Synacor, Inc.
Form 10-Q
November 14, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2016

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

(Exact name of registrant as specified in its charter)

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

Registrant s telephone number, including area code: (716) 853-1362

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

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

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

Large accelerated filer	Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of November 11, 2016, there were 30,555,316 shares of the registrant s common stock outstanding.

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SYNACOR, INC. AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SYNACOR, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS UNAUDITED

AS OF SEPTEMBER 30, 2016 AND DECEMBER 31, 2015

(In thousands except for share and per share data)

	September 30, 2016	December 31, 2015
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 15,028	$ 15,697
Accounts receivable, net of allowance of $157 and $372, respectively	19,993	24,341
Prepaid expenses and other current assets	4,599	3,290
Total current assets	39,620	43,328
PROPERTY AND EQUIPMENT, net	14,815	14,377
GOODWILL	15,949	15,187
INTANGIBLE ASSETS, net	15,376	14,798
OTHER LONG-TERM ASSETS	1,303	1,336
Total assets	$ 87,063	$ 89,026
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 11,905	$ 9,004
Accrued expenses and other current liabilities	13,265	9,765
Current portion of deferred revenue	9,946	11,295
Current portion of capital lease obligations	1,170	1,574
Total current liabilities	36,286	31,638
LONG-TERM PORTION OF CAPITAL LEASE OBLIGATIONS	1,151	1,007
LONG-TERM DEBT	5,000	5,000
DEFERRED REVENUE	2,878	3,225
OTHER LONG-TERM LIABILITIES	486	2,052
Total liabilities	45,801	42,922

COMMITMENTS AND CONTINGENCIES (Note 8)

STOCKHOLDERS EQUITY:		
Preferred stock par value $0.01 per share; authorized 10,000,000 shares; none issued		
Common stock par value $0.01 per share; authorized 100,000,000 shares; 31,184,345 shares issued and 30,467,530 shares outstanding at September 30, 2016 and 30,636,327 shares issued and 29,983,279 shares outstanding at December 31, 2015	312	306
Additional paid-in capital	116,224	113,238
Accumulated deficit	(73,797)	(66,110)
Accumulated other comprehensive (loss) income	(17)	2
Treasury stock at cost, 716,815 shares at September 30, 2016 and 653,048 shares at December 31, 2015	(1,460)	(1,332)
Total stockholders equity	41,262	46,104
Total liabilities and stockholders equity	$ 87,063	$ 89,026

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

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SYNACOR, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS UNAUDITED

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015

(In thousands except for share and per share data)

	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
REVENUE	$ 31,721	$ 26,351	$ 92,457	$ 77,797
COSTS AND OPERATING EXPENSES:				
Cost of revenue (exclusive of depreciation and amortization shown separately below)	14,611	13,298	41,099	40,205
Technology and development (exclusive of depreciation and amortization shown separately below)	6,791	4,361	19,255	13,788
Sales and marketing	5,907	4,274	17,177	11,475
General and administrative (exclusive of depreciation and amortization shown separately below)	4,871	3,712	15,027	10,437
Depreciation and amortization	2,414	1,560	6,782	4,716
Total costs and operating expenses	34,594	27,205	99,340	80,621
LOSS FROM OPERATIONS	(2,873)	(854)	(6,883)	(2,824)
OTHER (EXPENSE) INCOME, net	(38)	(32)	206	(31)
INTEREST EXPENSE	(75)	(35)	(227)	(144)
LOSS BEFORE INCOME TAXES AND EQUITY INTEREST	(2,986)	(921)	(6,904)	(2,999)
INCOME TAX PROVISION	379	10	783	30
LOSS IN EQUITY INTEREST				(57)
NET LOSS	$ (3,365)	$ (931)	$ (7,687)	$ (3,086)
NET LOSS PER SHARE:				
Basic	$ (0.11)	$ (0.03)	$ (0.26)	$ (0.11)
Diluted	$ (0.11)	$ (0.03)	$ (0.26)	$ (0.11)

WEIGHTED AVERAGE SHARES USED TO COMPUTE NET LOSS PER SHARE:				
Basic	30,260,172	27,924,939	30,108,725	27,617,125
Diluted	30,260,172	27,924,939	30,108,725	27,617,125

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

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SYNACOR, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS UNAUDITED

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015

(In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	**2015**	**2016**	**2015**
Net loss	$ (3,365)	$ (931)	$ (7,687)	$ (3,086)
Other comprehensive income (loss):				
Changes in foreign currency translation adjustment	112	(27)	(19)	(33)
Comprehensive loss	$ (3,253)	$ (958)	$ (7,706)	$ (3,119)

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 NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015

(In thousands)

	Nine Months Ended September 30, 2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (7,687)	$ (3,086)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation and amortization	6,782	4,716
Stock-based compensation expense	2,104	2,352
Reduction of estimated fair value of contingent consideration	90	
Loss in equity interest		57
Changes in operating assets and liabilities, net of effect of acquisitions:		
Accounts receivable, net	5,313	3,169
Prepaid expenses and other assets	(1,282)	643
Accounts payable	1,842	(1,003)
Accrued expenses and other liabilities	1,245	36
Deferred revenue	(1,696)	(706)
Net cash provided by operating activities	6,711	6,178
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisitions, net of cash acquired	(2,500)	(17,260)
Purchases of property and equipment	(4,246)	(2,474)
Net cash used in investing activities	(6,746)	(19,734)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments on capital lease obligations	(1,242)	(975)
Proceeds from bank financing		4,940
Proceeds from exercise of common stock options	744	70
Payment of minimum tax withholdings in exchange for treasury stock shares	(128)	
Deferred acquisition payment		(495)
Net cash (used in) provided by financing activities	(626)	3,540
Effect of exchange rate changes on cash and cash equivalents	(8)	(15)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(669)	(10,031)

Cash and cash equivalents, beginning of period		15,697		25,600
Cash and cash equivalents, end of period	$	15,028	$	15,569
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:				
Cash paid for interest	$	247	$	144
Cash paid for income taxes	$	439	$	154
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING TRANSACTIONS:				
Liability for estimated additional acquisition consideration	$	567	$	
Contingent consideration	$		$	1,600
Fair value of common stock and warrants in acquisition	$		$	4,395
Property, equipment and service center contracts financed under capital lease obligations	$	982	$	637
Accrued property and equipment expenditures	$	463	$	82
Stock-based compensation capitalized to property and equipment	$	142	$	134
Treasury stock received to satisfy minimum withholding liabilities	$		$	77

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

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SYNACOR, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

AS OF SEPTEMBER 30, 2016 AND DECEMBER 31, 2015, AND

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015

1. The Company and Summary of Significant Accounting Principles

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

Basis of Presentation

The interim unaudited condensed consolidated financial statements and accompanying notes have been prepared in accordance with United States generally accepted accounting principles (U.S. GAAP) and include the accounts of the Company and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. In the opinion of the Company s management, the interim unaudited condensed consolidated financial statements include all adjustments, which include only normal recurring adjustments, necessary for the fair presentation of the Company s financial position for the periods presented. These interim unaudited condensed consolidated financial statements are not necessarily indicative of the results expected for the full fiscal year or for any subsequent period.

The accompanying condensed consolidated balance sheet as of December 31, 2015 was derived from the audited financial statements as of that date, but does not include all the information and footnotes required by U.S. GAAP. These financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2015.

Accounting Estimates

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

Concentrations of Risk

As of September 30, 2016 and December 31, 2015, the Company had concentrations equal to or exceeding 10% of the Company s accounts receivable as follows:

	Accounts Receivable	
	September 30, 2016	December 31, 2015
Google	13%	14%

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For the three and nine months ended September 30, 2016 and 2015, the Company had concentrations equal to or exceeding 10% of the Company s revenue as follows:

	Revenue			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Google	10%	28%	14%	31%

For the three and nine months ended September 30, 2016 and 2015, the following customers received revenue-share payments equal to or exceeding 10% of the Company s cost of revenue. The costs represent revenue share paid to customers for their supply of Internet traffic on the Company s start experiences:

	Cost of Revenue			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Customer A	22%	29%	26%	28%
Customer B	Less than 10%	10%	10%	10%
Customer C	Less than 10%	10%	Less than 10%	10%

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2014-09 (ASU 2014-09) *Revenue from Contracts with Customers*. ASU 2014-09 supersedes the revenue recognition requirements in Revenue Recognition (Topic 605) and requires an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. In August 2015, the FASB issued ASU 2015-14 *Revenue from Contracts with Customers: Deferral of the Effective Date*, which deferred the effective date of ASU 2014-09 to annual reporting periods beginning after December 15, 2017, with earlier application permitted as of annual reporting periods beginning after December 15, 2016. In March 2016, the FASB issued ASU 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*, to clarify the implementation guidance on principal versus agent. In April 2016, the FASB issued ASU 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing,* providing additional guidance relating to identifying performance obligations under ASU 2014-09 as well as licensing.

The Company is currently in the process of assessing the financial impact of adopting these ASUs and the methods of adoption. The Company currently recognizes subscription revenue from its Email/Collaboration contracts over the life of the contracts (which are typically six months or longer). The Company has tentatively concluded that it is likely that this new guidance will require it to recognize a portion of the revenue from those contracts upon delivery, at the inception of the contracts, which would have the effect of accelerating recognition of revenue on such contracts, and may have a material impact on the Company s consolidated financial statements. The standard will be effective for the Company beginning January 1, 2018, and adoption as of the original effective date of January 1, 2017 is permitted. The Company anticipates adopting the standard as of its effective date of January 1, 2018. The guidance permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (the cumulative catch-up transition method). The Company has not yet determined which transition method it will use.

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In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The objective of this update is to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. This ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those annual periods and is to be applied utilizing a modified retrospective approach. Early adoption is permitted. The Company is in the process of assessing the impact of the adoption of this ASU on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, *Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*. The objective of this update is to simplify several aspects of the accounting for employee share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This ASU is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted, and the ASU provides that its different provisions be applied prospectively, retrospectively, or using a modified retrospective method, depending on the provision. The Company is in the process of assessing the impact of the adoption of this ASU on its consolidated financial statements.

2. Acquisitions

Technorati

On February 19, 2016, the Company entered into an Asset Purchase Agreement to acquire substantially all of the assets of Technorati, Inc. (Technorati), an advertising technology company, for $3.0 million in cash (the Purchase Price). The Company completed the acquisition on February 26, 2016 (the Closing). The Company expects the acquisition of Technorati to drive additional advertising demand, to accelerate its content and advertising syndication strategy by giving the Company access to over 1,000 new publishers, and to add new tools for publishers to its existing platform. The Company expects to realize synergies and economies of scale by combining Technorati s publisher network, proprietary SmartWrapper solution and other advertising technology with its existing network of Managed Portals and Advertising solutions.

The assets acquired include Technorati s intellectual property and advertising technology platforms, customer and publisher relationships, accounts receivable and equipment. The Company also assumed certain obligations of Technorati, including post-Closing obligations under contracts assigned to the Company and the payment of outstanding liabilities to its publishers. Ten of Technorati s employees commenced employment with Synacor.

The Company paid $2.5 million of the Purchase Price at the Closing, withheld $0.5 million of the purchase price to secure Technorati s indemnification obligations under the Asset Purchase Agreement, and owes Technorati approximately $0.1 million in post-closing working capital adjustments. Pursuant to the terms of the Asset Purchase Agreement, Technorati shall indemnify the Company for breaches of its representations and warranties, breaches of covenants and certain other matters. The representations and warranties set forth in the Asset Purchase Agreement generally survive for 12 months following the Closing, with longer survival periods for certain fundamental representations and warranties.

Consideration and Allocation of Purchase Price

The transaction was accounted for as a purchase in accordance with FASB Accounting Standards Codification (ASC) Topic 805, *Business Combinations*. Under this guidance, the fair value of the consideration was determined and the assets acquired and liabilities assumed have been recorded at their estimated fair values as of the date of acquisition.

The excess of the consideration over the estimated fair values has been recorded as goodwill.

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The estimated transaction consideration, as well as the preliminary allocation of the purchase price to the assets acquired and liabilities assumed as of the date of the acquisition are presented in the table below. Management is responsible for determining, as of the Closing, the fair value of tangible and identifiable intangible assets acquired and liabilities assumed, and the estimated useful lives for any depreciable and amortizable assets. Management considered a number of factors, including reference to a valuation analysis performed solely for the purpose of this allocation in accordance with ASC Topic 805. The Company s estimates are based on assumptions believed to be reasonable, but which are inherently uncertain and unpredictable. This analysis required the use of management s assumptions, which would not reflect unanticipated events and circumstances that may occur.

Consideration (in thousands):

Cash consideration	$ 2,500
Fair value of indemnification holdback	500
Fair value of post-closing working capital adjustment	67
Total consideration	$ 3,067

Purchase price allocation (in thousands):

Assets acquired:	
Accounts receivable	$ 965
Property and equipment	96
Customer and publisher relationships	1,380
Technology	730
Goodwill	751
Total assets acquired	3,922
Liabilities assumed:	
Accounts payable and accrued expenses	855
Net assets acquired	$ 3,067

While the Company has used its best estimates and assumptions to value the assets acquired and liabilities assumed, the purchase price allocation is preliminary and could change during the measurement period, not to exceed one year, if new information is obtained about the facts and circumstances that existed as of the Closing, that if known would have resulted in the recognition of additional assets or liabilities or resulted in changes in the recorded values of assets and liabilities. It is expected that acquired goodwill will be deductible for United States tax purposes. The Company will amortize technology and customer and publisher relationships over estimated useful lives of five years.

Acquisition costs of $0.1 million were incurred during the first quarter of 2016 and charged to general and administrative expense.

Zimbra

As more fully discussed in the Company s Annual Report on Form 10-K for the year ended December 31, 2015, on August 18, 2015 the Company and Sync Holdings, LLC, its wholly-owned subsidiary, entered into an Asset Purchase Agreement (the Asset Purchase Agreement) with Zimbra, Inc. (now known as TZ Holdings) to acquire certain assets related to TZ Holdings email/collaboration products and services business, including certain of its wholly-owned foreign subsidiaries. The business acquired by the Company pursuant to the Asset Purchase Agreement is referred to herein as Zimbra or the Purchased Business. The Purchased Business includes software for email/collaboration, calendaring, file sharing, activity streams and social networks, among other things. The Zimbra software is used globally by service providers, governments and companies. The Company completed the acquisition (the Acquisition) on September 14, 2015 (the Closing).

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Pro Forma Results

The following unaudited pro forma information presents the combined results of the Company s operations as if the acquisition of Zimbra had been completed on January 1, 2015, the beginning of the comparable prior reporting periods. The unaudited pro forma results include adjustments to reflect: (i) the carve-out of revenue and expenses relating to the portion of the Zimbra business not acquired; (ii) the elimination of depreciation and amortization from Zimbra s historical financial statements and the inclusion of depreciation and amortization based on the fair values of acquired property, plant and equipment and intangible assets; (iii) the fair value of deferred revenue liabilities assumed; (iv) recognition of the post-acquisition share-based compensation expense related to stock options that were granted to Zimbra employees who accepted employment with Synacor; (v) the elimination of intercompany revenue and expenses between Zimbra and Synacor; and (vi) the elimination of acquisition-related expenses.

The unaudited pro forma results do not reflect any cost-saving synergies from operating efficiencies or the effect of the incremental costs incurred in integrating the two companies. Accordingly, these unaudited pro forma results are presented for informational purposes only and are not necessarily indicative of what the actual results of operations of the combined company would have been if the acquisition had occurred at the beginning of the periods presented, nor are they indicative of future results of operations.

Set forth below is the unaudited pro forma consolidated results of operations of the Company and Zimbra for the three and nine months ended September 30, 2015 as if the Acquisition had occurred on January 1, 2015 (in thousands, except per share amounts):

	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2015
Revenue	$ 32,434	$ 97,066
Operating income (loss)	8	$ (3,911)
Net loss	(276)	$ (3,698)
Net loss per share (basic and diluted)	$ (0.01)	$ (0.12)

3. Fair Value Measurements

In August 2015, the Company and Zimbra, Inc. (now known as TZ Holdings) entered into an agreement under which the Company acquired certain assets relating to TZ Holdings email/collaboration products and services business, including certain of its foreign subsidiaries, for cash consideration of $17.3 million, 2.4 million shares of common stock and warrants to purchase 480,000 shares of common stock (collectively valued at $3.2 million). The Company also held back an additional 600,000 shares of common stock and warrants to purchase an additional 120,000 shares of common stock (collectively valued at $0.8 million) to secure TZ Holdings indemnification claims including pending claims.

Additionally, TZ Holdings is eligible to receive cash consideration of up to $2.0 million (the Earn-Out Consideration) upon the satisfaction of certain business performance milestones following the closing of the transaction, subject to and contingent upon any reduction to satisfy indemnification claims including pending claims. Should the business performance milestones be met, the payments under this arrangement will be partially due in the fourth quarter of

2016 and partially in the second quarter of 2017. The fair value of the Earn-Out Consideration was originally determined to be $1.6 million, and was adjusted to $1.5 million in the third quarter of 2016, with the adjustment credited to Sales and Marketing expense. The liability for Earn-Out Consideration is included in accrued expenses and other current liabilities in the accompanying condensed consolidated balance sheet as of September 30, 2016. Approximately $0.9 million of the liability for Earn-Out Consideration was paid to TZ Holdings subsequent to September 30, 2016.

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

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

Level 2 Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (interest rates, yield curves, etc.), and inputs that are derived principally from or corroborated by observable market data by correlation or other means (market corroborated inputs).

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

The Company classifies the Earn-Out Consideration within Level 3 because it is valued using unobservable inputs. There was a decrease of $0.1 million to the Company s estimate of the fair value of the Earn-Out Consideration during the three and nine months ended September 30, 2016.

4. Goodwill and Other Intangible Assets

The change in goodwill is as follows for nine months ended September 30, 2016 (in thousands):

	Nine Months Ended September 30, 2016
Balance beginning of period	$ 15,187
Acquisition of Technorati	751
Effect of foreign currency translation	11
Balance end of period	$ 15,949

Intangible assets, net consisted of the following (in thousands):

	September 30, 2016	December 31, 2015
Customer and publisher relationships	$ 14,780	$ 13,400
Technology	2,330	1,600
Trademark	300	300
	17,410	15,300
Less accumulated amortization	(2,034)	(502)

Intangible assets, net	$	15,376	$	14,798

Amortization of intangible assets for the three months ended September 30, 2016 and 2015 was $0.5 million and $0.1 million, respectively. Amortization of intangible assets for the nine months ended September 30, 2016 and 2015 was $1.5 million and $0.1 million, respectively.

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5. Property and Equipment Net

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

	September 30, 2016	December 31, 2015
Computer equipment (1)	$ 23,542	$ 23,324
Computer software	18,916	14,813
Furniture and fixtures	2,001	1,945
Leasehold improvements	1,405	1,532
Other	252	252
	46,116	41,866
Less accumulated depreciation (2)	(31,301)	(27,489)
Property and equipment, net	$ 14,815	$ 14,377

Depreciation expense for the three months ended September 30, 2016 and 2015 was $1.9 million and $1.5 million, respectively. Depreciation expense for the nine months ended September 30, 2016 and 2015 was $5.3 million and $4.6 million, respectively.

Notes:

(1) Includes equipment and software held under capital leases of $5.1 million and $4.1 million as of September 30, 2016 and December 31, 2015, respectively.

(2) Includes $3.0 million and $1.8 million of accumulated depreciation of equipment under capital leases as of September 30, 2016 and December 31, 2015, respectively.

6. Accrued Expenses and Other Current Liabilities

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

	September 30, 2016	December 31, 2015
Accrued compensation	$ 6,167	$ 6,112
Accrued content fees	2,942	1,964
Contingent consideration	1,510	
Accrued business acquisition consideration	567	
Other	2,079	1,689
Total	$ 13,265	$ 9,765

7. Information About Segment and Geographic Areas

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenue:				
United States	$ 27,169	$ 25,556	$ 79,787	$ 76,623
International	4,552	795	12,670	1,174
Total revenue	$ 31,721	$ 26,351	$ 92,457	$ 77,797

	September 30, 2016	December 31, 2015
Long-lived tangible assets:		
United States	$ 13,842	$ 12,909
Canada	627	726
Other international	346	742
Total long-lived tangible assets	$ 14,815	$ 14,377

8. Commitments and Contingencies

Contract Commitments The Company is obligated to make payments under various contracts with vendors and other business partners, principally for revenue-share and content arrangements. Contract commitments as of September 30, 2016 are summarized as follows (in thousands):

Year ending December 31,	
2016 (remaining three months)	$ 1,050
2017	2,080
2018	720
Total	$ 3,850

Contingent Consideration

In connection with the Company s acquisition of certain email/collaboration assets from TZ Holdings in September 2015 (see Notes 2 and 3), the Company is obligated to pay contingent cash consideration totaling up to $2.0 million upon the satisfaction of certain business performance milestones following the closing of the transaction, subject to and contingent upon any reduction to satisfy indemnification claims including pending claims. This liability is valued at $1.5 million, and at September 30, 2016 is included in accrued expenses and other current liabilities. Approximately $0.9 million of this liability was paid subsequent to September 30, 2016. Additionally, the Company held back 600,000 shares of common stock and warrants to purchase 120,000 shares of common stock (collectively valued at

$0.8 million) to secure indemnification claims against TZ Holdings including pending claims.

In connection with the Company s acquisition of the Technorati assets (see Note 2), the Company withheld $0.5 million of the purchase price to secure Technorati s indemnification obligations under the Asset Purchase Agreement, with payment under this arrangement due in the first quarter of 2017. Additionally, the Company owes approximately $0.1 million in post-closing working capital adjustments. This amount is included in accrued expenses and other current liabilities at September 30, 2016.

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Litigation

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

9. Stock-based Compensation

The Company has stock-based employee compensation plans for which compensation cost is recognized in its financial statements. The cost is measured at the grant date, based on the fair value of the award, determined using the Black-Scholes option pricing model, and is recognized as an expense over the employee s requisite service period (generally the vesting period of the equity award).

No income tax deduction is allowed for incentive stock options (ISOs). Accordingly, no deferred income tax asset is recorded for the potential tax deduction related to these options. Expense related to stock option grants of non-qualified stock options (NSOs) results in a temporary difference, which gives rise to a deferred tax asset. No such asset is recognized in the accompanying balance sheets as the Company has fully reserved its net deferred tax assets due to the uncertainty of future realization of those assets.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Technology and development	$ 238	$ 224	$ 681	$ 694
Sales and marketing	173	231	604	716
General and administrative	269	355	819	942
Total stock-based compensation expense	$ 680	$ 810	$ 2,104	$ 2,352

Stock Option Activity A summary of the stock option activity for the nine months ended September 30, 2016 is presented below:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2016	8,695,918	$ 2.57		
Granted	1,503,500	$ 2.20		
Exercised	(382,781)	$ 2.25		
Forfeited or expired	(551,438)	$ 2.01		

Outstanding at September 30, 2016	9,265,199	$	2.55	6.76	$ 5,913
Vested and expected to vest at September 30, 2016	8,862,505	$	2.57	6.76	$ 5,590
Vested and exercisable at September 30, 2016	4,804,258	$	2.98	4.96	$ 2,178

Aggregate intrinsic value represents the difference between the Company s closing stock price of its common stock and the exercise price of outstanding, in-the-money options. The Company s closing stock

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price as reported on the NASDAQ Global Market as of September 30, 2016 was $2.91 per share. The total intrinsic value of options exercised for the nine months ended September 30, 2016 was $0.3 million. The weighted average fair value of options issued during the nine months ended September 30, 2016 amounted to $1.08 per option share.

As of September 30, 2016, the unrecognized compensation cost related to non-vested options granted, for which vesting is probable, and adjusted for estimated forfeitures, was approximately $4.5 million. This cost is expected to be recognized over a weighted-average period of 2.6 years. The total fair value of shares vested was $1.5 million for the nine months ended September 30, 2016.

In addition, the Company may, from time to time, grant Restricted Stock Units (RSUs) to its employees. A summary of RSU activity for the nine months ended September 30, 2016 is presented below:

	Number of Shares	Weighted Average Fair Value
Unvested - January 1, 2016	437,595	$ 2.31
Shares granted	139,500	$ 3.63
Shares vested	(160,811)	$ 2.53
Forfeited or expired	(16,712)	$ 2.69
Unvested - September 30, 2016	399,572	$ 2.67
Expected to vest - September 30, 2016	381,673	$ 2.64

10. Net Income (Loss) Per Common Share Data

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

Stock options, warrants and RSUs are not included in the calculation of diluted net loss per share for the three and nine months ended September 30, 2016 and 2015 because the Company had a net loss for those periods. The inclusion of these equity awards would have had an antidilutive effect on the calculation of diluted loss per share. As such, the Company s calculations of basic and diluted net loss per share are identical.

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

	Three Months Ended September 30,	Nine Months Ended September 30,

	2016	2015	2016	2015
Anti-dilutive equity awards:				
Stock options and Restricted Stock Units	9,664,771	8,223,520	9,664,771	8,223,520
Warrants	480,000	480,000	480,000	480,000

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11. Subsequent Events

Subsequent to September 30, 2016, the Company and certain of its subsidiaries, together with its lender, Silicon Valley Bank, amended the Company s Loan and Security Agreement (the Agreement) to modify the financial covenants the Company must meet under the Agreement and the interest rate structure under the Agreement. Provided that the company s liquidity coverage ratio (the ratio of cash plus eligible accounts receivable to borrowings under the Agreement) exceeds 2.75, borrowings bear interest at an annual rate of either 1.00% above the prime rate as published in The Wall Street Journal or LIBOR for the relevant period plus 3.50%, at the Company s option. In the event that the liquidity coverage ratio is 2.75 or below, borrowings under the Agreement bear interest at an annual rate of 1.50% above the prime rate or 4.00% above LIBOR, at the Company s option.

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

This quarterly report on Form 10-Q contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. In addition, we may make other written and oral communications from time to time that contain such statements. Forward-looking statements include statements as to industry trends and future expectations of ours and other matters that do not relate strictly to historical facts. These statements are often identified by the use of words such as may, expect, believe, anticipate, intend, could, estimate, or continue, and similar expressions or variations. These statements are based on the beliefs and assumptions of our management based on information currently available to management. Such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. These forward-looking statements include statements in this Item 2, Management s Discussion and Analysis of Financial Condition and Results of Operations. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in the section titled Risk Factors included elsewhere in this Form 10-Q and in our other Securities and Exchange Commission filings, including our Annual Report on Form 10-K for the fiscal year ended December 31, 2015. Furthermore, such forward-looking statements speak only as of the date of this report. We undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the condensed consolidated financial statements and related notes thereto appearing elsewhere in this Form 10-Q and with the consolidated financial statements and notes thereto and management s discussion and analysis of financial condition and results of operations appearing in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

Our Business

We enable our customers to better engage with their consumers. Our customers include video, internet and communications providers, device manufacturers and enterprises. We are their trusted technology development, multiplatform services and revenue partner.

We enable our customers to provide their consumers engaging, multiscreen experiences with products that require scale, actionable data and sophisticated implementation. Through our Managed Portals and Advertising solutions, we enable our customers to earn incremental revenue by monetizing media among their consumers. At the same time, because consumers have high expectations for their online experience, we provide, through our Recurring and Fee-Based Revenue solutions, a suite of products and services that helps our customers successfully meet those high expectations. Our Cloud ID solutions empower our customers to provide consumers with access to video content across all devices, including PCs, tablets, smartphones and connected-TVs, seamlessly and at scale. Our email and collaboration platform is used by our customers and channel partners to offer secure communication, calendaring and file sharing solutions to consumers and enterprises.

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Overview

We generate search and digital advertising revenue from consumer traffic on our Managed Portals and Advertising solutions, which we collect from our search partner, Google Inc., or Google, our advertising network providers and directly from advertisers. We typically share a portion of this Managed Portals and Advertising revenue with our customers. Growth in our business is dependent on expansion of relationships with our existing customers and new customers adopting our Managed Portals and Advertising solutions and increased engagement by their consumers with these solutions.

We also generate revenue from our Recurring and Fee-Based Revenue solutions for the use of our technology, email and messaging, premium services and paid content. We generate this revenue in the form of licensing fees, including perpetual licenses, subscription licenses, maintenance and support fees, and professional services. As we expand our Cloud ID, syndicated content, Email/Collaboration and other premium services offerings, we expect to generate increased Recurring and Fee-Based revenue from our customers.

During the three and nine months ended September 30, 2016, Managed Portals and Advertising revenue was $18.5 million and $53.3 million, a decrease of 4% and 10% as compared to $19.4 million and $59.0 million for the three and nine months ended September 30, 2015.

Digital advertising revenue increased by $3.3 million and $6.1 million during the three and nine months ended September 30, 2016, respectively, as compared to the same periods in 2015, as a result of an increase in video advertising, syndicated advertising, and higher contractual rates for advertising, as well as the additional revenue resulting from our February 2016 acquisition of certain assets of Technorati, Inc., or Technorati, an advertising technology company. Combining Technorati s publisher network and proprietary advertising technologies with our existing network of Managed Portals and Advertising solutions creates a large-scale media solutions platform that enables our customers to increase engagement with their consumers and further monetize that engagement. This acquisition is driving additional advertising demand, accelerating our content and advertising syndication strategy by giving us access to over 1,000 new publishers; additionally, the acquisition has enabled us to add new tools for publishers to our platform.

We anticipate video advertising may become an increasing percentage of our advertising revenue which may also serve to increase our advertising revenue per thousand impressions (referred to as cost per mille or CPMs). We also anticipate that the signing of new customers and launching new mobile app products may help add new Managed Portals and Advertising revenue in future years.

Search revenue decreased by $4.1 million, or 56%, for the three months ended September 30, 2016 compared to the same period in 2015, and decreased by $11.8 million, or 48% for the nine months ended September 30, 2016 as compared to the same nine months in 2015. We believe the decrease was due to continued migration of search activity from personal computers to other devices, such as tablets and smartphones, generally across the consumer bases of our existing customers of our existing customers, and the residual effect of the placement of our Managed Portals and Advertising solutions on the second tab of the default Windows 8 and Windows 10 internet browsers by our consumer electronics customers.

We anticipate that search activity and search revenue will increase in the future due to our three-year portal services contract with AT&T Services, Inc., or AT&T, to provide Managed Portals and Advertising

solutions for use by AT&T s customers. We and AT&T entered into the portal services contract in May 2016 and we expect to complete deploying our solutions in the second half of 2017. In addition, we expect a future increase of search activity on smartphones and tablets as we believe our continuing investment in our next-generation Managed Portals and Advertising experiences will allow us to compete more effectively for search activity on smartphones and tablets.

Our Recurring and Fee-Based revenue consists of fees charged for the use of our proprietary technology and for the use of, or access to, services, such as e-mail and messaging, security, Cloud ID, online games, music and other premium services and paid content. During the three and nine months ended September 30, 2016, Recurring and Fee-Based revenue was $13.2 million and $39.1 million, as compared to $7.0 million and $18.8 million in the same periods in 2015, an increase of 89% and 108%, respectively, primarily due to sales of the Zimbra email/collaboration products and services and the initial revenue from our agreement with HBO to provide Cloud ID authentication services for HBO GO.

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

Revenue attributable to our customers includes the Recurring and Fee-Based revenue earned directly from them, as well as the Managed Portals and Advertising revenue generated through our relationships with our search and digital advertising partners (such as Google for search advertising and advertising networks, advertising agencies and advertisers for digital advertising). This revenue is attributable to our customers because it is generated from the traffic their consumers generate on our Managed Portals. These search and advertising partners provide us with digital advertisements that we deliver along with search results and other content on our Managed Portals. 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 and nine months ended September 30, 2016, search advertising through our relationship with Google generated $3.3 million and $12.7 million, or 10% and 14%, respectively, of our revenue, all of which was attributable to our customers. For the three and nine months ended September 30, 2016, search, digital advertising and other services attributable to one customer accounted for approximately $4.8 million and $16.4 million, representing 15% and 18% of our revenue, respectively.

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

Key Initiatives

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

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

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

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win new customers in current and related verticals; and

extend our product portfolio into emerging growth areas.

Key Business Metric

In addition to the line items in our financial statements, we review the number of multiplatform unique visitors to evaluate our business, determine the allocation of resources and make decisions regarding business strategies. We believe disclosing this metric is useful for investors and analysts to understand the underlying trends in our business. The following table reflects the number of multiplatform unique visitors for the three and nine months ended September 30, 2016 and 2015:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Multiplatform unique visitors	197,521,552	20,621,355	185,111,519	20,869,723

We define multiplatform unique visitors as consumers who have visited one of our Managed Portals from either mobile or desktop sources at least once, computed on an average monthly basis during a particular time period. For the three and nine months ended September 30, 2016, multiplatform unique visitors includes unique visitors to Technorati Media Network sites (since the February 2016 acquisition) and to other Synacor sites. As the number of multiplatform unique visitors increases, we expect that we will generate additional revenue from our Managed Portals and Advertising solutions. We rely on comScore to provide this data. ComScore estimates this data based on the U.S. portion of the internet activity of its worldwide panel of consumers and its proprietary data collection method.

Components of our Results of Operations

Revenue

We derive our revenue from two categories: revenue generated from search and digital advertising activities and Recurring and Fee-Based revenue, each of which is described below. The following table shows the revenue in each category, both in amount and as a percentage of revenue, for the three and nine months ended September 30, 2016 and 2015:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(in thousands)			
Revenue:				
Search and Digital Advertising	$ 18,511	$ 19,367	$ 53,312	$ 59,012
Recurring and Fee-Based	13,210	6,984	39,145	18,785
Total revenue	$ 31,721	$ 26,351	$ 92,457	$ 77,797

Percentage of Revenue:				
Search and Digital Advertising	58%	73%	58%	76%
Recurring and Fee-Based	42%	27%	42%	24%
Total revenue	100%	100%	100%	100%

Search and Digital Advertising Revenue

We use internet advertising to generate revenue from the traffic on our Managed Portals and Advertising solutions, categorized as search advertising and digital advertising.

In the case of search advertising, we have a revenue-sharing relationship with Google, pursuant to which we include a Google-branded search tool on our Managed Portals. 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. The net payment we receive from Google is recognized as revenue.

Digital advertising includes video, image and text advertisements delivered on one of our Managed Portals. Advertising inventory is filled with advertisements sourced by our direct sales force, independent advertising sales representatives and advertising network partners. Revenue is generated for us when an advertisement displays, otherwise known as an impression, or when consumers view or click an advertisement, otherwise known as an action. Digital advertising revenue is calculated on a cost per impression or cost per action basis. Digital advertising also includes advertising fees received for the placement of syndicated digital advertisements with other digital advertising networks, for which we acquire and pay for the space (inventory) on a cost per impression or cost per action basis. Revenue is recognized based on amounts received from advertising customers as the impressions are delivered or the actions occur, according to contractually-determined rates.

Recurring and Fee-Based Revenue

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

Revenue is also recognized from the licensing and distribution of our Email/Collaboration products and services, including perpetual licenses. Revenue from perpetual licenses is recognized upon execution of the contract, and when all other criteria have been met.

Costs and Expenses

Cost of Revenue

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

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operating costs for our data center facilities. Royalty costs consist of amounts due to other parties for license of email software with third party technology enabled. Product support costs consist of employee and operating costs directly related to our maintenance and professional services support.

Technology and Development

Technology and development expenses consist primarily of compensation-related expenses incurred for the research and development of, enhancements to, and maintenance and operation of our products, equipment and related infrastructure. Technology and development expenses also include certain costs of operating data centers domestically and internationally.

Sales and Marketing

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

General and Administrative

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

Depreciation and Amortization

Depreciation and amortization includes depreciation and amortization of our computer hardware and software, including our capitalized internally-developed software, furniture and fixtures, intangible assets, leasehold improvements and other property, as well as depreciation on capital leased assets.

Other (Expense) Income

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

Interest Expense

Interest expense primarily consists of interest on bank debt and capital leases.

Provision for Income Taxes

Income tax provision consists of federal and state income taxes in the United States and taxes in certain foreign jurisdictions, as well as any changes to deferred income tax assets or liabilities, and deferred income tax valuation allowances. Our income tax provision includes amounts withheld for payment of income taxes upon payment of our invoices by our customers in certain foreign jurisdictions. Those amounts increase the amount of our foreign tax credit which would defray our U.S. tax liability if we were presently a U.S. taxpayer. However, because the deferred income tax assets relating to our federal tax attributes, including our foreign tax credits, are fully reserved, any such foreign tax withholdings are charged to our income tax provision.

Loss in Equity Interest

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

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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, 2015 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, 2015.

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 define adjusted EBITDA as net income (loss) plus: provision (benefit) for income taxes, interest expense, other (income) expense, depreciation, loss in equity interest, stock-based compensation expense and acquisition costs. We have provided a reconciliation below of adjusted EBITDA to net loss, the most directly comparable GAAP financial measure.

We have included adjusted EBITDA in this Quarterly Report on Form 10-Q because it is a key measure used by our management and board of directors to understand and evaluate our core operating performance and trends, to prepare and approve our annual budget and to develop short and long-term operational plans. In particular, the exclusion of certain expenses in calculating adjusted EBITDA can provide a useful measure for period-to-period comparisons of our core business. Additionally, adjusted EBITDA is a key financial measure used by the compensation committee of our board of directors in connection with the payment of bonuses to our executive officers. Accordingly, we believe that adjusted EBITDA provides useful information to investors and others in understanding and evaluating our operating results in the same manner as our management and board of directors.

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 compensation;

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

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

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

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2016	**2015**	**2016**	**2015**
	(in thousands)			
Reconciliation of Adjusted EBITDA:				
Net loss	$ (3,365)	$ (931)	$ (7,687)	$ (3,086)
Provision for income taxes	379	10	783	30
Interest expense	75	35	227	144
Other expense (income)	38	32	(206)	31
Depreciation and amortization	2,414	1,560	6,782	4,716
Stock-based compensation expense	680	810	2,104	2,352
Loss in equity interest				57
Acquisition costs		478		478
Adjusted EBITDA	$ 221	$ 1,994	2,003	$ 4,722

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 September 30,		**Nine Months Ended September 30,**	
	2016	**2015**	**2016**	**2015**
	(in thousands)			
Revenue	$ 31,721	$ 26,351	$ 92,457	$ 77,797
Costs and operating expenses:				
Cost of revenue [1]	14,611	13,298	41,099	40,205
Technology and development [1 2]	6,791	4,361	19,255	13,788
Sales and marketing [2]	5,907	4,274	17,177	11,475
General and administrative [1 2]	4,871	3,712	15,027	10,437

Depreciation and amortization	2,414	1,560	6,782	4,716
Total costs and operating expenses	34,594	27,205	99,340	80,621
Loss from operations	(2,873)	(854)	(6,883)	(2,824)
Other (expense) income	(38)	(32)	206	(31)
Interest expense	(75)	(35)	(227)	(144)
Loss before income taxes and equity interest	(2,986)	(921)	(6,904)	(2,999)
Provision for income taxes	379	10	783	30
Loss in equity interest				(57)
Net loss	$ (3,365)	$ (931)	$ (7,687)	$ (3,086)

Notes:

[1] Exclusive of depreciation and amortization shown separately

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[2] Includes stock-based compensation expense, as follows:

	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
	(in thousands)			
Technology and development	$ 238	$ 224	$ 681	$ 693
Sales and marketing	173	231	604	716
General and administrative	269	355	819	942
	$ 680	$ 810	$ 2,104	$ 2,351

	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Revenue	100%	100%	100%	100%
Costs and operating expenses:				
Cost of revenue [1]	46	50	44	52
Technology and development [1]	21	17	21	18
Sales and marketing	19	16	19	15
General and administrative [1]	15	14	16	13
Depreciation and amortization	8	6	7	6
Total costs and operating expenses	109	103	107	104
Loss from operations	(9)	(3)	(7)	(4)
Other (expense) income				
Interest expense				
Loss before income taxes and equity interest	(9)	(3)	(7)	(4)
Provision for income taxes	1		1	
Loss in equity interest				
Net loss	(10)%	(3)%	(8)%	(4)%

Note:

[1] Exclusive of depreciation and amortization shown separately

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Comparison of the three and nine months ended September 30, 2016 and 2015

Revenue

	Three Months Ended September 30,		%	Nine Months Ended September 30,		%
	2016	2015	Change	2016	2015	Change
	(in thousands)			(in thousands)		
Revenue:						
Search and digital advertising	$ 18,511	$ 19,367	-4%	$ 53,312	$ 59,012	-10%
Recurring and Fee-Based	13,210	6,984	89%	39,145	18,785	108%
Total revenue	$ 31,721	$ 26,351	20%	$ 92,457	$ 77,797	19%
Percentage of Revenue:						
Search and digital advertising	58%	73%		58%	76%	
Recurring and Fee-Based	42%	27%		42%	24%	
Total revenue	100%	100%		100%	100%	

Three months - 2016 compared to 2015. Revenue increased $5.4 million, or 20%, compared to the same period in 2015. Recurring and Fee-Based revenue increased by $6.2 million, or 89%, due to increases in email, messaging and collaboration service revenue associated with our acquisition of certain Zimbra assets in September 2015, and due to increased video product sales including the initial revenue from our agreement with HBO to provide Cloud ID authentication services for HBO GO. Search and digital advertising revenue decreased by $0.8 million, or 4%. Search revenue declined by $4.1 million while digital advertising revenue increased by $3.3 million. The decrease in search revenue was due in part to the residual effect of the placement of our Managed Portals on the second tab of the default Windows 8 and Windows 10 internet browsers by our consumer electronics customers. We also believe that a portion of the decrease in search revenue was due to ongoing migration of search activity from personal computers to mobile devices, such as tablets and smartphones, generally across the consumer base. The increase in digital advertising revenue was driven by a combination of a continued increase in video advertising and higher contractual rates for such advertisements, an increase in syndicated advertising revenue, and revenue derived from the former Technorati business.

Nine months - 2016 compared to 2015. Revenue increased $14.7 million, or 19%, compared to the same period in 2015. Recurring and Fee-Based revenue increased by $20.4 million, or 108%, due to increases in email, messaging and collaboration service revenue associated with our acquisition of certain Zimbra assets in September 2015, and due to increased video product sales including the initial revenue from our agreement with HBO to provide Cloud ID authentication services for HBO GO. Search and digital advertising revenue decreased by $5.7 million, or 10%. Search revenue declined by $11.8 million while digital advertising revenue increased by $6.1 million. The decrease in search revenue was due in part to the residual effect of the placement of our Managed Portals on the second tab of the default Windows 8 and Windows 10 internet browsers by our consumer electronics customers. We also believe that a portion of the decrease in search revenue was due to ongoing migration of search activity from personal computers to mobile devices, such as tablets and smartphones, generally across the consumer base. The increase in digital advertising revenue was driven by a combination of a continued increase in video advertising and higher contractual rates for such advertisements, an increase in syndicated advertising revenue, and revenue derived from the former Technorati business.

Cost of Revenue

	Three Months Ended September 30,		%	Nine Months Ended September 30,		%
	2016	2015	Change	2016	2015	Change
	(in thousands)			(in thousands)		
Cost of revenue	$ 14,611	$ 13,298	10%	$ 41,099	$ 40,205	2%
Percentage of revenue	46%	50%		44%	52%	

Our cost of revenue consists primarily of revenue-sharing costs from search and digital advertising placed on our Managed Portals as well as the cost of providing content on those portals.

Three months - 2016 compared to 2015. Cost of revenue increased by $1.3 million, or 10% for the three months ended September 30, 2016 as compared to the same period in 2015. The increase in cost was primarily due to an increase in revenue-sharing costs relating to digital advertising revenue, increased

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direct syndicated advertising costs and royalties associated with our email products, offset partially by decreased revenue-sharing costs relating to the decline in search revenue. The improvement in cost of revenue as a percentage of revenue, from 50% to 46%, was attributable to an improvement in revenue mix, as higher margin Recurring and Fee-Based revenue increased as a percentage of total revenue.

Nine months - 2016 compared to 2015. Cost of revenue increased by $0.9 million, or 2% for the nine months ended September 30, 2016 as compared to the same period in 2015. The increase in cost was due primarily to increases in revenue-sharing costs relating to digital advertising revenue, direct syndicated advertising costs and email product royalties, partially offset by lower revenue-sharing costs relating to the decrease in search revenue. The improvement in cost of revenue as a percentage of revenue, from 52% to 44%, was attributable to an improvement in revenue mix, as higher margin Recurring and Fee-Based revenue increased as a percentage of total revenue.

Technology and Development Expenses

	Three Months Ended September 30,		%	Nine Months Ended September 30,		%
	2016	2015	Change	2016	2015	Change
	(in thousands)			(in thousands)		
Technology and development	$ 6,791	$ 4,361	56%	$ 19,255	$ 13,788	40%
Percentage of revenue	21%	17%		21%	18%	

Technology and development expenses consist of both the development of new products and services and the cost of operating multiple data centers domestically and internationally.

Three months - 2016 compared to 2015. The increase in technology and development expenses in 2016 as compared to 2015 was $2.4 million, or 56%, and was principally attributable to the addition in 2016 of the operating expenses associated with our Zimbra email/collaboration products and services and the product development and data center costs incurred in support of the AT&T portal business.

Nine months - 2016 compared to 2015. The increase in 2016 as compared to 2015 was $5.5 million, or 40%, and was driven by the operating expenses associated with our Zimbra email/collaboration products and services and the product development and data center costs incurred in support of the AT&T portal business.

Sales and Marketing Expenses

	Three Months Ended September 30,		%	Nine Months Ended September 30,		%
	2016	2015	Change	2016	2015	Change
	(in thousands)			(in thousands)		
Sales and marketing	$ 5,907	$ 4,274	38%	$ 17,177	$ 11,475	50%
Percentage of revenue	19%	16%		19%	15%	

Three months - 2016 compared to 2015. Sales and marketing expenses increased by $1.6 million, or 38%, in 2016 as compared with 2015. The increase was primarily the result of the additional domestic and international sales and marketing personnel and their related expenses affiliated with our Zimbra email/collaboration products and services, as well as expenses incurred in advance of and in support of our AT&T portal business.

Nine months - 2016 compared to 2015. Sales and marketing expenses increased by $5.7 million, or 50%, in 2016 as compared with 2015. The increase was primarily the result of the additional domestic and

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international sales and marketing personnel and their related expenses affiliated with our Zimbra email/collaboration products and services, as well as expenses incurred in advance of and in support of our AT&T portal business.

General and Administrative Expenses

	Three Months Ended September 30,		%	Nine Months Ended September 30,		%
	2016	2015	Change	2016	2015	Change
	(in thousands)			(in thousands)		
General and administrative	$ 4,871	$ 3,712	31%	$ 15,027	$ 10,437	44%
Percentage of revenue	15%	14%		16%	13%	

Three months - 2016 compared to 2015. General and administrative expenses increased by $1.2 million, or 31%, in 2016 as compared with 2015. The increase was due in part to increased administrative expenses associated with the Zimbra acquisition, including rent and personnel costs for offices in five foreign countries, as well as increased professional service costs, and start-up costs associated with the Company s engagement with AT&T.

Nine months - 2016 compared to 2015. General and administrative expenses increased by $4.6 million, or 44%, in 2016 as compared with 2015. The increase was due primarily to increased administrative expenses associated with the Zimbra acquisition, including rent and personnel costs for offices in five foreign countries, as well as increased professional service costs, acquisition-related expenses, and start-up costs associated with the Company s engagement with AT&T.

Depreciation and Amortization Expense

	Three Months Ended September 30,		%	Nine Months Ended September 30,		%
	2016	2015	Change	2016	2015	Change
	(in thousands)			(in thousands)		
Depreciation and amortization	$ 2,414	$ 1,560	55%	$ 6,782	$ 4,716	44%
Percentage of revenue	8%	6%		7%	6%	

Depreciation and amortization for the third quarter of 2016 increased by $0.9 million as compared to the same period in 2015. Depreciation and amortization for the nine months ended September 30, 2016 was $2.1 million higher than the corresponding period in 2015. The increase in each of the three and nine month periods ended September 30, 2016 was due to amortization of Zimbra-related intangible assets and, to a lesser extent, Technorati-related intangible assets in 2016, with an insignificant amount of Zimbra-related amortization and no Technorati-related amortization in the corresponding periods in 2015.

Other (Expense) Income

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015

	(in thousands)			
Other (expense) income	$ (38)	$ (32)	$ 206	$ (31)

Other (expense) income consists of interest income and foreign currency transaction and measurement gains and losses related to our international operations. Net other (expense) income for the nine months ended September 30, 2016 included realized foreign currency transaction gains from the second quarter of 2016.

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Interest Expense

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(in thousands)			
Interest expense	$ (75)	$ (35)	$ (227)	$ (144)

Interest expense consists of interest on long-term debt and capital leases and increased in both the three and nine months ended September 30, 2016 over the corresponding periods in 2015 due to the Company s long-term bank borrowings outstanding in 2016.

Provision for Income Taxes

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(in thousands)			
Provision for income taxes	$ 379	$ 10	$ 783	$ 30

Due to the uncertainty of whether and when we may be able to utilize our net operating loss and income tax credit carry-forwards, we have a full valuation allowance against the recorded value of our U.S. deferred income tax assets. As such, we do not record a tax benefit to reduce our reported pre-tax loss. The $0.4 million and $0.8 million increases in our income tax provision in the three and nine months ended September 30, 2016, respectively, as compared to the same periods in 2015 are both attributable to tax withholdings on remittances from customers in foreign countries.

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. In addition, we expect to incur a total of approximately $10.0 million in start-up expenses, development expenses and capital expenditures through the first quarter of 2017 specifically relating to our contract to provide desktop and mobile portal services to AT&T. Of this total, we incurred approximately $3.0 million during the third quarter of 2016, including $2.3 million in operating expenses and $0.5 million in capital expenditures. To date, we have incurred approximately $5.0 million of total start-up expenses relating to this contract, including approximately $4.0 million in operating expenses and $1.0 million in capital expenditures.

To the extent that existing cash and cash equivalents, cash from operations, cash from short-term borrowings and cash from the exercise of stock options are insufficient to fund our future activities, we may need to raise additional funds through public or private equity offerings or debt financings.

In September 2013, we entered into a Loan and Security Agreement with Silicon Valley Bank, or the Lender, which was amended most recently in November 2016 (as amended, the Loan Agreement). The

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Loan Agreement provides for a $12.0 million secured revolving line of credit with a stated maturity of September 25, 2018. The credit facility is available for cash borrowings, subject to a formula based upon eligible accounts receivable. As of September 30, 2016, we had $5.0 million in outstanding borrowing under the Loan Agreement; subject to the operation of the borrowing formula, an additional $7.0 million was available for draw under the Loan Agreement.

Borrowings under the Loan Agreement bear interest, at our election, at an annual rate of either 1.00% above the prime rate as published in The Wall Street Journal or LIBOR for the relevant period plus 3.50%, provided that our liquidity coverage ratio (cash plus eligible accounts receivable divided by bank borrowings) exceeds 2.75. Should our liquidity coverage ratio be less than or equal to 2.75, borrowings under the Loan Agreement bear interest at either the prime rate plus 1.50% or LIBOR plus 4.00%. For LIBOR advances, interest is payable (i) on the last day of a LIBOR interest period or (ii) on the last day of each calendar quarter. For prime rate advances, interest is payable (a) on the first day of each month and (b) on each date a prime rate advance is converted into a LIBOR advance.

Our obligations to the Lender are secured by a first priority security interest in all our assets, including our intellectual property. The Loan Agreement contains customary events of default, including non-payment of principal or interest, violations of covenants, material adverse changes, cross-default, bankruptcy and material judgments. Upon the occurrence of an event of default, the Lender may accelerate repayment of any outstanding balance. The Loan Agreement also contains certain financial covenants and other agreements that are customary in loan agreements of this type, including restrictions on paying dividends and making distributions to our stockholders. As of September 30, 2016, we were in compliance with the covenants. The November amendment to the Loan Agreement modified our covenants, and we anticipate continuing to be in compliance with the modified covenants.

As of September 30, 2016, we had $15.0 million of cash and cash equivalents. We believe that our existing cash and cash equivalents, along with cash flows from operations and availability under our revolving credit line, will be sufficient to meet our anticipated working capital, interest payments, capital lease payment obligations, capital expenditure requirements, and any payments of contingent acquisition consideration for at least the next 12 months. We expect our cash and cash equivalents will decrease in the near term as we continue to incur the necessary start-up expenses, development expenses and capital expenditures in support of our AT&T portal business.

Cash Flows

Statement of Cash Flows Data (in thousands):

	Nine Months Ended September 30, 2016	2015
Net cash flows provided by operating activities	$ 6,711	$ 6,178
Net cash flows used in investing activities	(6,746)	(19,734)
Net cash flows used in financing activities	(626)	3,540

Cash Provided by Operating Activities

Operating activities provided $6.7 million of cash in the nine months ended September 30, 2016, an increase of $0.5 million, or 9%, over the same period in 2015. The improved operating cash flow resulted primarily from a reduction in accounts receivable and an increase in accounts payable, accrued expenses and other liabilities, offset partially by increases in prepaid expenses, a reduction in deferred revenue, and our net loss adjusted for non-cash depreciation, amortization and stock-based compensation expenses.

Cash flows provided by operating activities results from our net loss, adjusted for non-cash income and expense items and changes in our operating assets and liabilities. The net loss was $7.7 million, which included non-cash depreciation and amortization expense of $6.8 million and stock-based compensation expense of $2.1 million. Changes in our operating assets and liabilities provided $5.5 million of cash, primarily the result of a $5.3 million decrease in accounts receivable (without taking into effect accounts receivable acquired in the Technorati acquisition), a $1.8 million increase in accounts payable (also without taking into effect liabilities assumed in the Technorati acquisition), and a $1.3 million increase in accrued expenses and other liabilities, offset partially by a $1.3 million increase in prepaid expenses and other assets and a $1.7 million decrease in deferred revenue. The increase in prepaid expenses and other assets was primarily due to an increase in prepayments to vendors for components of our cost of revenue as well as an increase in prepayments for subcontracted development costs. The increase in accrued expenses and other liabilities was primarily due to an increase in liabilities for syndicated advertising costs.

In the nine months ended September 30, 2015 operating activities provided $6.2 million of cash. The net loss was $3.1 million, which included non-cash depreciation of $4.7 million and non-cash stock-based compensation expense of $2.4 million. Changes in our operating assets and liabilities provided $2.1 million of cash, primarily due to a $3.2 million inflow of cash related to the timing of cash collections from accounts receivable, and lower prepaid expenses and other assets of $0.6 million, offset by a decrease in our accounts payable of $1.0 million and a decrease in deferred revenue of $0.7 million. The decrease in accounts payable was a function of the timing of payment of invoices to our vendors. The decrease in our prepaid expenses and other assets was primarily due to a reduction in the amount of prepayments to vendors for components of our cost of revenue and insurance.

Cash Used in Investing Activities

Cash used in investing activities totaled $6.7 million in the nine months ended September 30, 2016, as compared to a use of $19.7 million in the comparable 2015 period. During the nine months ended September 30, 2016, we paid $2.5 million for the acquisition of assets from Technorati and $4.2 million for the purchase of property and equipment, primarily for the development of software and investments in data center infrastructure. In the comparable period in 2015, we paid $17.3 million for the acquisition of certain assets from Zimbra, Inc., and purchases of property and equipment totaled $2.5 million, principally for the development of internal-use software and build-out of our data centers.

Cash Used in Financing Activities

Net cash used in financing activities amounted to $0.6 million in the nine months ended September 30, 2016, as compared to $3.5 million provided by financing activities in the comparable 2015 period. In the 2015 period, we borrowed $5.0 million under our credit facility with Silicon Valley Bank to partially finance our acquisition of Zimbra. Principal payments of capital leases totaled $1.2 million in 2016, as compared to $1.0 million in 2015, while we received $0.7 million of net proceeds from the exercise of stock options in 2016 as compared to $0.1 million in 2015. In addition, cash used in financing activities in the nine months ended September 30, 2015 included the final $0.5 million payment for the acquisition of Teknision.

Off-Balance Sheet Arrangements

As of September 30, 2016, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of Regulation S-K promulgated by the SEC, that have or are reasonably likely to have a current or future effect on our financial condition, changes in our financial condition, revenue, or expenses, results of operations, liquidity, capital expenditures, or capital resources that is material to investors.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Interest Rate Risk

Our cash and cash equivalents primarily consist of cash and money market funds. 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.

We have bank debt with an outstanding balance of $5.0 million at September 30, 2016, which bears interest at a variable annual rate of either 1.00% above the prime rate as published in The Wall Street Journal or LIBOR for the relevant period plus 3.50%, at our election, thus subjecting us to interest rate risk. If our liquidity coverage ratio (cash plus eligible accounts receivable divided by bank debt) does not exceed 2.75, these rates rise to either the prime rate plus 1.50% or LIBOR plus 4.00%, at our election. A 10% increase or decrease in these interest rates would not have a significant impact on our interest expense. Although not significant, we are currently evaluating actions we may take to mitigate this exposure. Refer to Note 5, *Long-Term Debt*, of the Notes to the Consolidated Financial Statements in Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2015 for additional information about our outstanding debt.

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.

Foreign Currency Risks

We are also subject to foreign currency exchange risk relating to our operations in Canada, Europe, India, Japan and Singapore. Our expenses at these locations are denominated in the local currencies and our results of operations are influenced by changes in the exchange rates between the U.S. Dollar and these local currencies, principally the Canadian Dollar, Euro, British Pound Sterling, Rupee, Yen and Singapore Dollar. In addition, certain of our revenue and accounts receivable are denominated in currencies other than the U.S. Dollar, principally the Euro, British Pound Sterling, and Japanese Yen. A 10% increase or decrease in the applicable currency exchange rates could result in an increase or decrease in our currency exchange (loss) gain of approximately $0.2 million, calculated based on our foreign currency denominated accounts receivable as of September 30, 2016.

Subsequent to September 30, 2016, in response to foreign currency risks relating to our foreign currency denominated accounts receivable balances, we entered into a short-term hedge contract to lock in the dollar value of a Yen-denominated receivable, and may enter into similar contracts in the future to minimize the foreign currency risk with respect to significant receivable balances.

We continue to evaluate our various foreign currency rate exposures and may take additional steps to mitigate these exposures.

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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 September 30, 2016. 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 September 30, 2016, 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 September 30, 2016 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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 be expected to have a material adverse effect on our business, results of operations or financial condition.

ITEM 1A. RISK FACTORS

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

Risks Related to Our Business

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

We rely on traffic on our Managed Portals to generate search and digital advertising revenue, a substantial portion of which is derived from text-based links to advertisers websites as a result of internet searches. We have a revenue-sharing relationship with Google under which we include a Google-branded search tool on our Managed Portals. 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 28%, 42%, and 51% of our revenue in 2015, 2014, and 2013 or $31.2 million, $45.4 million and $57.5 million, respectively, and approximately 14% of our revenue in the nine months ended September 30, 2016, or $12.7 million. Our agreement with Google was renewed in March 2014 for a three year term and expires in February 2017 unless we and Google mutually elect to renew it. Additionally, Google may terminate our agreement if we experience a change in control, if we enter into an agreement providing for a change in control, if we do not maintain certain search and digital advertising revenue levels or if we fail to conform to Google s search policies and advertising policies. Google may from time to time change its existing, or establish new, methodologies and metrics for valuing the quality of internet traffic. Any changes in these methodologies, metrics and advertising technology platforms could decrease the advertising rates that we receive and/or the amount of revenue that we generate from digital advertisements. If advertisers were to discontinue their advertising via internet searches, if Google s revenue from search-based advertising were to decrease, if Google s share of the search revenue were to be increased or if our agreement with Google were to be terminated for any reason or renewed on less favorable terms, our business, financial condition and results of operations would be materially and adversely affected. Moreover, consumers increased use of search tools other than the Google-branded search tool we provide would have similar effects.

A loss of any significant Managed Portals and Advertising customer could negatively affect our financial performance.

Although we continue to diversify our product portfolio and our customer base, we continue to derive a substantial portion of our revenue from a small number of Managed Portal customers. Revenue attributable to these customers includes the Recurring and Fee-Based revenue earned directly from them, as well as the search and digital advertising revenue earned through our relationships with our advertising partners, such as Google, based on traffic generated from our Managed Portals. Revenue attributable to CenturyLink, Inc., or CenturyLink, Toshiba America Information Systems, Inc., or Toshiba, and Verizon Corporate Services Group, Inc., or Verizon together accounted for approximately 49% of our revenue, or $53.5 million for the year ended December 31, 2015. For 2015, revenue attributable to one of these customers accounted for 20% or more of our revenue, and revenue attributable to each of the other two customers accounted for more than 10% of our revenue. For the nine months ended September 30, 2016, revenue attributable to one customer accounted for approximately 18% of our revenue, or $16.4 million. No other customer accounted for 10% or more of our revenue for that period. In the first nine months of 2016, revenue attributable to Verizon accounted for less than 10% of our revenue. In 2015, Verizon acquired AOL, and as a result, we would expect that our revenue attributable to Verizon may decline in future periods.

Our contracts with our Managed Portals and Advertising customers generally have an initial term of approximately two to three years from the launch of their Managed Portals and frequently provide for one or more automatic renewal terms of one to two years each. If a key contract is not renewed or is otherwise terminated, or if revenue from a significant customer 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 the loss of Recurring and Fee-Based revenue, we would also lose significant revenue from the related search and digital advertising services that we provide. In addition to the decline of revenue, we may have to impair our long-lived assets, to the extent that such assets are used exclusively to support these customers, which would adversely impact our results of operations and financial position.

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If our delivery of our products and services under our contract with AT&T is executed according to our plan, we expect that, following such delivery, we will derive a substantial portion of our revenue from AT&T, with revenue attributable to AT&T exceeding the revenue attributable to any of our other customers. If our contract with AT&T is not renewed or is otherwise terminated, or if revenue from the AT&T relationship were to decline due to competitive or other reasons, our results of operations and financial position would be adversely affected.

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

We have incurred significant losses in each year of operation other than 2009, 2011, and 2012, including a pre-tax net loss of $3.6 million in 2010, a pre-tax net loss of $1.5 million in 2013, a pre-tax net loss of $8.1 million in 2014, a pre-tax net loss of $3.1 million in 2015, and a pre-tax net loss of $6.9 million in the nine months ended September 30, 2016. Our pre-tax net income in 2009, 2011, and 2012 was $0.3 million, $3.9 million, and $5.6 million, respectively. We have taken cost saving measures, including a reduction in workforce carried out in September 2014. However, our expenses may increase in future periods as we implement initiatives designed to grow our business including, among other things, the start-up and product development expenses we will incur in connection with providing Managed Portal and Advertising solutions to AT&T, acquisitions of complementary businesses (such as our acquisition of the Zimbra assets and our acquisition of certain assets from Technorati), the development and marketing of new services and products, licensing of content, expansion of our infrastructure and international expansion. If our revenue does not sufficiently increase to offset these expected increases in operating expenses, we may incur significant losses and may not be profitable. For example, although our revenue in the nine months ended September 30, 2016 increased as compared to the same period of 2015 and our revenue in 2015 increased as compared to 2014, we have not yet returned to profitability. We may not be able to return to or maintain profitability in the future. Any failure to achieve or maintain profitability may materially and adversely affect our business, financial condition, results of operations and impact our ability to utilize our net operating loss carry-forwards. As a result of our pre-tax cumulative losses, we have established a full valuation allowance against our deferred income tax asset, which includes our net operating loss carry-forwards.

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

The number of people who access the internet through devices other than PCs, including tablets, smartphones and connected TVs, has increased dramatically in the past few years and is projected to continue to increase. Similarly, individuals are increasingly accessing the internet through apps other than internet browsers, such as those available for download through Apple Inc. s App Store and the Android Market. Our Managed Portals include our responsive desktop and mobile web products and also our mobile native iOS and Android apps. If consumers do not use our mobile products at all or use these products less frequently than previously, our financial results could be negatively affected. Additionally, as new devices and new apps are continually being released, it is difficult to predict the problems we may encounter in developing new versions of our apps and other solutions for use on these alternative devices and apps, and we may need to devote significant resources to the creation, support and maintenance of such apps and solutions. If users of these devices and apps do not widely adopt the apps and other solutions we develop, our business, financial condition and results of operations could be adversely affected.

Consumer tastes continually change and are unpredictable, and sales of our Managed Portals and Advertising solutions may decline if we fail to enhance our service and content offerings to achieve continued consumer acceptance.

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

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

Our revenue 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. For example, under our relationship with AT&T, we have agreed to deliver a number of additional products and services to AT&T s consumers. If our existing and prospective customers do not perceive that we will deliver our services and products on schedule, or if they do not perceive our services and products to be of sufficient value and quality, we may lose the confidence of our existing customers and fail to increase sales to these existing customers, existing customers may be able to terminate their agreements with us, 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 and communications providers, consumer electronics manufacturers, and directly and indirectly to enterprises, and governmental and nonprofit organizations. New customer relationships typically take time to obtain and finalize because of the burdensome cost of migrating from an existing solution to our platform. Due to operating procedures in many organizations, a significant time period may pass between selection of our services and products by key decision-makers and the signing of a contract. The length of time between the initial customer sales call and the realization of significant sales is difficult to predict and can range from several months to several years. As a result, it is difficult to predict when we will obtain new customers and when we will begin to generate revenue and cash flows from these potential new customers.

As part of our sales cycle for our Managed Portals and Advertising customers, 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.

Many 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 and communications providers, including our search and digital advertising revenue generated by online consumer traffic on our Managed Portals and our revenue from our Email/Collaboration offerings, accounted for approximately 82% in 2015, approximately 85% in 2014, approximately 83% in 2013, and approximately 73% in the nine months ended September 30, 2016. 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 revenue. Under our agreements with some of our customers, including Verizon and CenturyLink, they have the right to terminate the agreement if we are acquired by one of their competitors.

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

We rely, to a significant degree, on indirect sales channels for the distribution of our Email/Collaboration products, and disruption within these channels could adversely affect our business, financial condition, operating results and cash flows.

We use a variety of indirect distribution methods for our offerings, including channel partners, such as cloud service providers, distributors, and value added resellers. A number of these partners in turn distribute our offerings via their own networks of channel partners with whom we have no direct relationship. These relationships allow us to offer our technologies to a much larger customer base than we would otherwise be able to through our direct sales and marketing efforts.

We rely, to a significant degree, on each of our channel partners to select, screen and maintain relationships with its distribution network and to distribute our offerings in a manner that is consistent with applicable law and regulatory requirements and our quality standards. If our channel partners or a partner in its distribution network violate applicable law or regulatory requirements or misrepresent the functionality of our offerings, our reputation could be damaged and we could be subject to potential liability. Furthermore, our channel partners may offer their own products and services that are competitive with our offerings or may not distribute and market our offerings effectively. Our existing channel partner relationships do not, and any future channel partner relationships may not, afford us any exclusive marketing or distribution rights. In addition, if a channel partner is acquired by a competitor or its business units are reorganized or divested, our revenue derived from that partner may be adversely impacted.

Recruiting and retaining qualified channel partners and training them in the use of our technologies require significant time and resources. If we fail to devote sufficient resources to support and expand our network of channel partners, our business may be adversely affected. In addition, because we rely on channel partners for the indirect distribution of our technologies, we may have little or no contact with the ultimate end-users of our technologies, thereby making it more difficult for us to establish brand awareness, ensure proper delivery and installation of our software, support ongoing customer requirements, estimate end-user demand, respond to evolving customer needs and obtain renewals from end-users.

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Most of our sales to government entities have been made indirectly through our channel partners. Government entities may have statutory, contractual, or other legal rights to terminate contracts with our channel partners for convenience or due to a default, and any such termination may adversely impact our future operating results. Governments routinely investigate and audit government contractors administrative processes, and any unfavorable audit could result in the government refusing to continue buying our offerings, a reduction of revenue or fines or civil or criminal liability if the audit uncovers improper or illegal activities.

If our indirect distribution channel is disrupted, we may be required to devote more resources to distribute our offerings directly and support our customers, which may not be as effective and could lead to higher costs, reduced revenue and growth that is slower than expected.

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

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

Moreover, updates to internet browser technology may adversely affect our business. For example, for our consumer electronics manufacturer customers that have the Windows 8 operating system pre-installed on some of their devices, the Windows 8 operating system places our Managed Portal on a second tab when the internet browser is launched, leading to decreased search and digital advertising revenue. Further, upgrades to the Windows 10 operating system default to Microsoft s latest Edge browser and displace users previous browser settings including default homepages, which can also lead to decreased search and digital advertising revenue. Unless consumers change their browser settings back to our Managed Portals, their usage of our Managed Portals would likely decline and our results of operations could be negatively impacted.

We invest in features and functionality designed to increase consumer engagement with our Managed Portals; 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 Managed Portals. We have made and will continue to make substantial investments in features and functionality for our technology that are designed to drive consumer engagement. We expect to invest a total of approximately $10 million, including approximately $5 million invested in the second and third quarters of 2016, through March 31, 2017 in start-up expenses, development expenses and capital expenditures relating to our contract with AT&T.

Not all of these activities directly generate revenue, and we cannot assure you that we will reap sufficient rewards from these investments to make them worthwhile. If the expenses that we incur in connection with these activities do not result in increased consumer engagement that in turn results in revenue increases that exceed these expenses, our business, financial condition and results of operations will be adversely affected.

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

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

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 Managed Portals 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 Zimbra Email/Collaboration solution was developed as an open-source software product. As such, it may be relatively easy for competitors, some of which may have greater resources than we have, to compete with us.

One of the characteristics of open source software is that anyone may modify and redistribute the existing open source software and use it to compete with us. Such competition can develop without the degree of overhead and lead time required by traditional proprietary software companies. In addition, some of these competitors may make their open source software available for free download and use on an ad hoc basis or may position their open source software as a loss leader. We cannot guarantee that we will be able to compete successfully against current and future competitors or that competitive pressure and/or the availability of open source software will not result in price reductions, reduced operating margins and loss of market share, any one of which could adversely affect our business, financial condition, operating results and cash flows.

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

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

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

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

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

our ability to attract new customers;

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

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

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

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

changes to internet browser technology that may render our Managed Portals less competitive;

changes in our pricing policies or those of our competitors;

changes in the prices our customers charge their consumers for email, premium 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 implementation of our solutions for new customers;

maintaining appropriate staffing levels and capabilities relative to projected growth;

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

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

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

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

We plan to expand our product offerings internationally, particularly in Asia, Canada, Latin America and Europe. Although our exposure to international markets has increased as a result of our acquisition of the Zimbra assets in September 2015, we have limited experience in marketing and operating our services and products in international markets, and we may not be able to successfully develop or grow our business in these markets. Our success in these markets will be directly linked to the success of our relationships with potential customers, resellers, content partners and other third parties.

As the international markets in which we 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.

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

Failure to comply with the United States Foreign Corrupt Practices Act could subject us to penalties and other adverse consequences.

We are subject to the United States Foreign Corrupt Practices Act, which generally prohibits U.S. companies from engaging in bribery or other prohibited payments to foreign officials for the purpose of obtaining or retaining business. Corruption, extortion, bribery, pay-offs, theft and other fraudulent practices may occur with respect to our expansion into international markets. Our employees or other agents may engage in such conduct for which we might be held responsible. If our employees or other agents are found to have engaged in such practices, we could suffer severe penalties and other consequences, including adverse publicity and damage to our reputation that may have a material adverse effect on our business, financial condition and results of operations.

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 Managed Portals and Advertising 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, 2016 (three months remaining), 2017 and 2018 total approximately $1.1 million, $2.0 million, and $0.7 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.

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

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

The provision of our services and products depends on the continuing operation of our information technology and communications systems. Any damage to or failure of our systems could result in interruptions in our service. Such interruptions could harm our business, financial condition and results of operations, and our reputation could be damaged if people believe our systems are unreliable. Our systems are vulnerable to damage or interruption from snow storms, terrorist attacks, floods, fires, power loss, telecommunications failures, security breaches, computer malware, computer hacking attacks, computer viruses, computer denial of service attacks or other attempts to, or events that, harm our systems. Our data centers are also subject to break-ins, sabotage and intentional acts of vandalism and to potential disruptions if the operators of the facilities have financial difficulties. Although we maintain insurance to cover a variety of risks, the scope and amount of our insurance coverage may not be sufficient to cover our losses resulting from system failures or other disruptions to our online operations. For example, the limit on our business interruption insurance is approximately $29.7 million. Any system failure or disruption and any resulting losses that are not recoverable under our insurance policies may materially harm our business, financial condition and results of operations. To date, we have never experienced any material losses.

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

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

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

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

A key element to our continued growth is the ability of our customers   consumers in all geographies to access our Managed Portals and other offerings within acceptable load times. We refer to this as website performance. We may in the future experience platform disruptions, outages and other performance problems due to a variety of factors, including infrastructure changes, human or software errors, capacity constraints due to an overwhelming number of users accessing our technology simultaneously, and denial of service or fraud or security attacks.

In some instances, we may not be able to identify the cause or causes of these website performance problems within an acceptable period of time. 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 Managed Portals and Advertising solutions are unavailable when consumers attempt to access them or do not load as quickly as they expect, consumers may seek other alternatives to obtain the information for which they are looking, and may not use our products and services as often in the future, or at all. This would negatively impact our relationships with our customers. We expect to continue to make significant investments to maintain and improve website performance. To the extent that we do not effectively address capacity constraints, upgrade our systems as needed and continually develop our technology and network architecture to accommodate actual and anticipated changes in technology, our business and operating results may be harmed.

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

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

Our future success also depends on our ability to identify, attract and retain highly skilled technical, managerial, finance, marketing and creative personnel. Further, we will need to hire personnel outside the United States to continue to pursue an international expansion strategy, and we will need to hire additional advertising salespeople to sell more advertisements directly. In order to successfully deploy the Managed Portals and Advertising solutions we are obligated to provide under our contract with AT&T, we expect to hire additional technical, creative, marketing and support personnel. 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, much of our business expansion resulted from organic growth. More recently, however, we have sought to, and may continue to seek to, grow through strategic acquisitions. For example, in the first quarter of 2016, we acquired certain assets from Technorati, and in 2015, we acquired the Zimbra assets and certain assets of NimbleTV. Our goal of returning to growth may place significant demands on our management and our operational and financial infrastructure. Our ability to manage our growth effectively and to integrate new technologies and acquisitions (such as the assets acquired from Technorati, the Zimbra assets, and NimbleTV) into our existing business will require us to continue to expand our operational, financial and management information systems and to continue to retain, attract, train, motivate and manage key employees. Growth could strain our ability to:

- develop and improve our operational, financial and management controls;
- enhance our reporting systems and procedures;
- recruit, train and retain highly skilled personnel;

- maintain our quality standards; and
- maintain customer and content owner satisfaction.

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

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

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In February 2016 we acquired substantially all of the assets of, and hired certain personnel from, Technorati; in 2015 we acquired the Zimbra assets and hired certain related personnel and we purchased assets from, and hired the personnel of, NimbleTV; and in March 2013, we entered into a joint venture in China. We may decide to pursue other acquisitions of, investments in, or joint ventures involving other technologies and businesses in the future. Such transactions could divert our management s time and focus from operating our business.

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

- incorporating new technologies into our existing business infrastructure;
- consolidating corporate and administrative functions;
- coordinating our sales and marketing functions to incorporate the new business or technology;
- maintaining morale, retaining and integrating key employees to support the new business or technology and managing our expansion in capacity; and
- maintaining standards, controls, procedures and policies (including effective internal control over financial reporting and disclosure controls and procedures).

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

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

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

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

The operation of our business and our growth strategy may require significant additional capital, especially if we were to accelerate our expansion and acquisition plans. Additionally, we expect to incur significant start-up expenses, development expenses and capital expenditures during the remainder of 2016 and early 2017 relating to our contract to provide desktop and mobile portal services to AT&T. If the cash generated from operations and otherwise available to us is not sufficient to meet our capital requirements, we will need to seek additional capital, potentially through debt or equity financings, to fund our growth. 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. As with our credit facility with Silicon Valley Bank, any debt financing obtained by us in the future could contain

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financial covenants or other 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.

In addition, while we are in compliance at September 30, 2016 with the financial covenants contained in our credit facility with Silicon Valley Bank, and we and Silicon Valley Bank recently entered into an agreement that modifies those financial covenants, our future financial performance, including our expected investments in start-up expenses, development expenses and capital expenditures associated with our contract with AT&T, may potentially cause us to become not in compliance with those covenants, possibly restricting our ability to continue to borrow under our credit facility.

If new or our existing 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 and distribution of our proprietary information. Additionally, we have applied for patents to protect certain of our intellectual property. We have registered several marks and filed many other trademark applications in the U.S. We have not applied for copyright protection in any jurisdiction including in the U.S. However, if we are unable to adequately protect our intellectual property, it may be possible for a third party to copy or otherwise obtain and use our intellectual property without authorization, and 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. The steps we take may not prevent misappropriation or infringement of our property rights. 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 have been subject to claims that the presentation of certain licensed content on our Managed

Portals infringes certain patents of a third party, none of which have resulted in material 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

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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 experience reduced revenue. 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 material 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 email addresses. Unauthorized disclosure of such personal information, 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 email addresses. There are numerous federal, state and local laws, rules and guidelines around the world regarding privacy and the collection, storing, sharing, use, processing, disclosure, destruction and security 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. For example, the European Commission and the United States Department of Commerce recently designed a new program known as the EU-US Privacy Shield, or the Privacy Shield, which provides a mechanism for U.S. companies to comply with data protection requirements under the 1995 European Union Data Protection Directive when transferring personal information from the European Economic Area, or the EEA, to the United States. The Privacy Shield includes more stringent operational and legal requirements for parties processing EEA personal information and imposes significant penalties for non-compliance.

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

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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 (including obligations in agreements with our customers), 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, or, in some situations, terminate their agreements with us, which could have an adverse effect on our business. Additionally, if third parties we work with, such as customers, vendors or developers, violate 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 digital advertising on our Managed Portals. Such advertising accounted for approximately 43%, 36%, and 29% of our revenue for the years ended December 31, 2015, 2014, and 2013, respectively, and approximately 44% of our revenue for the nine months ended September 30, 2016. 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 Managed Portals;
- maintaining consumer engagement on those Managed Portals;
- 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 capabilities.

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 consumers from one high-speed internet service provider to another could adversely affect our business, financial condition and results of operations.

Consumers 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 revenue, including search and digital 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, requires our management to evaluate and report on our internal control over financial reporting. This report contains, among other matters, an assessment of the effectiveness of our internal control over financial reporting as of the end of our fiscal year, including a statement as to whether or not our internal control over financial reporting is effective. This assessment must include disclosure of any material weaknesses in our internal control over financial reporting identified by management. In addition, our independent registered public accounting firm may be required to formally attest to the effectiveness of our internal control over financial reporting beginning with the Annual Report on Form 10-K for the year in which we are no longer an emerging growth company. At such time, our independent registered public accounting firm may issue a report that is adverse in the event it is not satisfied with the level at which our controls are designed or operating.

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While we have determined that our internal control over financial reporting was effective as of December 31, 2015, as indicated in our Management Report on Internal Control over Financial Reporting included in our Annual Report on Form 10-K for the year ended December 31, 2015, we must continue to monitor and assess our internal control over financial reporting. If our management identifies one or more material weaknesses in our internal control over financial reporting and such weakness remains uncorrected at fiscal year-end, we will be unable to assert such internal control is effective at fiscal year-end. If we are unable to assert that our internal control over financial reporting is effective at fiscal year-end, or if our independent registered public accounting firm, when required, is unable to express an opinion on the effectiveness of our internal controls or concludes that we have a material weakness in our internal controls, we could lose investor confidence in the accuracy and completeness of our financial reports, which would likely have an adverse effect on our business and stock price.

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.

After the end of 2017, we will no longer be an emerging growth company as defined in the Jumpstart Our Business Startups (JOBS) Act. If, at that time, we are also no longer a smaller reporting company, then we will be required to comply with the auditor attestation requirements contained in Section 404. Any delay in compliance with the auditor attestation provisions of 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 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.

We are an emerging growth company and we cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will make our common stock less attractive to investors.

We are an emerging growth company, as defined in the JOBS Act, and until such time as we are no longer an emerging growth company, we intend to take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. We cannot predict if investors will find our common stock less attractive because we will rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile.

Our ability to use our net operating loss carry-forwards and certain other tax attributes may be limited as a result of future transactions in our stock which may be outside our control.

As of September 30, 2016, we had substantial federal and state net operating loss carry-forwards. 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 carry-forwards 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 carry-forwards 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.

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A substantial majority of our revenue is derived from our Managed Portals and Advertising solutions; 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 digital advertising on our Managed Portals. Such search and digital advertising revenue accounted for approximately 71%, 79% and 81% of our revenue for the years ended December 31, 2015, 2014 and 2013, or $78.3 million, $83.9 million, and $90.4 million respectively, and approximately 58%, or $53.3 million in the nine months ended September 30, 2016. 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. 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 one 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 Managed Portals. 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 sponsored link 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. 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 that limits or removes 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, a division of Verizon; 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;

ability to offer their products at significantly lower prices or at no cost;

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- 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.

Over time, we expect state, federal and international legislative bodies to continue to enact more stringent laws and regulations relating to the internet. 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. For example, 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, but requires strict compliance with certain provisions to qualify for the safe harbor provisions; the Children s Online Privacy Protection Act imposes additional restrictions on the ability of online services to collect user information from minors under the age of 13; and 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.

Increased regulation and industry standards related to internet privacy issues may 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, sharing, processing, disclosure, destruction, and security of personal information by companies operating over the internet have come under increased public scrutiny and, as a result, there are an increasing number of regulations and industry standards that affect our business. Regulators, including the Federal Trade Commission and regulators in the EEA, have restricted and continue to restrict our ability to use personal information and therefore may limit or inhibit our ability to operate our business. In addition, many nations and economic regions have privacy protections that are more stringent or otherwise at odds with those in the United States. For example, the EEA traditionally has imposed stricter obligations and provided for more onerous penalties than the United States. Complying with new privacy and security requirements, whether imposed by regulation, contract or industry standard, will require additional expenditures and may result in a greater compliance burden for companies with users from the EEA.

We may incur expenses to comply with privacy and security standards and protocols imposed by law, regulation, industry standards or contractual obligations. 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 and officers 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 and executive officers and their respective affiliates, beneficially own or directly or indirectly control (including by voting proxy), as of September 30, 2016, approximately 22% of our outstanding common stock (including exercisable options). Additionally, shares held by TZ Holdings are subject to a voting agreement pursuant to which all shares held by TZ Holdings shall be voted in the manner recommended by our Board of Directors. As a result, these stockholders, if they were to act together, would have the ability to influence significantly 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 influence significantly the management and affairs of our company. Accordingly, this concentration of ownership might harm the trading price of our common stock by:

- delaying, deferring or preventing a change in our control;
- impeding a merger, consolidation, takeover or other business combination involving us;

- preventing the election of directors who are nominated by our stockholders; or
- discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control of us.

Our business could be negatively affected as a result of actions of stockholders or others.

In June and July 2014, entities associated with JEC Capital Partners and Ratio Capital Partners indicated, through filings with the Securities and Exchange Commission, that they each beneficially owned 4.9% of our outstanding shares of common stock. There can be no assurance that JEC Capital Partners, Ratio Capital Partners or another third party will not make an unsolicited takeover proposal in the future or take other action to acquire control of us or to otherwise influence our management and policies. If these entities or another entity do take control of 10% of our common stock, our stockholder rights plan could be triggered. Considering and responding to any future proposal is likely to result in significant additional costs to us, and future acquisition proposals, other stockholder actions to acquire control and the litigation that often accompanies them, if any, are likely to be costly and time-consuming and may disrupt our operations and divert the attention of management and our employees from executing our strategic plan.

Additionally, perceived uncertainties as to our future direction as a result of stockholder activism or actual or potential changes to the composition of our board of directors, may lead to the perception of a change in the direction of our business or other instability, which may be exploited by our competitors, cause concern to our current or potential customers, and make it more difficult to attract and retain qualified personnel. If customers choose to delay, defer or reduce their reliance on, the services we provide or do business with our competitors instead of us because of any such issues, then our business, operating results and financial condition would be adversely affected.

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

Certain of our stockholders who held shares of our preferred stock before the consummation of our public offering may be able to sell these shares in the public market without registration under Rule 144. In addition, shares that are either subject to outstanding options or warrants or that may be granted in the future under our equity plans will become eligible for sale in the public market to the extent permitted by the provisions of various vesting agreements. If a substantial number of any of these additional shares described are sold, or if it is perceived that a substantial number of such shares 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 and our stockholder rights plan 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.

Finally, on July 14, 2014 we implemented a stockholder rights plan, also called a poison pill, which may have the effect of discouraging or preventing a change of control of us by, among other things, making it uneconomical for a third-party to acquire us on a hostile basis.

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, and we have agreed not to pay any dividends or make any other distributions in our loan agreement with Silicon Valley Bank. 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, bank covenants 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 August 10, 2016, our trading price has ranged from $1.03 to $18.00. 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 but not limited to the various factors set forth in this Risk Factors section, as well as:

- variations in our financial performance;
- announcements of technological innovations, new services and products, strategic alliances, asset acquisitions, or significant agreements by us or by our competitors, including, for example, the agreement we entered into with AT&T in May 2016 to provide desktop and mobile portal solutions;

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- 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; and

- adoption or modification of laws, regulations, policies, procedures or programs applicable to our business or announcements relating to these matters.

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 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. 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.

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.

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

Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

On November 8, 2016, we and certain of our subsidiaries, entered into a Consent and Fifth Amendment to Loan and Security Agreement (the Amendment) with Silicon Valley Bank (SVB). The Amendment amends the Loan and Security Agreement dated as of September 27, 2013 by and between SVB and us, as previously amended (together with all amendments, the Loan Agreement), which provides for a $12 million secured line of credit (the Revolving Line) with a stated maturity date of September 25, 2018. The Revolving Line is available for cash borrowings, subject to a borrowing formula based upon eligible accounts receivable. The Amendment modifies, among other things, the interest rate applicable to borrowings and the financial covenants that we must maintain at all times, subject to periodic reporting as of the last day of each month and the last day of each quarter.

The foregoing description of the Amendment is only a summary, does not purport to be complete and is qualified in its entirety by reference to the full text of the Amendment, which is filed as an exhibit to this Quarterly Report on Form 10-Q for the quarter ended September 30, 2016.

ITEM 6. EXHIBITS

The exhibits listed in the Index to Exhibits (following the signatures page of this Quarterly Report on Form 10-Q) are filed with, or incorporated by reference in, this Quarterly Report on Form 10-Q.

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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. (Registrant)
Date: November 14, 2016	By: /s/ Himesh Bhise Himesh Bhise President and Chief Executive Officer (Principal Executive Officer)
Date: November 14, 2016	By: /s/ William J. Stuart William J. Stuart Chief Financial Officer and Secretary (Principal Financial and Accounting Officer)

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EXHIBIT INDEX

Exhibit No.	Exhibit
10.2	Consent and Fifth Amendment to Loan and Security Agreement among Silicon Valley Bank, Synacor, Inc., NTV Internet Holdings, LLC and SYNC Holdings, LLC dated November 8, 2016.
31.1	Certifications of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certifications 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.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Schema Linkbase Document
101.CAL	XBRL Taxonomy Calculation Linkbase Document
101.DEF	XBRL Taxonomy Definition Linkbase Document
101.LAB	XBRL Taxonomy Labels Linkbase Document
101.PRE	XBRL Taxonomy Presentation Linkbase Document