutions. 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.

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 their websites, including television programming, news, entertainment, sports and other content that their subscribers find engaging, and value added 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 each consumer s homepage is set to our applicable customer s website upon the installation of our customer s services or the sale of our customer s product, a consumer may easily change that setting, which would likely decrease the use of our platform. 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, and 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

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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. 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.

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 display advertising revenue generated by online consumer traffic on our platform, accounted for more than 95% of our revenue in each of 2009 and 2010, nearly 86% in 2011 and 78% in the three months ended March 31, 2012. 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 display advertising revenue. Additionally, under certain of our customer agreements, including our agreement with CenturyLink, the customer has a right to terminate the agreement if it experiences a change in control. Under our agreement with Charter, Charter has a right to terminate the agreement if we experience a change in control.

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 contract with our one current consumer electronics manufacturer customer is 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 platform 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.

We invest in features and functionality designed to increase consumer engagement with our customers websites; 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 platform. We have made and will continue to make substantial investments in features and functionality for our platform 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

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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 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.

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 platform 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 costs as a percentage of revenue may also increase due to price competition.

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:

- any failure to maintain strong relationships and favorable revenue-sharing arrangements with our search and display 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 display advertisements by advertisers;
- any failure of significant customers to renew their agreements with us;
- our ability to attract new customers;
- our ability to increase sales of value added services and paid content to existing subscribers;

the timing and success of new service and product introductions by us, our customers or our competitors;

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

changes in our pricing policies or those of our competitors;

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- changes in the prices our customers charge for value added services and paid content;
- 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 on our platform;
- 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 Latin America and Europe and, over the long term, in Asia. 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 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.

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, 2012, 2013, 2014 and the three years thereafter are approximately $5.6 million, $4.5 million, $1.4 million and $2.5 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 center is also subject to break-ins, sabotage and intentional acts of vandalism and to potential disruptions if the operators of the facility 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 $26.1 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.

Although we regularly back-up our systems and store the system back-ups in Atlanta, Georgia and Buffalo, New York, we do not have full second-site redundancy. 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 platform infrastructure to the satisfaction of our customers and their subscribers may harm our reputation and our ability to retain existing customers and attract new customers.

We may not maintain acceptable website performance for all of our customers consumers, 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 platform 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 platform 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. 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 customers websites are unavailable when consumers attempt to access them or do not load as quickly as they expect, consumers may seek other websites to obtain the information for which they are looking, and may not return to our customers websites 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.

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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 Ronald N. Frankel, our chief executive officer, George G. Chamoun, our executive vice president of sales and marketing, Scott A. Bailey, our chief operating officer, 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. For example, 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 in connection with our own plans 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 have expanded our business primarily through organic growth. We expect to continue to grow organically, and we may choose to grow through strategic acquisitions in the future. This growth has placed, and may continue to 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. Continued 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.

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, which may divert our management s attention or prove not to be successful.

We recently completed an acquisition of certain mobile device software and technology from Carbyn, and we may decide to pursue acquisitions of other technologies and businesses in the future. Such acquisitions could divert our management s time and focus from operating our business. In addition, 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.

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 are not sufficient to meet our capital requirements, we will need to seek additional capital, potentially through debt or equity financings, to fund our growth. 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 or otherwise modify our growth and operating plans to the extent of available funding, which would harm our ability to grow our business.

Our business depends, in part, on our ability to protect and enforce our intellectual property rights.

The protection of our intellectual property is critical to our success. We rely on copyright and service mark enforcement, contractual restrictions and trade secret laws to protect our proprietary rights. We have entered into confidentiality and invention assignment agreements with our employees and contractors, and nondisclosure agreements with certain parties with whom we conduct business to limit access to and disclosure of our proprietary information. However, if we are unable to adequately protect our intellectual property, our business may suffer from the piracy of our technology and the associated loss in revenue.

Protecting against the unauthorized use of our intellectual property and other proprietary rights is expensive, difficult and, in some cases, impossible. Litigation may be necessary in the future to enforce or defend our intellectual property rights, to protect our trade secrets or to determine the validity and scope of the proprietary rights of others. Such litigation could be costly and divert management resources, either of which could harm our business. Furthermore, many of our current and potential competitors have the ability to dedicate substantially greater resources to enforce their intellectual property rights than we do. Accordingly, despite our efforts, we may not be able to prevent third parties from infringing upon or misappropriating our intellectual property.

We are not currently involved in any legal proceedings with respect to protecting our intellectual property; however, we may from time to time become a party to various legal proceedings with respect to protecting our intellectual property arising in the ordinary course of our business.

Any claims from a third party that we are infringing upon its intellectual property, whether valid or not, could subject us to costly and time-consuming litigation or expensive licenses or force us to curtail some services or products.

Companies in the Internet and technology industries tend to own large numbers of patents, copyrights, trademarks and trade secrets, and frequently enter into litigation based on allegations of infringement or other violations of intellectual property rights. We

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have been subject to claims that the presentation of certain licensed content on our customer s websites infringes certain patents of a third party, none of which have resulted in direct settlement or payments by us or any determination of infringement by us, and as we face increasing competition, the possibility of further intellectual property rights claims against us grows. Our technologies may not be able to withstand any third party claims or rights against their use. Any intellectual property claims, with or without merit, could be time-consuming, expensive to litigate or settle and could divert management resources and attention. An adverse determination also could prevent us from offering our services and products to others and may require that we procure substitute products or services for our customers.

In the case of any intellectual property rights claim, we may have to pay damages or stop using technology found to be in violation of a third party s rights. We may have to seek a license for the technology, which may not be available to us on reasonable terms and may significantly increase our operating expenses. The technology also may not be available for license to us at all. As a result, we may also be required to develop alternative non-infringing technology, which could require significant effort and expense. If we cannot license or develop technology for the infringing aspects of our business, we may be forced to limit our service and product offerings and may be unable to compete effectively. Any of these consequences could harm our operating results.

In addition, we typically have contractual obligations to our customers to indemnify and defend them with respect to third-party intellectual property infringement claims that arise from our customers use of our products or services. Such claims, whether valid or not, could harm our relationships with our customers, have resulted and could result in the future in us or our customers having to enter into licenses with the claimants and have caused and could cause us in the future to incur additional costs or reduced revenues. To date, neither the increase in our costs nor any reductions in our revenue resulting from such claims have been material. Such claims could also subject us to costly and time-consuming litigation as well as diverting management attention and resources. Satisfying our contractual indemnification obligations could also give rise to significant liability, and thus harm our business and our operating results.

We are not currently subject to any legal proceedings with respect to third party claims that we or our customers use of our products and services are infringing upon their intellectual property; however, we may from time to time become a party to various legal proceedings with respect to such claims arising in the ordinary course of our business.

Any unauthorized disclosure or theft of personal information we gather could harm our reputation and subject us to claims or litigation.

We collect, and have access to, personal information of subscribers, including names, addresses, account numbers, credit card numbers and e-mail addresses. Unauthorized disclosure of personal information regarding website visitors, whether through breach of our systems by an unauthorized party, employee theft or misuse, or otherwise, could harm our business. If there were an inadvertent disclosure of personal information, or if a third party were to gain unauthorized access to the personal information we possess, our operations could be seriously disrupted and we could be subject to claims or litigation arising from damages suffered by subscribers or our customers. In addition, we could incur significant costs in complying with the multitude of state, federal and foreign laws regarding the unauthorized disclosure of personal information. Finally, any perceived or actual unauthorized disclosure of the information we collect could harm our reputation, substantially impair our ability to attract and retain customers and have an adverse impact on our business.

We collect and may access personal information and other data, which subjects us to governmental regulation and other legal obligations related to privacy, and our actual or perceived failure to comply with such obligations could harm our business.

We collect, and have access to, personal information of subscribers, including names, addresses, account numbers, credit card numbers and e-mail addresses. There are numerous federal, state and local laws around the world regarding privacy and the storing, sharing, use, processing, disclosure and protection of personal information and other subscriber data, the scope of which are changing, subject to differing interpretations, and may be inconsistent between countries or conflict with other rules. We generally comply with industry standards and are subject to the terms of our privacy policies and privacy-related obligations to third parties (including voluntary third-party certification bodies such as TRUSTe). We strive to comply with all applicable laws, policies, legal obligations and industry codes of conduct relating to privacy and data protection to the extent possible. However, it is possible that these obligations may be interpreted and applied in a manner that is inconsistent from one jurisdiction to another and may conflict with other rules or our practices. Any failure or perceived failure by us to comply with our privacy policies, our privacy-related obligations to users or other third parties, or our privacy-related legal obligations, or any compromise of security that results in the unauthorized release or transfer of personal information or other subscriber data, may result in governmental enforcement actions, litigation or public statements against us by consumer advocacy groups or others and could cause our customers to lose trust in us, which could have an adverse effect on our business. Additionally, if third parties we work with, such as customers, vendors or developers, violate

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applicable laws or our policies, such violations may also put subscriber information at risk and could in turn have an adverse effect on our business.

Any failure to convince advertisers of the benefits of advertising with us would harm our business, financial condition and results of operations.

We have derived and expect to continue to derive a substantial portion of our revenue from display advertising on our platform. Such advertising accounted for approximately 19%, 20% and 23% of our revenue for the years ended December 31, 2009, 2010 and 2011, respectively, and 23% of our revenue in the three months ended March 31, 2012. Our ability to attract and retain advertisers and, ultimately, to generate advertising revenue depends on a number of factors, including:

- increasing the numbers of consumers using our platform;
- maintaining consumer engagement on those websites;
- competing effectively for advertising spending with other online and offline advertising providers; and
- continuing to grow our direct advertising sales force and develop and diversify our advertising platform.

If we are unable to provide high-quality advertising opportunities and convince advertisers and agencies of our value proposition, we may not be able to retain existing advertisers or attract new ones, which would harm our business, financial condition and results of operations.

Migration of high-speed Internet service providers subscribers from one high-speed Internet service provider to another could adversely affect our business, financial condition and results of operations.

Our high-speed Internet service provider customers subscribers may become dissatisfied with their current high-speed Internet service provider and may switch to another provider. In the event that there is substantial subscriber migration from our existing customers to service providers with which we do not have relationships, the fees that we receive on a per-subscriber basis, and the related search and display advertising revenue, could decline.

Our business and the trading price of our common stock may be adversely affected if our internal controls over financial reporting are found by management or by our independent registered public accounting firm not to be adequate.

Effective internal controls are necessary for us to provide reliable financial reports and prevent fraud. In addition, Section 404 of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, will require us to evaluate and report on our internal control over financial reporting beginning with our Annual Report on Form 10-K for the year ending December 31, 2012. We have begun the process of preparing an internal plan for compliance with Section 404 and strengthening and testing our system of internal controls to provide the basis for our report. The process of implementing our internal controls and complying with Section 404 will be expensive and time-consuming, and will require significant attention of management. We cannot be certain that these measures will ensure that we implement and maintain adequate controls over our financial processes and reporting in the future. Even if we conclude our internal control over financial reporting provides reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Generally Accepted Accounting Principles, or GAAP, because of its inherent limitations, internal control over financial reporting may not prevent or detect fraud or misstatements. Failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to meet our reporting obligations.

In addition, a delay in compliance with Section 404 could subject us to a variety of administrative sanctions, including ineligibility for short-form resale registration, action by the SEC, the suspension or delisting of our common stock from and the inability of registered broker-dealers to make a market in our common stock, which would further reduce the trading price of our common stock and could harm our business.

Our ability to use our net operating loss carryforwards and certain other tax attributes may be limited.

As of March 31, 2012, we had substantial federal and state net operating loss carryforwards. Under Sections 382 and 383 of the Internal Revenue Code of 1986, as amended, or the Code, if a corporation undergoes an ownership change, the corporation s ability to use its pre-change net operating loss carryforwards to offset its post-change income and taxes may be limited. In general, an ownership change generally occurs if there is a cumulative change in our ownership by five-percent stockholders that exceeds 50 percentage points over a rolling three-year period. For these purposes, a five-percent stockholder is generally any person or group of persons that at any time during the applicable testing period has owned 5% or more of our outstanding stock. In addition, persons who own less than 5% of the outstanding stock are grouped together as one or more public groups, which are also treated as five-percent stockholders. Similar rules may apply under state tax laws. We may experience ownership changes in the future as a result of future transactions in our stock, some of which may be outside our control. As a result, our ability to use our pre-change net operating loss carryforwards to offset United States federal and state taxable income and taxes may be subject to limitations.

Risks Related to Our Industry

The growth of the market for our services and products depends on the continued growth of the Internet as a medium for content, advertising, commerce and communications.

Expansion in the sales of our services and products depends on the continued acceptance of the Internet as a platform for content, advertising, commerce and communications. The acceptance of the Internet as a medium for such uses could be adversely impacted by delays in the development or adoption of new standards and protocols to handle increased demands of Internet activity, security, privacy protection, reliability, cost, ease of use, accessibility and quality of service. The performance of the Internet and its acceptance as such a medium has been harmed by viruses, worms, and similar malicious programs, and the Internet has experienced a variety of outages and other delays as a result of damage to portions of its infrastructure. If for any reason the Internet does not remain a medium for widespread content, advertising, commerce and communications, the demand for our services and products would be significantly reduced, which would harm our business.

The growth of the market for our services and products depends on the development and maintenance of the Internet infrastructure.

Our business strategy depends on continued Internet and high-speed Internet access growth. Any downturn in the use or growth rate of the Internet or high-speed Internet access would be detrimental to our business. If the Internet continues to experience significant growth in number of users, frequency of use and amount of data transmitted, the Internet infrastructure might not be able to support the demands placed on it and the performance or reliability of the Internet may be adversely affected. The success of our business therefore depends on the development and maintenance of a sound Internet infrastructure. This includes maintenance of a reliable network backbone with the necessary speed, data capacity and security, as well as timely development of complementary products, such as routers, for providing reliable Internet access and services. Consequently, as Internet usage increases, the growth of the market for our products depends upon improvements made to the Internet as well as to individual customers networking infrastructures to alleviate overloading and congestion. In addition, any delays in the adoption of new standards and protocols required to govern increased levels of Internet activity or increased governmental regulation may have a detrimental effect on the Internet infrastructure.

A substantial majority of our revenue is derived from search and display advertising; our revenue would decline if advertisers do not continue their usage of the Internet as an advertising medium.

We have derived and expect to continue to derive a substantial majority of our revenue from search and display advertising on our platform. Such search and display advertising revenue accounted for approximately 65%, 69% and 79% of our revenue for the years ended December 31, 2009, 2010 and 2011, or $39.3 million, $45.9 million and $72.1 million, respectively, and 84% of our revenue for the three months ended March 31, 2012, or $25.8 million. However, the prospects for continued demand and market acceptance for Internet advertising are uncertain. If advertisers do not continue to increase their usage of the Internet as an advertising medium, our revenue would decline. Advertisers that have traditionally relied on other advertising media may not advertise on the Internet. Most advertising agencies and potential advertisers, particularly local advertisers, have only limited experience advertising on the Internet and devote only a small portion of their advertising expenditures to online advertising. As the Internet evolves, advertisers may find online advertising to be a less attractive or less effective means of promoting their services and products than traditional methods of advertising and may not continue to allocate funds for Internet advertising. Many historical predictions by industry analysts and others concerning the growth of the Internet as a commercial medium have overstated the growth of the Internet and you should not rely upon them. This growth may not occur or may occur more slowly than estimated.

Most of our search revenue is based on the number of paid clicks on sponsored links that are included in search results generated from our platform. Generally, each time a consumer clicks on a sponsored link, the search provider that provided the commercial search result receives a fee from the advertiser who paid for such commercial click and the search provider pays us a portion of that fee. We, in turn, typically share a portion of the fee we receive with our customer. If an advertiser receives what it perceives to be a large number of clicks for which it needs to pay, but that do not result in a desired activity or an increase in sales, the advertiser may reduce or eliminate its advertisements through the search provider that provided the commercial search result to us.

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This reaction would lead to a loss of revenue to our search providers and consequently to lesser fees paid to us, which would have a material negative effect on our financial results.

Market prices for online advertising may decrease due to competitive or other factors. In addition, if a large number of Internet users use filtering software programs that limit or remove advertising from the users view, advertisers may perceive that Internet advertising is not effective and may choose not to advertise on the Internet.

The market for Internet-based services and products in which we operate is highly competitive, and if we cannot compete effectively, our sales may decline and our business may be harmed.

Competition in the market for Internet-based services and products in which we operate is intense and involves rapidly changing technologies and customer and subscriber requirements, as well as evolving industry standards and frequent product introductions. Our competitors may develop solutions that are similar or superior to our technology. Our primary competitors include high-speed Internet service providers with internal information technology staff capable of developing solutions similar to our technology. Other competitors include Yahoo!, Google, AOL and MSN, a division of Microsoft. Advantages some of our existing and potential competitors hold over us include the following:

- significantly greater revenue and financial resources;
- stronger brand and consumer recognition;
- the capacity to leverage their marketing expenditures across a broader portfolio of services and products;
- more extensive proprietary intellectual property from which they can develop or aggregate content without having to pay fees or paying significantly lower fees than we do;
- pre-existing relationships with content providers that afford them access to content while blocking the access of competitors to that same content;
- pre-existing relationships with high-speed Internet service providers that afford them the opportunity to convert such providers to competing services and products;
- lower labor and development costs; and
- broader global distribution and presence.

If we are unable to compete effectively or we are not as successful as our competitors in our target markets, our sales could decline, our margins could decline and we could lose market share, any of which would materially harm our business, financial condition and results of operations.

Government regulation of the Internet continues to evolve, and new laws and regulations could significantly harm our financial performance.

Today, there are relatively few laws specifically directed towards conducting business over the Internet. We expect more stringent laws and regulations relating to the Internet to be enacted. The adoption or modification of laws related to the Internet could harm our business, financial condition and results of operations by, among other things, increasing our costs and administrative burdens. Due to the increasing popularity and use of the Internet, many laws and regulations relating to the Internet are being debated at the international, federal and state levels, which are likely to address a variety of issues such as:

user privacy and expression;

ability to collect and/or share necessary information that allows us to conduct business on the Internet;

export compliance;

pricing and taxation;

fraud;

- advertising;
- intellectual property rights;
- consumer protection;
- protection of minors;
- content regulation;
- information security; and
- quality of services and products.

Several federal laws that could have an impact on our business have been adopted. The Digital Millennium Copyright Act of 1998 reduces the liability of online service providers of third-party content, including content that may infringe copyrights or rights of others. The Children s Online Privacy Protection Act imposes additional restrictions on the ability of online services to collect user information from minors. In addition, the Protection of Children from Sexual Predators Act requires online service providers to report evidence of violations of federal child pornography laws under certain circumstances.

It could be costly for us to comply with existing and potential laws and regulations, and they could harm our marketing efforts and our attractiveness to advertisers by, among other things, restricting our ability to collect demographic and personal information from consumers or to use or disclose that information in certain ways. If we were to violate these laws or regulations, or if it were alleged that we had, we could face private lawsuits, fines, penalties and injunctions and our business could be harmed.

Finally, the applicability to the Internet and other online services of existing laws in various jurisdictions governing issues such as property ownership, sales and other taxes, libel and personal privacy is uncertain. Any new legislation or regulation, the application of laws and regulations from jurisdictions whose laws do not currently apply to our business, or the application of existing laws and regulations to the Internet and other online services could also increase our costs of doing business, discourage Internet communications, reduce demand for our services and expose us to substantial liability.

Public scrutiny of Internet privacy issues may result in increased regulation and different industry standards, which could deter or prevent us from providing our current products and solutions to our customers, thereby harming our business.

The regulatory framework for privacy issues worldwide is currently in flux and is likely to remain so for the foreseeable future. Practices regarding the collection, use, storage, transmission and security of personal information by companies operating over the Internet have recently come under increased public scrutiny. The United States government, including the Federal Trade Commission and the Department of Commerce, has announced that it is reviewing the need for greater regulation for the collection of information concerning consumer behavior on the Internet, including regulation aimed at restricting certain targeted advertising practices. In addition, the European Union is in the process of proposing reforms to its existing data protection legal framework, which may result in a greater compliance burden for companies with users in Europe. Various government and consumer agencies have also called for new regulation and changes in industry practices.

Our business, including our ability to operate and expand internationally, could be adversely affected if legislation or regulations are adopted, interpreted or implemented in a manner that is inconsistent with our current business practices and that require changes to these practices, our services or our privacy policies.

Risks Related to Ownership of Our Common Stock

Concentration of ownership among our directors, officers, large stockholders and their respective affiliates could limit our other stockholders ability to influence the outcome of key corporate decisions, such as an acquisition of our company.

Our directors, executive officers and holders of more than 5% of our common stock, together with their affiliates, beneficially own or control, directly or indirectly, a majority of our outstanding common stock. As a result, these stockholders, if they act together, would have the ability to control the outcome of matters submitted to our stockholders for approval, including the election of directors and any merger, consolidation or sale of all or substantially all of our assets. In addition, these stockholders, if they act together, would have the ability to control the management and affairs of our company. Accordingly, this concentration of ownership might harm the trading price of our common stock by:

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- delaying, deferring or preventing a change in our control;
- impeding a merger, consolidation, takeover or other business combination involving us; or
- discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control of us.

Future sales of our common stock may cause the trading price of our common stock to decline.

As of February 15, 2012, the closing date of our initial public offering, we had 26,729,170 outstanding shares of common stock, of which 19,900,308 were subject to restrictions on resale as a result of lock-up agreements entered into with the underwriters of our initial public offering and the provisions of Rules 144 and 701 under the Securities Act of 1933, as amended, or the Securities Act. At various times beginning in August 2012, these shares will be available for sale in the public market (subject, in some cases, to volume limitations). In addition, the underwriters may, in their sole discretion, release all or some portion of the shares subject to lock-up agreements prior to expiration of the lock-up period. Sales of a substantial number of such shares upon expiration (or the perception that such sales may occur), or early release, of the lock-up could cause our share price to fall.

As of February 15, 2012, the closing date of our initial public offering, stockholders holding some 17,666,204 shares of our common stock had demand and piggyback rights to require us to register such shares with the SEC, subject to contractual lock-up agreements. If we register any of these shares of common stock, the stockholders would be able to sell those shares freely in the public market.

In addition, the shares that are either subject to outstanding options or that may be granted in the future under our 2012 Equity Incentive Plan will become eligible for sale in the public market to the extent permitted by the provisions of various vesting agreements, the contractual lock-up agreements and Rules 144 and 701 under the Securities Act.

As of February 22, 2012, we registered the shares of our common stock that we may issue under our equity plans. These shares can be freely sold in the public market upon issuance, subject to any vesting or contractual lock-up agreements.

If any of these additional shares described are sold, or if it is perceived that they will be sold, in the public market, the trading price of our common stock could decline.

Some provisions of our certificate of incorporation, bylaws and Delaware law may discourage, delay or prevent a merger or acquisition or prevent the removal of our current board of directors and management.

Our amended and restated certificate of incorporation and amended and restated bylaws contain provisions that may discourage, delay or prevent a merger or acquisition or prevent the removal of our current board of directors and management. We have a number of anti-takeover devices in place that will hinder takeover attempts, including:

- our board of directors is classified into three classes of directors with staggered three-year terms;
- our directors may only be removed for cause, and only with the affirmative vote of a majority of the voting interest of stockholders entitled to vote;
- only our board of directors and not our stockholders will be able to fill vacancies on our board of directors;
- only our chairman of the board, our chief executive officer or a majority of our board of directors, and not our stockholders, are authorized to call a special meeting of stockholders;

- our stockholders will be able to take action only at a meeting of stockholders and not by written consent;

- our amended and restated certificate of incorporation authorizes undesignated preferred stock, the terms of which may be established and shares of which may be issued without stockholder approval; and

- advance notice procedures apply for stockholders to nominate candidates for election as directors or to bring matters before an annual meeting of stockholders.

These provisions and other provisions in our charter documents could discourage, delay or prevent a transaction involving a change in our control. Any delay or prevention of a change in control transaction could cause stockholders to lose a substantial premium over the then-current trading price of their shares. These provisions could also discourage proxy contests and could make it more difficult for our stockholders to elect directors of their choosing or to cause us to take other corporate actions such stockholders desire.

In addition, we are subject to Section 203 of the Delaware General Corporation Law, which, subject to some exceptions, prohibits business combinations between a Delaware corporation and an interested stockholder, which is generally defined as a stockholder who becomes a beneficial owner of 15% or more of a Delaware corporation s voting stock, for a three-year period following the date that the stockholder became an interested stockholder. Section 203 could have the effect of delaying, deferring or preventing a change in control that our stockholders might consider to be in their best interests.

We have not paid cash dividends on our capital stock, and we do not expect to do so in the foreseeable future.

We have not historically paid cash dividends on our capital stock. We anticipate that we will retain all future earnings and cash resources for the future operation and development of our business, and as a result, we do not anticipate paying any cash dividends to holders of our capital stock for the foreseeable future. Any future determination regarding the payment of any dividends will be made at the discretion of our board of directors and will depend on our financial condition, results of operations, capital requirements, general business conditions and other factors that our board may deem relevant. Consequently, investors must rely on sales of their common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investment.

The trading price and volume of our common stock has been and will likely continue to be volatile, and the value of an investment in our common stock may decline.

The trading price of our common stock has been, and is likely to continue to be, volatile and could decline substantially within a short period of time. For example, since shares of our common stock were sold in our initial public offering in February 2012 at a price of $5.00 per share through the close of business on May 8, 2012, our trading price has ranged from $4.75 to $13.60. The trading price of our common stock may be subject to wide fluctuations in response to various factors, some of which are beyond our control, including:

- variations in our financial performance;
- announcements of technological innovations, new services and products, strategic alliances or significant agreements by us or by our competitors;
- recruitment or departure of key personnel;
- changes in the estimates of our operating results or changes in recommendations or withdrawal of research coverage by securities analysts;
- market conditions in our industry, the industries of our customers and the economy as a whole;
- adoption or modification of laws, regulations, policies, procedures or programs applicable to our business or announcements relating to these matters; and
- the expiration of contractual lock-up agreements.

In addition, if the market for technology stocks or the stock market in general experiences loss of investor confidence, the trading price of our common stock could decline for reasons unrelated to our business, financial condition or results of operations. The trading price of our common stock might also decline in reaction to events that affect other companies in our industry even if these events do not directly affect us. Some companies that have had volatile market prices for their securities have had securities class actions filed against them. Such a suit filed against us, regardless of its merits or outcome, could cause us to incur substantial costs and could divert management s attention.

If securities or industry analysts do not publish research or reports about our company, our stock price and trading volume could decline.

The trading market for our common stock depends in part on the research and reports that securities or industry analysts publish about us or our business. If one or more of the analysts who cover us downgrade our stock or publish inaccurate or unfavorable research about our business, our stock price would likely decline. If one or more of these analysts cease coverage of our company or

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fail to publish reports on us regularly, demand for our stock could decrease, which might cause our stock price and trading volume to decline.

The requirements of being a public company, including increased costs and demands upon management as a result of complying with federal securities laws and regulations applicable to public companies, may adversely affect our financial performance and our ability to attract and retain directors.

As a public company, we are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, the Sarbanes-Oxley Act, the Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act, and the rules and regulations of The NASDAQ Global Market. The Sarbanes-Oxley Act, as well as rules subsequently implemented by the SEC and NASDAQ, impose additional requirements on public companies, including enhanced corporate governance practices. For example, the NASDAQ listing requirements require that listed companies satisfy certain corporate governance requirements relating to independent directors, audit committees, distribution of annual and interim reports, stockholder meetings, stockholder approvals, solicitation of proxies, conflicts of interest, stockholder voting rights and codes of business conduct. In addition, our management team has limited experience managing a publicly-traded company or complying with the increasingly complex laws pertaining to public companies. In addition, most of our current directors have limited experience serving on the boards of public companies and three directors have recently joined our board of directors. In order to have an effective board, these new directors and any other directors that join our board will need to integrate with our other directors and management and become familiar with our operations and growth strategies.

The requirements of these rules and regulations have increased and will continue to increase our legal, accounting and financial compliance costs, make some activities more difficult, time-consuming and costly and may also place undue strain on our personnel, systems and resources. Our management and other personnel must devote a substantial amount of time to these requirements. These rules and regulations will also make it more difficult and more expensive for us to maintain directors and officers liability insurance, and we may be required to accept reduced coverage or incur substantially higher costs to maintain coverage. If we are unable to maintain adequate directors and officers insurance, our ability to recruit and retain qualified directors, especially those directors who may be considered independent for purposes of NASDAQ rules, and officers may be significantly curtailed.

Item 2. Unregistered Sales of Equity Securities

1. From January 1, 2012 through March 31, 2012, we granted to employees options to purchase an aggregate of 238,000 shares of common stock under our 2006 Stock Plan, at an exercise price of $5.96 per share.

2. From January 1, 2012 through March 31, 2012, we issued and sold an aggregate of 1,146,135 shares of our common stock for aggregate consideration of approximately $207,490 upon the exercise of stock options that were granted under our 2000 Stock Plan or under our 2006 Stock Plan.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

Exhibit No.	Exhibit
10.1	2007 Management Cash Incentive Plan
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certifications of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials from the Synacor, Inc. Quarterly Report on Form 10-Q for the quarter ended March 31, 2012, filed on May 15, 2012 formatted in Extensible Business Reporting Language (XBRL): (i) Condensed Consolidated Balance Sheets as of December 31, 2011 and March 31, 2012 (ii) Condensed Consolidated Statements of Operations and Comprehensive Income for the Three Months Ended March 31, 2011 and 2012 (iii) Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2011 and 2012 (iv) Notes to Condensed Consolidated Financial Statements

Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

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SIGNATURES

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

	SYNACOR, INC.	
Date: May 15, 2012	By:	/s/ RONALD N. FRANKEL **Ronald N. Frankel** **President and Chief Executive Officer** (Principal Executive Officer)
Date: May 15, 2012	By:	/s/ WILLIAM J. STUART **William J. Stuart** **Chief Financial Officer** (Principal Financial and Accounting Officer)

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EXHIBIT INDEX

Exhibit No.	Exhibit
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