

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

---

**FORM 10-Q**

---

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

For the quarterly period ended June 30, 2014

OR

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

For the transition period from            to

Commission File Number 001-33843

---

**Synacor, Inc.**

(Exact name of registrant as specified in its charter)

---

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**40 La Riviere Drive, Suite 300  
Buffalo, New York**

(Address of principal executive offices)

**16-1542712**

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

**14202**

(Zip Code)

**(716) 853-1362**

(Registrant's telephone number, including area code)

---

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes  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):



[Table of Contents](#)

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 August 8, 2014, there were 27,612,941 shares of the registrant's common stock outstanding.

---

## TABLE OF CONTENTS

<b>PART I — FINANCIAL INFORMATION</b>		<b>1</b>
Item 1.	Financial Statements	1
	Condensed Consolidated Balance Sheets—Unaudited as of December 31, 2013 and June 30, 2014	1
	Condensed Consolidated Statements of Operations—Unaudited for the Three and Six Months Ended June 30, 2013 and 2014	2
	Condensed Consolidated Statements of Comprehensive Loss—Unaudited for the Three and Six Months Ended June 30, 2013 and 2014	3
	Condensed Consolidated Statements of Cash Flows—Unaudited for the Six Months Ended June 30, 2013 and 2014	4
	Notes to the Condensed Consolidated Financial Statements—Unaudited as of December 31, 2013 and June 30, 2014, and for the Three and Six Months Ended June 30, 2013 and 2014	5
Item 2.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	15
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	27
Item 4.	Controls and Procedures	27
<b>PART II — OTHER INFORMATION</b>		<b>29</b>
Item 1.	Legal Proceedings	29
Item 1A.	Risk Factors	29
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	47
Item 3.	Defaults Upon Senior Securities	47
Item 4.	Mine Safety Disclosures	47
Item 5.	Other Information	47
Item 6.	Exhibits	48
<b>SIGNATURES</b>		<b>49</b>

**PART I — FINANCIAL INFORMATION****Item 1. Financial Statements**

**SYNACOR, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS—UNAUDITED**  
**AS OF DECEMBER 31, 2013 AND JUNE 30, 2014**  
(In thousands except for share and per share data)

	<u>December 31, 2013</u>	<u>June 30, 2014</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 36,397	\$ 25,664
Accounts receivable—net of allowance of \$76 and \$176	14,569	17,769
Prepaid expenses and other current assets	1,691	1,794
Deferred income taxes	314	1,151
Total current assets	<u>52,971</u>	<u>46,378</u>
PROPERTY AND EQUIPMENT—Net	14,085	15,100
DEFERRED INCOME TAXES, NON-CURRENT	4,455	4,969
OTHER LONG-TERM ASSETS	348	182
GOODWILL	1,565	1,565
CONVERTIBLE PROMISSORY NOTE	1,000	1,000
INVESTMENT IN EQUITY INTEREST	365	320
<b>TOTAL ASSETS</b>	<u>\$ 74,789</u>	<u>\$ 69,514</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 13,573	\$ 10,715
Accrued expenses and other current liabilities	5,177	6,375
Current portion of capital lease obligations	1,946	1,532
Total current liabilities	<u>20,696</u>	<u>18,622</u>
LONG-TERM PORTION OF CAPITAL LEASE OBLIGATIONS	885	1,256
OTHER LONG-TERM LIABILITIES	977	304
Total liabilities	<u>22,558</u>	<u>20,182</u>
COMMITMENTS AND CONTINGENCIES (Note 6)	—	—
<b>STOCKHOLDERS' EQUITY:</b>		
Common stock, \$0.01 par value—100,000,000 shares authorized, 27,684,598 issued and 27,365,098 outstanding at December 31, 2013, and 100,000,000 authorized, 27,923,365 issued and 27,374,815 shares outstanding at June 30, 2014	277	279
Preferred stock, \$0.01 par value—10,000,000 shares authorized, no shares issued and outstanding at June 30, 2014	—	—
Treasury stock—at cost, 319,500 shares at December 31, 2013 and 551,163 shares at June 30, 2014	(569)	(1,138)
Additional paid-in capital	102,226	103,809
Accumulated deficit	(49,705)	(53,629)
Accumulated other comprehensive income	2	11
Total stockholders' equity	<u>52,231</u>	<u>49,332</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u>\$ 74,789</u>	<u>\$ 69,514</u>

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

**SYNACOR, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS—UNAUDITED**  
**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2013 AND 2014**  
(In thousands except for share and per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2014	2013	2014
REVENUE	\$ 26,708	\$ 24,191	\$ 55,851	\$ 49,439
COSTS AND OPERATING EXPENSES:				
Cost of revenue (exclusive of depreciation shown separately below)	14,017	13,146	29,781	27,022
Research and development (exclusive of depreciation shown separately below)	7,336	7,120	14,201	14,612
Sales and marketing	2,147	2,457	4,277	4,594
General and administrative (exclusive of depreciation shown separately below)	2,957	3,499	6,101	6,598
Depreciation	1,138	1,117	2,268	2,175
Gain on sale of domain	—	(1,000)	—	(1,000)
Total costs and operating expenses	27,595	26,339	56,628	54,001
LOSS FROM OPERATIONS	(887)	(2,148)	(777)	(4,562)
OTHER (EXPENSE) INCOME	(8)	6	(15)	14
INTEREST EXPENSE	(43)	(23)	(101)	(111)
LOSS BEFORE INCOME TAXES AND EQUITY INTEREST	(938)	(2,165)	(893)	(4,659)
BENEFIT FOR INCOME TAXES	(204)	(641)	(186)	(1,325)
LOSS IN EQUITY INTEREST	—	(344)	—	(590)
NET LOSS	(734)	(1,868)	(707)	(3,924)
Net loss attributable to noncontrolling interests	97	—	97	—
NET LOSS ATTRIBUTABLE TO SYNACOR, INC.	\$ (637)	\$ (1,868)	\$ (610)	\$ (3,924)
NET LOSS ATTRIBUTABLE TO SYNACOR, INC. PER SHARE:				
Basic	\$ (0.02)	\$ (0.07)	\$ (0.02)	\$ (0.14)
Diluted	\$ (0.02)	\$ (0.07)	\$ (0.02)	\$ (0.14)
WEIGHTED AVERAGE SHARES USED TO COMPUTE NET LOSS PER SHARE:				
Basic	27,311,892	27,360,588	27,273,671	27,397,695
Diluted	27,311,892	27,360,588	27,273,671	27,397,695

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

**SYNACOR, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS—UNAUDITED**  
**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2013 AND 2014**  
(In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2014	2013	2014
Net loss	\$ (734)	\$ (1,868)	\$ (707)	\$ (3,924)
Other comprehensive income (loss):				
Change in foreign currency translation adjustment	1	(4)	7	9
Comprehensive loss	(733)	(1,872)	(700)	(3,915)
Comprehensive loss attributable to noncontrolling interests	97	—	97	—
Comprehensive loss attributable to Synacor, Inc.	<u>\$ (636)</u>	<u>\$ (1,872)</u>	<u>\$ (603)</u>	<u>\$ (3,915)</u>

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

**SYNACOR, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS—UNAUDITED**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2013 AND 2014**  
(In thousands)

	Six Months Ended June 30,	
	2013	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (707)	\$ (3,924)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	2,268	2,175
Stock-based compensation expense	1,179	1,528
Gain on sale of domain	—	(1,000)
Provision for deferred income taxes	(198)	(1,351)
Loss in equity interest	—	590
Change in assets and liabilities, net of effect of acquisition:		
Accounts receivable, net	278	(2,200)
Prepaid expenses and other current assets	(105)	(103)
Other long-term assets	(17)	166
Accounts payable	(1,657)	(2,179)
Accrued expenses and other current liabilities	(1,269)	703
Other long-term liabilities	29	(178)
Net cash used in operating activities	(199)	(5,773)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(2,502)	(2,796)
Investment in equity interest	—	(545)
Cash paid for business acquisition	(500)	—
Net cash used in investing activities	(3,002)	(3,341)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayments on capital lease obligations	(1,139)	(1,117)
Proceeds from exercise of common stock options	131	59
Purchase of treasury stock	—	(562)
Net cash used in financing activities	(1,008)	(1,620)
Effect of exchange rate changes on cash and cash equivalents	7	1
NET DECREASE IN CASH AND CASH EQUIVALENTS	(4,202)	(10,733)
CASH AND CASH EQUIVALENTS—Beginning of period	41,944	36,397
CASH AND CASH EQUIVALENTS—End of period	\$ 37,742	\$ 25,664
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
Cash paid for interest	\$ 91	\$ 111
Cash paid for income taxes	\$ 138	\$ —
<b>SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING TRANSACTIONS:</b>		
Property and equipment acquired under capital lease obligations	\$ —	\$ 1,074
Accrued property and equipment expenditures	\$ 822	\$ 40
Treasury stock received to satisfy minimum tax withholding liabilities	\$ —	\$ 6

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

## SYNACOR, INC.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—UNAUDITED**  
**AS OF DECEMBER 31, 2013 AND JUNE 30, 2014 , AND**  
**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2013 AND 2014**  
(In thousands except for share and per share data)

**1. The Company and Summary of Significant Accounting Policies**

Synacor, Inc., together with its consolidated subsidiary, Synacor Canada, Inc. (collectively, the “Company”), is a leading provider of start experiences (startpages and homescreens), TV Everywhere, Identity Management (IDM) and various cloud-based services across multiple devices for cable, satellite, telecom and consumer electronics companies. The Company is also a leading provider of authentication and aggregation solutions enabling the delivery of personalized online content. The Company's technology allows its customers to package a wide array of personalized online content and cloud-based services with their high-speed Internet, communications, television and other digital offerings. The Company's customers offer the Company's services under their own brands on Internet-enabled devices such as PCs, tablets, smartphones and connected TVs.

**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 subsidiary. Investments in entities in which the Company can exercise significant influence, but does not own a majority equity interest or otherwise have the power to control, are accounted for using the equity method and are included as investments in equity interest on the condensed consolidated balance sheets. All intercompany balances and transactions have been eliminated in consolidation. In the opinion of the Company's management, the interim unaudited condensed consolidated financial statements include all adjustments, which include only normal recurring adjustments, necessary for the fair presentation of the Company's financial position for the periods presented. These interim unaudited condensed consolidated financial statements are not necessarily indicative of the results expected for the full fiscal year or for any subsequent period and should be read in conjunction with the audited consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2013 (as amended).

**Accounting Estimates** — The preparation of consolidated 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 consolidated 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 consolidated financial statements. Accordingly, actual results may differ from estimated amounts.

**Concentrations of Risk** — As of December 31, 2013 and June 30, 2014 , and for the three and six months ended June 30, 2013 and 2014 , the Company had concentrations equal to or exceeding 10% of the Company's accounts receivable and revenue as follows:

	Accounts Receivable	
	December 31, 2013	June 30, 2014
Google	47%	24%
Display Advertising Partner	11%	18%

  

	Revenue		Revenue	
	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2014	2013	2014
Google	51%	46%	53%	49%

For the three and six months ended June 30, 2013 and 2014, 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		Cost of Revenue	
	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2014	2013	2014
Customer A	20%	23%	20%	23%
Customer B (1)	13	N/A	14	12
Customer C	10	10	12	11
Customer D	11	10	12	10

## Notes:

(1) For the three months ended June 30, 2014, the cost of revenue-share payments received by Customer B were less than 10%.

**Acquisitions** — In January 2012, the Company acquired the assets of Carbyn, Inc., or Carbyn, an Ontario, Canada-based company. The assets acquired are principally comprised of mobile device software and technology and other intellectual property, which the Company expects to enhance its efforts in the development of next generation web applications for mobile devices. The aggregate purchase price was \$1,100 for the acquired assets, of which \$600 was paid upon consummation of the acquisition and the remaining \$500 was paid in April 2013. In addition, the Company hired seven employees from Carbyn who accepted employment with Synacor Canada, Inc. The acquisition and its impact on the consolidated financial statements are not material. The purchase price was allocated to the assets acquired based on their respective fair values as of the acquisition date, with the amount exceeding the fair value recorded as goodwill of \$819, which is expected to be deductible for tax purposes.

In November 2013, the Company acquired the assets of Teknision, Inc., or Teknision, an Ontario, Canada-based company. Teknision has created a development framework that accelerates the production of home screen and other Android applications. The Company expects to leverage the framework to enable a range of customer applications for Android devices. The Company also expects to enhance its presence in mobile and provide a platform for custom Android launchers and intelligent home screens for wireless carriers and consumer electronics companies. The aggregate purchase price is up to \$1,005 for the acquired assets, of which \$510 was paid upon consummation of the acquisition and the remaining \$495 is due in May 2015 unless such amount is offset in satisfaction of certain indemnification obligations of Teknision. In addition, the Company hired eleven employees from Teknision who accepted employment with Synacor Canada, Inc. The acquisition and its impact on the condensed consolidated financial statements are not material. The purchase price was allocated to the assets acquired based on their respective fair values as of the acquisition date, with the amount exceeding the fair value recorded as goodwill of \$746, which is expected to be deductible for tax purposes.

**Sale of Domain** — In June 2014, the Company executed a transaction to sell a domain name of its legacy business. The sale amounted to \$1,000 and the entire amount was recorded as a gain on the sale in the consolidated statement of operations. The Company collected the full amount of the sale in July 2014, and as a result, \$1,000 has been included in accounts receivable, net on the consolidated balance sheet.

**Recent Accounting Pronouncements** — In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 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 entities 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. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is not permitted. The Company is currently in the process of evaluating the impact the adoption of ASU 2014-09 will have on the consolidated financial statements.

**2. Investments and Fair Value Measurements**

In July 2013, the Company made a \$1,000 investment (in the form of a convertible promissory note) in a privately held Delaware corporation called Blazer and Flip Flops, Inc., or B&FF (doing business as The Experience Engine). B&FF is a professional services company whose principals have experience integrating its customers' systems with their consumers' devices, including smartphones and tablets.

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

The provisions of the FASB Accounting Standard Codification ("ASC") 820, *Fair Value Measurements and Disclosures*, establish a framework for measuring the fair value in accounting principles generally accepted in the U.S. and establish a hierarchy that categorizes and prioritizes the sources to be used to estimate fair value as follows:

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

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

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

The Company classifies its investment in B&FF within Level 3 because it is valued using unobservable inputs. As of June 30, 2014, the estimated fair value is equal to the carrying amount, which was the purchase price of \$1,000.

### 3. Property and Equipment—Net

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

	December 31, 2013	June 30, 2014
Computer equipment (1)	\$ 19,361	\$ 20,465
Computer software	4,625	5,235
Furniture and fixtures	1,634	1,694
Leasehold improvements	1,044	1,052
Work in process (primarily software development costs)	3,893	5,301
Other	173	173
	<u>30,730</u>	<u>33,920</u>
Less accumulated depreciation (2)	(16,645)	(18,820)
Total property and equipment—net	<u>\$ 14,085</u>	<u>\$ 15,100</u>

Notes:

- (1) Includes equipment under capital lease obligations of approximately \$5,289 and \$6,363 as of December 31, 2013 and June 30, 2014, respectively.
- (2) Includes \$2,053 and \$2,672 of accumulated depreciation of equipment under capital leases as of December 31, 2013 and June 30, 2014, respectively.

### 4. Accrued Expenses and Other Current Liabilities

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

	December 31, 2013	June 30, 2014
Accrued compensation	\$ 2,787	\$ 2,729
Accrued content fees	580	1,923
Unearned revenue on contracts	247	504
Other	1,563	1,219
<b>Total</b>	<b>\$ 5,177</b>	<b>\$ 6,375</b>

## 5. Information About Segment and Geographic Areas

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2014	2013	2014
Revenue				
United States	\$ 26,531	\$ 24,026	\$ 55,497	\$ 49,104
United Kingdom	177	165	354	335
<b>Total revenue</b>	<b>\$ 26,708</b>	<b>\$ 24,191</b>	<b>\$ 55,851</b>	<b>\$ 49,439</b>

	December 31, 2013	June 30, 2014
Long-lived tangible assets		
United States	\$ 13,825	\$ 14,971
Netherlands	260	129
<b>Total long-lived tangible assets</b>	<b>\$ 14,085</b>	<b>\$ 15,100</b>

## 6. Commitments and Contingencies

**Contract Commitments** — The Company is obligated to make payments under various contracts with vendors and other business partners, principally for revenue-share and content arrangements. Contract commitments as of June 30, 2014 are summarized as follows (in thousands):

<b>Year ending December 31:</b>	
2014 (remaining six months)	\$ 2,408
2015	1,630
2016	1,080
2017	360
2018	—
Due after 5 years	—
<b>Total contract commitments</b>	<b>\$ 5,478</b>

**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.



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

**Preferred Stock** — Effective on February 15, 2012, the Company's board of directors and stockholders approved the Fifth Amended and Restated Certificate of Incorporation. The total number of preferred shares that the Company is authorized to issue is 10,000,000 with a par value of \$0.01 per share. None have been issued to date.

**Stock Repurchases** — Effective February 26, 2014 the Board of Directors approved a Stock Repurchase Program, which authorizes a repurchase of up to \$5,000 worth of the Company's outstanding common stock. The Stock Repurchase Program has no expiration date, and may be suspended or discontinued at any time without notice. The Company repurchased all shares with cash resources.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2014	2013	2014
Shares of common stock repurchased	—	207,050	—	229,050
Value of common stock repurchased (in thousands)	\$ —	\$ 507	\$ —	\$ 562

**Withhold to Cover** — During the six months ended June 30, 2014, certain employees, in lieu of paying withholding taxes on the vesting of certain shares of restricted stock awards, authorized the withholding of 2,613 shares of the Company's common stock to satisfy their minimum statutory tax withholding requirements related to such vesting. These shares were recorded as treasury stock using the cost method at the per share closing price on the date of vesting, for a total of \$6 . No shares of the Company's common stock were withheld to cover minimum statutory tax withholding requirements during the six months ended June 30, 2013.

## 8. Stock-based Compensation

The fair value of each stock option was determined on the date of grant using the Black-Scholes option pricing model, and stock-based compensation is recorded over the requisite service period. The Company recorded \$617 and \$847 of stock-based compensation expense for the three months ended June 30, 2013 and 2014 , respectively. Stock based compensation for the six months ended June 30, 2013 and 2014 amounted to \$1,179 and \$1,528 , respectively. No income tax deduction is allowed for incentive stock options, or 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 option ("NSOs") result in a temporary difference, which gives rise to a deferred tax asset.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2014	2013	2014
Research and development	\$ 281	\$ 375	\$ 542	\$ 702
Sales and marketing	76	125	152	233
General and administrative	260	347	485	593
Total stock-based compensation expense	\$ 617	\$ 847	\$ 1,179	\$ 1,528

**Stock Option Activity** — A summary of the stock option activity for the six months ended June 30, 2014 is presented below:

	Number of Stock Options	Weighted Average Exercise Price	Aggregate Intrinsic Value (in thousands)	Weighted Average Remaining Contractual Term (in years)
Outstanding—January 1, 2014	5,770,168	\$ 3.85		
Granted	589,000	\$ 2.34		
Exercised	(234,255)	\$ 0.25		
Forfeited	(487,746)	\$ 4.01		
Outstanding—June 30, 2014	<u>5,637,167</u>	\$ 3.83	\$ 672	7.38
Vested and expected to vest—June 30, 2014	<u>5,231,560</u>	\$ 3.78	\$ 647	7.28
Vested and exercisable—June 30, 2014	<u>2,933,122</u>	\$ 3.69	\$ 505	6.15

Aggregate intrinsic value represents the difference between the Company's closing stock price of its common stock and the exercise price of outstanding, in-the-money options. The Company's closing stock price as reported on the NASDAQ as of June 30, 2014 was \$2.56 . The total intrinsic value of options exercised for the three and six months ended June 30, 2014 amounted to approximately \$275 and \$517 , respectively. The weighted average fair value of options issued during the six months ended June 30, 2014 amounted to \$1.31 .

As of June 30, 2014 , the unrecognized compensation cost related to non-vested options granted, for which vesting is probable, under the plan was approximately \$5,552 . This cost is expected to be recognized over a weighted-average period of 2.5 years . The total fair value of shares vested was \$1,444 for the six months ended June 30, 2014 .

**Option Modifications** — Pursuant to the transition agreement the Company entered into in March 2014 with the former President and CEO, Mr. Frankel's options to purchase common stock of the Company were modified to accelerate vesting for options that would have otherwise been forfeited during the transition period to the beginning of the transition period ("Transition Date"), and the period options are exercisable is now the earlier of the third anniversary of the Transition Date or the original 10 year contractual term of each option. The total incremental expense resulting from Mr. Frankel's modification is \$190 .

In August 2014, the compensation committee of the Company's board of directors agreed to modify all outstanding employee options with an exercise price of \$3.00 or greater, other than options held by directors and executive officers, by resetting the exercise price per share to the closing price of the Company's common stock on August 4, 2014. As a result of the modification, 203 employees had options reset to an exercise price of \$2.38 . The total incremental compensation expense expected to be recognized is estimated to be from \$600 to \$700 .

**RSU Activity** — A summary of RSU activity for the three months ended June 30, 2014 , is as follows:

	Number of Shares	Weighted-Average Grant Date Fair Value
Unvested—January 1, 2014	45,000	\$ 5.46
Granted	1,000	\$ 2.49
Released	(7,125)	\$ 5.56
Forfeited	(4,000)	\$ 3.68
Unvested—June 30, 2014	<u>34,875</u>	\$ 5.56
Expected to vest—June 30, 2014	<u>29,644</u>	\$ 4.73

As of June 30, 2014 , total unrecognized compensation cost, adjusted for estimated forfeitures, related to RSUs was approximately \$188 , which is expected to be recognized over the next 2.5 years.

## 9. Investment in Equity Interest

In March 2013, the Company entered into a Joint Venture Agreement, pursuant to which it owns 50% of the outstanding common stock and 100% of the preferred shares of Synacor China, Ltd., or the JV Company. The Company has agreed to provide up to \$2 million in funding to the JV Company over the two year period following the initial funding. The Company provided \$926 of funding to the JV Company during the year ended December 31, 2013, and \$545 of funding during the six months ended June 30, 2014. The JV Company will, through its wholly foreign-owned subsidiary in the People's Republic of China (the "PRC"), supply start experiences, authentication and aggregation solutions for the delivery of online content and services to customers in the PRC.

The investment in the JV Company is being accounted for using the equity method and is classified as an investment in equity interest on the Company's condensed consolidated balance sheets. The Company records its share of the results of the JV Company within earnings in equity interest. Because the Company provided nearly all of the capital to form the JV Company, the Company has recorded 100% of the losses incurred by the JV Company within earnings in equity interest in the condensed consolidated statements of operations. Since acquiring its interest in the JV Company in 2013, the Company has recorded, in retained earnings, cumulative losses in equity interest of \$1,151 .

The following tables represents summarized financial information of the JV Company for the three and six months ended June 30, 2013 and 2014 , and as of December 31, 2013 and June 30, 2014 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2014	2013	2014
Revenue	\$ —	\$ —	\$ —	\$ —
Loss from operations	(194)	(344)	(194)	(590)
Net loss	\$ (194)	\$ (344)	\$ (194)	\$ (590)

	December 31, 2013	June 30, 2014
Total assets	\$ 442	\$ 453
Total liabilities	\$ 77	\$ 133

## 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.

The following table presents the calculation of basic and diluted net loss per share for the three and six month periods ended June 30, 2013 and 2014 (in thousands, except share and per share amounts):

	Three Months Ended, June 30,		Six Months Ended, June 30,	
	2013	2014	2013	2014
Basic net loss per share:				
Numerator:				
Net loss attributable to Synacor, Inc.	\$ (637)	\$ (1,868)	\$ (610)	\$ (3,924)
Denominator:				
Weighted-average common shares outstanding	27,311,892	27,360,588	27,273,671	27,397,695
Basic net loss per share attributable to Synacor, Inc.	\$ (0.02)	\$ (0.07)	\$ (0.02)	\$ (0.14)
Diluted net loss per share:				
Numerator:				
Net loss attributable to Synacor, Inc.	\$ (637)	\$ (1,868)	\$ (610)	\$ (3,924)
Denominator:				
Number of shares used in basic calculation	27,311,892	27,360,588	27,273,671	27,397,695
Add weighted-average effect of dilutive securities:				
None	—	—	—	—
Number of shares used in diluted calculation	27,311,892	27,360,588	27,273,671	27,397,695
Diluted net loss per share attributable to Synacor, Inc.	\$ (0.02)	\$ (0.07)	\$ (0.02)	\$ (0.14)

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, June 30,		Six Months Ended June 30,	
	2013	2014	2013	2014
Antidilutive equity awards:				
Stock options and RSUs	5,462,134	5,672,042	5,462,134	5,672,042

\* \* \* \* \*

## 11. Subsequent Events

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

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

The Rights will expire on July 14, 2017, provided that if the Company’s stockholders have not ratified the Rights Plan by July 14, 2015, the Rights will expire on such date.

**Non-plan Option Grant** — On August 4, 2014, the Company appointed Himesh Bhise as President and CEO of the Company. In conjunction with the effective date of Mr. Bhise's first day of employment, and as part of Mr. Bhise's compensation, the Company awarded Mr. Bhise options to purchase 2,001,338 shares of the Company's common stock with an exercise price of \$2.38 per share.

## 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, 2013 (as amended). Furthermore, such forward-looking statements speak only as of the date of this report. We undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the condensed consolidated financial statements and related notes thereto appearing elsewhere in this Form 10-Q and with the consolidated financial statements and notes thereto and management's discussion and analysis of financial condition and results of operation appearing in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013 (as amended).*

### Overview

We are a leading provider of start experiences (startpages and homescreens), TV Everywhere, Identity Management (IDM) and various cloud-based services across multiple devices for cable, satellite, telecom and consumer electronics companies. For these customers, we are also a leading provider of authentication and aggregation solutions enabling the delivery of personalized online content. Our technology allows our customers to package a wide array of personalized online content and cloud-based services with their high-speed Internet, communications, television and other offerings. Our customers offer our services under their own brands on Internet-enabled devices such as PCs, tablets, smartphones and connected TVs.

We generate revenue from search and display advertising and by charging subscriber-based fees for services and products delivered through our start experiences. Our results are driven primarily by our customer mix, the product and service mix preferences of those customers and the pricing of those products and services. We generate the majority of our revenue from search and display advertising on our start experiences, which comprise consumer-facing components of our technology. Adding new customers with large consumer bases and expansion of our relationships with existing customers have historically resulted in an increasing shift in our revenue mix towards search and display advertising revenue. Growth in our business (through growth in search and display advertising revenue) is dependent on new customers adopting our solutions and their respective consumers' use of our start experiences ramping up as described below. Increases in search and display advertising revenue are largely driven by our model of sharing a portion of this search and advertising revenue with our customers. As we expand our cloud-based and value added services offerings, we expect to generate increased subscriber-based revenue from our customers.

For the three and six months ended June 30, 2014, search and display advertising revenue was \$18.5 million and \$38.4 million, a decrease of 13% and 16% compared to \$21.4 million and \$45.5 million for the three and six months ended June 30, 2013. Over the same periods, our unique visitors decreased by 9% and 6%, respectively, our search queries decreased by 27% for both periods, and our advertising impressions decreased by 14% and 20%, respectively. Search revenue decreased by \$2.6 million and \$5.4 million for the three and six months ended June 30, 2014 compared to the same periods ended June 30, 2013. We believe a material portion of the decrease in revenue was due to the placement of our start experiences on the second tab of the default Windows 8 Internet browser by our consumer electronics customers. In addition, and to a lesser extent, we believe the decrease was due to lower search activity associated with the increased usage of other devices such as tablets and smartphones generally across the consumer base. We anticipate that search activity will increase on smartphones and tablets in the future and, although our search queries have decreased, we believe that our continuing investment in mobile products, such as our acquisitions of Carbyn and Teknision, will allow us to compete more effectively for search activity on smartphones and tablets. Display advertising revenue decreased by \$0.3 million and \$1.6 million for the three and six months ended June 30, 2014 compared to the same periods ended June 30, 2013 as a result of pricing changes in one of our customer contracts, another customer's implementation of more secure webmail, which affected our ability to insert display advertising on that customer's webmail site, and operational changes in practices and policies for display advertising. We anticipate video advertising may become an increasing percentage of our advertising revenue which may also serve to increase our advertising

cost per thousand impressions (referred to as cost per mille, or CPMs). We also anticipate that the signing, and launching, of new customers and our mobile product initiatives may help add new search and display advertising revenue in future years.

Our subscriber-based revenue consists of fees charged for the use of our proprietary technology and for the use of, or access to, services, such as e-mail, security, TV Everywhere, online games, music and other value added services and paid content. During the three and six months ended June 30, 2014, subscriber-based revenue was \$5.7 million and \$11.0 million, increases of 7% and 6% compared to \$5.3 million and \$10.4 million for the three and six months ended June 30, 2013. This increase is primarily driven by growth in adoption of our TV Everywhere services by our customers. We believe there are opportunities to generate new sources of subscriber-based revenue, such as the introduction of new value added services, including those delivered on smartphones and tablets. We believe that the variety of value added services and the introduction of new value added services will also drive increased search and display advertising revenue.

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

For the three and six months ended June 30, 2014, we derived revenue from over 50 customers, with revenue attributable to four customers, CenturyLink, Inc. or CenturyLink (including revenue attributable to Qwest Communications International, Inc., or Qwest, which merged with CenturyLink in April 2011), Charter Communications Inc., or Charter, Verizon Corporate Services Group, Inc., or Verizon, and Toshiba America Information Systems, Inc., or Toshiba, together accounting for approximately 65% and 66% of our revenue for the three and six months ended June 30, 2014, or \$15.8 million and \$32.5 million, respectively. One of these customers accounted for 20% or more of revenue in such periods, and revenue attributable to each of the other three customers accounted for more than 10% in such periods.

Revenue attributable to our customers includes the subscriber-based revenue earned directly from them, as well as the search and display advertising revenue generated through our relationships with our search and display advertising partners (such as Google Inc., or Google, for search advertising and advertising networks, advertising agencies and advertisers for display advertising). This revenue is attributable to our customers because it is produced from the traffic on our start experiences. These partners provide us with advertisements that we then deliver with search results and other content on our start experiences. Since our search advertising partner, Google, and our advertising network partners generate their revenue by selling those advertisements, we create a revenue stream for these partners. In the three and six months ended June 30, 2014, search advertising through our relationship with Google generated approximately 46% and 49% of our revenue, or \$11.1 million and \$24.0 million (all of which was attributable to our customers).

The initiatives described below under “Key Initiatives” are expected to contribute to our ability to maintain and grow revenue and return to profitability via increases in advertising revenue, increases in customers and our consumer reach, including international customers and consumers, 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. We intend to utilize a portion of our cash and cash equivalents to improve our ability to achieve consistent profitability in the future by enhancing our technology and our systems capabilities to more efficiently support our customers, develop new products and features and report upon, analyze and manage the financial performance of the business.

### **Key Initiatives**

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

- add new customers, and expand our existing offerings with current cable, telecom, satellite and consumer electronics customers, in order to increase our consumer reach;
- continue to expand our offerings of, and invest in, mobile technology and cloud-based services such as e-mail and TV Everywhere and increase the number of customers using our TV Everywhere technology;

- extend the availability of our existing and new products and services to additional devices including tablets and smartphones;
- enhance our direct advertising sales effort to increase the CPMs derived from advertising;
- expand our presence into international markets; and
- invest in and acquire new technologies and products.

### Key Business Metrics

In addition to the line items in our consolidated financial statements, we regularly review a number of business metrics related to Internet traffic and search and display advertising to evaluate our business, determine the allocation of resources and make decisions regarding business strategies. We believe disclosing these metrics is useful for investors and analysts to understand the underlying trends in our business. The following table summarizes our key business metrics, which are unaudited, for the three and months ended June 30, 2013 and 2014 :

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2014	2013	2014
<b>Key Business Metrics:</b>				
Unique Visitors (1)	19,686,182	17,932,647	19,973,574	18,810,423
Search Queries (2)	177,025,185	129,546,784	388,669,982	283,370,361
Advertising Impressions (3)	10,292,927,243	8,897,558,466	21,775,961,313	17,484,367,947

Notes:

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

### Unique Visitors

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

### Search Queries

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

### Advertising Impressions

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

### Components of our Results of Operations

#### Revenue

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

The following table shows the revenue in each category, both in amount and as a percentage of revenue, for the three and six months ended June 30, 2013 and 2014 :

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2014	2013	2014
	(in thousands)		(in thousands)	
<b>Revenue:</b>				
Search and display advertising	\$ 21,399	\$ 18,521	\$ 45,485	\$ 38,429
Subscriber-based	5,309	5,670	10,366	11,010
<b>Total revenue</b>	<b>\$ 26,708</b>	<b>\$ 24,191</b>	<b>\$ 55,851</b>	<b>\$ 49,439</b>
<b>Percentage of revenue:</b>				
Search and display advertising	80%	77%	81%	78%
Subscriber-based	20	23	19	22
<b>Total revenue</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

### ***Search and Display Advertising Revenue***

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

- In the case of search advertising, we have a revenue-sharing relationship with Google, pursuant to which we include a Google-branded search tool on our start experiences. When a consumer makes a search query using this tool, we deliver the query to Google and they return search results to consumers that include advertiser-sponsored links. If the consumer clicks on a sponsored link, Google receives payment from the sponsor of that link and shares a portion of that payment with us, which we in turn share with the applicable customer. The net payment we receive from Google is recognized as revenue.
- We generate display advertising revenue when consumers view or click on a text, graphic or video advertisement that was delivered on a Synacor-operated start experience. We fill our advertising inventory with advertisements sourced by our direct salesforce, independent advertising sales representatives and advertising network partners. Revenue may be calculated differently depending on our agreements with our advertisers or the agreements between our advertising network partners and their advertisers. It may be calculated on a cost per impression basis, which means the advertiser pays based on the number of times its advertisements appear, or a cost per action basis, which means that an advertiser pays when a consumer performs an action after engaging one of its advertisements, or on a fixed fee basis. Historically only a small percentage of our display advertising revenue has been calculated on a cost per action basis or fixed fee basis.

### ***Subscriber-Based Revenue***

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

### ***Costs and Expenses***

#### ***Cost of Revenue***

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

#### ***Research and Development***

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

*Sales and Marketing*

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

*General and Administrative*

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

*Depreciation*

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

*Other (Expense) Income*

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

*Interest Expense*

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

*Benefit for Income Taxes*

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

*Loss in Equity Interest*

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

**Critical Accounting Policies and Estimates**

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

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

For a discussion of our critical accounting policies and estimates, see “Critical Accounting Policies and Estimates” included in our Annual Report on Form 10-K for the year ended December 31, 2013 (as amended) under the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” We have made no significant changes to our critical accounting policies and estimates from those described in our Annual Report on Form 10-K for the year ended December 31, 2013 (as amended).

**Adjusted EBITDA**

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

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

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 U.S. GAAP. Some of these limitations are:

- although depreciation is a non-cash charge, the assets being depreciated may have to be replaced in the future, and adjusted EBITDA does not reflect capital expenditure requirements for such replacements or for new capital expenditure requirements;
- adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- adjusted EBITDA does not consider the potentially dilutive impact of equity-based compensation;
- adjusted EBITDA does not reflect tax payments that may represent a reduction in cash available to us; and
- other companies, including companies in our industry, may calculate adjusted EBITDA differently, which reduces its usefulness as a comparative measure.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2014	2013	2014
	(in thousands)		(in thousands)	
<b>Reconciliation of Adjusted EBITDA:</b>				
Net loss attributable to Synacor, Inc.	\$ (637)	\$ (1,868)	\$ (610)	\$ (3,924)
Provision for income taxes	(204)	(641)	(186)	(1,325)
Interest expense	43	23	101	111
Other	8	(6)	15	(14)
Depreciation	1,138	1,117	2,268	2,175
Stock-based compensation	617	847	1,179	1,528
Loss on equity interest	—	344	—	590
Gain on sale of domain	—	(1,000)	—	(1,000)
Adjusted EBITDA	\$ 965	\$ (1,184)	\$ 2,767	\$ (1,859)

**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.

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2013</b>	<b>2014</b>	<b>2013</b>	<b>2014</b>
	<b>(in thousands)</b>		<b>(in thousands)</b>	
Revenue	\$ 26,708	\$ 24,191	\$ 55,851	\$ 49,439
Costs and operating expenses:				
Cost of revenue (1)	14,017	13,146	29,781	27,022
Research and development (1)(2)	7,336	7,120	14,201	14,612
Sales and marketing (2)	2,147	2,457	4,277	4,594
General and administrative (1)(2)	2,957	3,499	6,101	6,598
Depreciation	1,138	1,117	2,268	2,175
Gain on sale of domain	—	(1,000)	—	(1,000)
Total costs and operating expenses	27,595	26,339	56,628	54,001
Loss from operations	(887)	(2,148)	(777)	(4,562)
Other (expense) income	(8)	6	(15)	14
Interest expense	(43)	(23)	(101)	(111)
Loss before income taxes and equity interest	(938)	(2,165)	(893)	(4,659)
Benefit for income taxes	(204)	(641)	(186)	(1,325)
Loss in equity interest	—	(344)	—	(590)
Net loss	(734)	(1,868)	(707)	(3,924)
Net loss attributable to noncontrolling interests	97	—	97	—
Net loss attributable to Synacor, Inc.	\$ (637)	\$ (1,868)	\$ (610)	\$ (3,924)

## Notes:

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

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2013</b>	<b>2014</b>	<b>2013</b>	<b>2014</b>
	<b>(in thousands)</b>		<b>(in thousands)</b>	
Research and development	\$ 281	\$ 375	\$ 542	\$ 702
Sales and marketing	76	125	152	233
General and administrative	260	347	485	593
	\$ 617	\$ 847	\$ 1,179	\$ 1,528

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2014	2013	2014
Revenue	100 %	100 %	100 %	100 %
Costs and operating expenses:				
Cost of revenue (1)	52	54	53	55
Research and development (1)	27	29	25	30
Sales and marketing	8	10	8	9
General and administrative (1)	11	14	11	13
Depreciation	4	5	4	4
Gain on sale of domain	—	(4)	—	(2)
Total costs and operating expenses	103	109	101	109
Loss from operations	(3)	(9)	(1)	(9)
Other (expense) income	—	—	—	—
Interest expense	—	—	—	—
Loss before income taxes and equity interest	(4)	(9)	(2)	(9)
Benefit for income taxes	(1)	(3)	—	(3)
Loss in equity interest	—	(1)	—	(1)
Net loss	(3)	(8)	(1)	(8)
Net loss attributable to noncontrolling interests	—	—	—	—
Net loss attributable to Synacor, Inc.	(2)%	(8)%	(1)%	(8)%

## Note:

(1) Exclusive of depreciation shown separately.

*Comparison of the Three and Six Months ended June 30, 2013 and 2014*

*Revenue*

	Three Months Ended June 30,			Six Months Ended June 30,		
	2013	2014	% Change	2013	2014	% Change
	(in thousands)			(in thousands)		
Revenue:						
Search and display advertising	\$ 21,399	\$ 18,521	(13)%	\$ 45,485	\$ 38,429	(16)%
Subscriber-based	5,309	5,670	7	10,366	11,010	6
Total revenue	\$ 26,708	\$ 24,191	(9)	\$ 55,851	\$ 49,439	(11)
Percentage of revenue:						
Search and display advertising	80%	77%		81%	78%	
Subscriber-based	20	23		19	22	
Total revenue	100%	100%		100%	100%	

*Three months ended 2013 compared to 2014* . Revenue decreased by \$2.5 million, or 9%, compared to the same period in 2013. Search revenue decreased by \$2.6 million. We believe a material portion of the decrease was due to the placement of our start experiences on the second tab of the default Windows 8 Internet browser by our consumer electronics customers. In addition, and to a lesser extent, we believe the decrease was due to lower search activity associated with the increased usage of other devices such as tablets and smartphones generally across the consumer base. Display advertising revenue decreased by \$0.3 million as a result of one of our customer's implementation of more secure webmail, which affected our ability to insert display advertising on that customer's webmail site, and operational changes in practices and policies for display advertising. Subscriber-based revenue increased \$0.4 million, or 7% compared to the same period in 2013 mainly due to growth in adoption of our TV Everywhere service by our customers.

*Six months ended 2013 compared to 2014* . Revenue decreased by \$6.4 million, or 11%, compared to the same period in 2013. Search revenue decreased by \$5.4 million. We believe a material portion of the decrease was due to the placement of our start experiences on the second tab of the default Windows 8 Internet browser by our consumer electronics customers. In addition, and to a lesser extent, we believe the decrease was due to lower search activity associated with the increased usage of other devices such as tablets and smartphones generally across

the consumer base. Display advertising revenue decreased by \$1.6 million as a result of pricing changes in one of our customer contracts, anot

her customer's implementation of more secure webmail, which affected our ability to insert display advertising on that customer's webmail site, and operational changes in practices and policies for display advertising. Subscriber-based revenue increased \$0.6 million, or 6% compared to the same period in 2013 mainly due to growth in adoption of our TV Everywhere service by our customers.

*Cost of Revenue*

	Three Months Ended June 30,			Six Months Ended June 30,		
	2013	2014	% Change	2013	2014	% Change
	(in thousands)			(in thousands)		
Cost of revenue	\$ 14,017	\$ 13,146	(6)%	\$ 29,781	\$ 27,022	(9)%
Percentage of revenue	52%	54%		53%	55%	

*Three months ended 2013 compared to 2014.* Our cost of revenue decreased by \$0.9 million, or 6% for the three months ended June 30, 2014 compared to the same period in 2013. The decrease in our cost of revenue was driven by a decrease in revenue-sharing costs due to decreased search and display advertising. Cost of revenue as a percentage of revenue increased slightly, from 52% to 54%, due to certain fixed costs.

*Six months ended 2013 compared to 2014.* Our cost of revenue decreased by \$2.8 million or 9% for the six months ended June 30, 2014 compared to the same period in 2013. The decrease in our cost of revenue was driven by a decrease in revenue-sharing costs due to decreased search and display advertising. Cost of revenue as a percentage of revenue increased slightly, from 53% to 55%, due to certain fixed costs.

*Research and Development Expenses*

	Three Months Ended June 30,			Six Months Ended June 30,		
	2013	2014	% Change	2013	2014	% Change
	(in thousands)			(in thousands)		
Research and development	\$ 7,336	\$ 7,120	(3)%	\$ 14,201	\$ 14,612	3%
Percentage of revenue	27%	29%		25%	30%	

*Three months ended 2013 compared to 2014.* Research and development expenses decreased by \$0.2 million, or 3%, compared to 2013.

*Six months ended 2013 compared to 2014.* Research and development expenses increased by \$0.4 million, or 3%, compared to 2013.

The fluctuation in each period is primarily due to employee-related costs as a result of changes in headcount that support new product initiatives, maintenance of current products and services, and infrastructure.

*Sales and Marketing Expenses*

	Three Months Ended June 30,			Six Months Ended June 30,		
	2013	2014	% Change	2013	2014	% Change
	(in thousands)			(in thousands)		
Sales and marketing	\$ 2,147	\$ 2,457	14%	\$ 4,277	\$ 4,594	7%
Percentage of revenue	8%	10%		8%	9%	

*Three months ended 2013 compared to 2014.* Sales and marketing expenses increased by \$0.3 million or 14% compared to 2013.

*Six months ended 2013 compared to 2014.* Sales and marketing expenses increased by \$0.3 million or 7% compared to 2013.

The increase in each period is primarily due to an investment in market research with a third party consultant during the second quarter of 2014.

*General and Administrative Expenses*

	Three Months Ended June 30,			Six Months Ended June 30,		
	2013	2014	% Change	2013	2014	% Change
	(in thousands)			(in thousands)		
General and administrative	\$ 2,957	\$ 3,499	18%	\$ 6,101	\$ 6,598	8%
Percentage of revenue	11%	14%		11%	13%	

*Three months ended 2013 compared to 2014* . General and administrative expenses increased by \$0.5 million or 18% compared to 2013.

*Six months ended 2013 compared to 2014* . General and administrative expenses increased by \$0.5 million or 8% compared to 2013.

The increase in each period is due to increases in legal and professional fees and costs associated with the Company's transition to a new CEO.

*Depreciation*

	Three Months Ended June 30,			Six Months Ended June 30,		
	2013	2014	% Change	2013	2014	% Change
	(in thousands)			(in thousands)		
Depreciation	\$ 1,138	\$ 1,117	(2)%	\$ 2,268	\$ 2,175	(4)%
Percentage of revenue	4%	5%		4%	4%	

The decrease in depreciation was nominal for the three months ended June 30, 2014 compared to the three months ended June 30, 2013 . Depreciation for the six months ended June 30, 2014 decreased \$0.1 million, or 4% compared to 2013. This minor decrease was primarily driven by the timing of purchases of assets such as computer equipment and development costs to support our investment in new projects, as well as timing of new projects being placed into service.

*Gain on sale of domain*

	Three Months Ended June 30,			Six Months Ended June 30,		
	2013	2014	% Change	2013	2014	% Change
	(in thousands)			(in thousands)		
Gain on sale of domain	\$ —	\$ 1,000	100%	\$ —	\$ 1,000	100%
Percentage of revenue	—%	4%		—%	2%	

The gain on sale of domain amounted to \$1.0 million for the three and six months ended June 30, 2014 , which was equal to the sale price. The sale was unique to the second quarter of 2014 and no such transactions occurred in the comparative periods.

*Other (expense) income*

	Three Months Ended June 30,			Six Months Ended June 30,		
	2013	2014	% Change	2013	2014	% Change
	(in thousands)			(in thousands)		
Other (expense) income	\$ (8)	\$ 6	175%	\$ (15)	\$ 14	193%

Our other (expense) income consists mainly of interest income coupled with foreign currency transaction losses related to our international operations.



*Interest Expense*

	Three Months Ended June 30,			Six Months Ended June 30,		
	2013	2014	% Change	2013	2014	% Change
	(in thousands)			(in thousands)		
Interest expense	\$ 43	\$ 23	(47)%	\$ 101	\$ 111	10%

Our interest expense consists mainly of interest due on our capital lease obligations, for which the fluctuation in the three and six months ended June 30, 2014 to the comparative periods is nominal.

*Benefit for Income Taxes*

	Three Months Ended June 30,			Six Months Ended June 30,		
	2013	2014	% Change	2013	2014	% Change
	(in thousands)			(in thousands)		
Benefit for income taxes	\$ 204	\$ 641	214%	\$ 186	\$ 1,325	612%

Our income tax benefit increased for both the three and six month periods ended June 30, 2013 and June 30, 2014 . The increase in deferred tax benefit for each period is attributable to increases in our taxable losses for the corresponding periods.

*Loss in Equity Interest*

	Three Months Ended June 30,			Six Months Ended June 30,		
	2013	2014	% Change	2013	2014	% Change
	(in thousands)			(in thousands)		
Loss in equity interest	\$ —	\$ (344)	(100)%	\$ —	\$ (590)	(100)%

In 2013 we entered into a Joint Venture Agreement pursuant to which we own 50% of the outstanding common stock and 100% of the preferred shares of Synacor China, Ltd., or the JV Company. For the three and six months ended June 30, 2014 , we recorded our share of the losses of the JV Company of \$0.3 million and \$0.6 million, respectively.

*Liquidity and Capital Resources*

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

In September 2013, we entered into a Loan and Security Agreement, or Loan Agreement, with Silicon Valley Bank, or Lender. The Loan Agreement provides for a \$10.0 million secured revolving line of credit with a stated maturity of September 27, 2015. The credit facility is available for cash borrowings, subject to a formula based upon eligible accounts receivable. As of June 30, 2014 , due to the operation of the borrowing formula, \$7.2 million was available under the revolving credit line, with no outstanding borrowings.

Borrowings under the Loan Agreement bear interest, at our election, at an annual rate of either 0.50% above the “prime rate” as published in The Wall Street Journal or LIBOR for the relevant period plus 3.00%. For LIBOR advances, interest is payable (i) on the last day of a LIBOR interest period or (ii) on the last day of each calendar quarter. For prime rate advances, interest is payable (a) on the first day of each month and (b) on each date a prime rate advance is converted into a LIBOR advance.

We paid a commitment fee of \$50,000 upon the closing of the facility, and must pay quarterly, in arrears, an unused facility fee of 0.50% per annum of the average unused portion of the facility (as determined by the Lender). Additionally, if we terminate the facility prior to the first anniversary of the effective date, we must pay the Lender a termination fee of \$100,000 unless the facility is replaced with a new facility from the Lender.

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 June 30, 2014, we were in compliance with the covenants and anticipate continuing to be so.

Under the terms of our joint venture agreement with the JV Company, we have agreed, upon the satisfaction of certain conditions, to provide approximately \$0.5 million in additional funding to the JV Company over the remainder of the two year period following the initial investment through the purchase of non-voting, non-convertible Series A preferred shares of the JV Company.

As of June 30, 2014, we had approximately \$ 25.7 million of cash and cash equivalents and money market funds. We did not have any short-term or long-term investments. We believe that our existing cash and cash equivalents, along with cash flows from operations and availability under our revolving credit line, will be sufficient to meet our anticipated working capital, capital lease payment obligations, JV Company funding obligations and capital expenditure requirements for at least the next 12 months.

**Cash Flows**

	Six Months Ended June 30,	
	2013	2014
	(in thousands)	
<b>Statements of Cash Flows Data:</b>		
Cash flows used in operating activities	\$ (199)	\$ (5,773)
Cash flows used in investing activities	(3,002)	(3,341)
Cash flows used in financing activities	(1,008)	(1,620)

*Cash Used in Operating Activities*

In the six months ended June 30, 2013 operating activities used \$0.2 million of cash. The net cash used in operating activities primarily resulted from our net loss, adjusted for non-cash items, and changes in our operating assets and liabilities. Net loss was \$0.7 million, which included a non-cash benefit from deferred income taxes of \$0.2 million, non-cash depreciation of \$2.3 million and non-cash stock-based compensation of \$1.2 million. Changes in our operating assets and liabilities used \$2.7 million of cash, primarily due to a decrease of our accounts payable of \$1.7 million and a decrease of our accrued expenses and other current liabilities of \$1.3 million. The decrease in our accounts payable was primarily driven by lower revenue-share payments associated with our decrease in revenue. The decrease in accrued expenses and other current liabilities was primarily due to the decrease of accrued compensation costs of \$1.8 million primarily relating to bonuses earned and accrued in 2012 and paid in 2013, partially offset by a \$0.4 million increase in accrued costs to vendors for components of our cost of revenue due to the timing of payments made.

In the six months ended June 30, 2014 operating activities used \$5.8 million of cash. The cash flow from operating activities primarily resulted from our net loss, adjusted for non-cash items, and changes in our operating assets and liabilities. Net loss was \$3.9 million, which included non-cash depreciation of \$2.2 million, non-cash stock-based compensation of \$1.5 million and a non-cash loss in an equity interest of \$0.6 million, offset by non-cash change in deferred income tax provision of \$1.4 million and gain on sale of domain of \$1.0 million. Changes in our operating assets and liabilities used \$3.8 million of cash, primarily due to an increase in accounts receivable of \$2.2 million and a reduction of accounts payable to \$2.2 million, offset by a net increase in accrued expenses and other current liability and other long-term liabilities of \$0.5 million. The increases in accounts receivable and accounts payable are largely driven by timing of payments. The increase in accrued expenses is a result of greater accrued content fees.

*Cash Used in Investing Activities*

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

operations and internal-use software development. We expect to continue to invest in property and equipment and development of software for the remainder of 2014 and thereafter.

Cash used in investing activities in the six months ended June 30, 2013 was \$3.0 million, consisting of \$2.5 million for purchases of property and equipment specifically related to the build out of our data centers and software development projects and \$0.5 million paid for the final payment for the acquisition of Carbyn.

Cash used in investing activities during the six months ended June 30, 2014 was \$3.3 million, consisting of \$2.8 million used for purchases of property and equipment, which primarily relates to software development of our product portfolio, including the payment of \$0.7 million of software development costs recorded to accounts payable at December 31, 2013, and \$0.5 million for an investment in an equity interest in the JV Company.

#### *Cash Used in Financing Activities*

For the six months ended June 30, 2013, net cash used in financing activities was \$1.0 million primarily for repayment of \$1.1 million on our capital lease obligations partially offset by proceeds of \$0.1 million from the exercise of common stock options.

For the six months ended June 30, 2014, net cash used in financing activities was \$1.6 million primarily for repayment of \$1.1 million on our capital lease obligations and purchase of treasury stock in the amount of \$0.6. We received \$0.1 million from the exercise of common stock options.

#### *Off-Balance Sheet Arrangements*

As of June 30, 2014, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of Regulation S-K promulgated by the SEC, that have or are reasonably likely to have a current or future effect on our financial condition, changes in our financial condition, revenues, or expenses, results of operations, liquidity, capital expenditures, or capital resources that is material to investors.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

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

#### **Interest Rate Risk**

Our cash and cash equivalents primarily consist of cash and money market funds. Other than our \$1.0 million investment in B&FF and the \$0.3 million investment in equity interest in the JV Company, we currently have no investments of any type. Our exposure to market risk for changes in interest rates is limited because nearly all of our cash and cash equivalents have a short-term maturity and are used primarily for working capital purposes.

#### **Inflation Risk**

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

### **Item 4. Controls and Procedures**

#### **Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2014. 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 June 30, 2014, 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 June 30, 2014 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 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 and uncertainties not currently known to us or that we currently deem to be immaterial may in the future materially and adversely affect our business, financial condition and results of operations.*

#### Risks Related to Our Business

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

We rely on traffic on our start experiences to generate search and display advertising revenue, a substantial portion of which is derived from text-based links to advertisers' websites as a result of Internet searches. We have a revenue-sharing relationship with Google under which we include a Google-branded search tool on our start experiences. When a consumer makes a search request using this tool, we deliver it to Google, and Google returns search results to us that include advertiser-sponsored links. If the consumer clicks on a sponsored link, Google receives payment from the sponsor of that link and shares a portion of that payment with us. We then typically share a portion of that payment with the applicable customer. Our Google-related search advertising revenue attributable to our customers, which consists of the portion of the payment from the sponsor that Google shares with us, accounted for approximately 57%, 56%, and 51% of our revenue in 2011, 2012, and 2013, or \$51.5 million, \$68.5 million, and \$57.5 million, respectively, and approximately 49% of our revenue in the six months ended June 30, 2014, or \$24.0 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 display 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 display advertisements. If advertisers were to discontinue their advertising via Internet searches, if Google's revenue from search-based advertising were to decrease, if Google's share of the search revenue were to be increased or if our agreement with Google were to be terminated for any reason or renewed on less favorable terms, our business, financial condition and results of operations would be materially and adversely affected. Moreover, consumers' increased use of search tools other than the Google-branded search tool we provide would have similar effects.

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

We derive a substantial portion of our revenue from a small number of customers. Revenue attributable to these customers includes the subscriber-based revenue earned directly from them, as well as the search and display advertising revenue earned through our relationships with our advertising partners, such as Google, based on traffic generated from our start experiences. For example, revenue attributable to Charter, CenturyLink (including our revenue attributable to Qwest) and Toshiba together accounted for approximately 62% of our revenue for the year ended December 31, 2011, or \$56.9 million, with revenue attributable to one of these customers accounting for 20% or more in such period and revenue attributable to each of the other two customers accounting for more than 10% in such period. Revenue attributable to Charter, CenturyLink (including revenue attributable to Qwest), Toshiba and Verizon together accounted for approximately 73% of our revenue for the year ended December 31, 2012, or \$88.4 million, with revenue attributable to one of these customers accounting for 20% or more in such period and revenue attributable to each of the other three customers accounting for more than 10% in such period. Revenue attributable to Charter, CenturyLink (including revenue attributable to Qwest), Toshiba and Verizon together accounted for approximately 68% of our revenue for the year ended December 31, 2013, or \$75.6 million, with revenue attributable to one of these customers accounting for 20% or more in such period and revenue attributable to each of the other

three customers accounting for more than 10% in such period. Revenue attributable to Charter, CenturyLink (including revenue attributable to Qwest), Toshiba and Verizon together accounted for approximately 66% of our revenue for the six months ended June 30, 2014, or \$32.5 million, with revenue attributable to one of these customers accounting for 20% or more in such period and revenue attributable to each of the other three customers accounting for more than 10% in such period.

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

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

We have incurred significant losses in each year of operation other than 2009, 2011, and 2012, including a net loss of \$3.6 million in 2010 and a net loss of \$1.4 million in 2013. We experienced a net loss of \$3.9 million in the six months ended June 30, 2014 as compared to a net loss of \$0.7 million for the six months ended June 30, 2013. Our net income in 2009, 2011, and 2012 was \$0.3 million, \$9.9 million, and \$3.8 million, respectively. Our expenses may increase in future periods as we implement initiatives designed to grow our business including, among other things, the development and marketing of new services and products, licensing of content, expansion of our infrastructure and international expansion. If our revenue does not sufficiently increase to offset these expected increases in operating expenses, we may incur significant losses and may not be profitable. Our revenue for the six months ended June 30, 2014 declined as compared to the same period in 2013, and our revenue in 2013 declined as compared to 2012. Accordingly, we may not be able to return to or maintain profitability in the future. Any failure to maintain profitability may materially and adversely affect our business, financial condition and results of operations.

**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. If consumers increasingly access the Internet on devices other than PCs, and if we are unable to successfully implement monetization strategies for such devices, our financial results could be negatively affected. While we are developing solutions to these alternative means of accessing the Internet, including through our acquisitions of mobile device software and technology from Carbyn in January 2012 and Teknision in November 2013, we do not currently offer our customers and their subscribers a wide variety of apps and other non-browser solutions. Additionally, as new devices and new apps are continually being released, it is difficult to predict the problems we may encounter in developing new versions of our apps and other solutions for use on these alternative devices and apps, and we may need to devote significant resources to the creation, support and maintenance of such apps and solutions. If users of these devices and apps do not widely adopt the apps and other solutions we develop, our business, financial condition and results of operations could be adversely affected.

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

Our business depends on aggregating and providing services and content that our customers will place on our start experiences, including television programming, news, entertainment, sports and other content that their subscribers find engaging, and value added services and paid content that their subscribers will buy. Accordingly, we must continue to invest significant resources in licensing efforts, research and development and marketing to enhance our service and content offerings, and we must make decisions about these matters well in advance of product releases to implement them in a timely manner. Our success depends, in part, on unpredictable and volatile factors beyond our control, including consumer preferences, competing content providers and websites and the availability of other news, entertainment, sports and other services and content. While we work with our customers to have their consumers' homepages and homescreens set to our start experiences

upon the installation of our customer's services or the sale of our customer's product, a consumer may easily change that setting, which would likely decrease the use of our start experiences. Similarly, consumers that change their device's operating system or Internet browser may no longer have our start experiences set as their default homepage or homescreen, and unless they change it back to our start experience, their usage of our start experiences would likely decline and our results of operations could be negatively impacted. Consumers that acquire new consumer electronics devices will no longer have our start experience initially set as their default homepage, and unless they change the default to our start experience, their usage of our start experiences would likely decline and our results of operations could be negatively impacted.

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

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

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

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

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

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

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

Our revenue from high-speed Internet service providers, including our search and display advertising revenue generated by online consumer traffic on our start experiences, accounted for approximately 86% of our revenue in 2011, approximately 80% in 2012, approximately 83% in 2013, and approximately 85% in the six months ended June 30, 2014. The cable and telecommunications industries have experienced consolidation over the past several years, and we expect that this trend will continue. As a result of consolidation, some of our customers may be acquired by companies with which we do not have existing relationships and which may have relationships with one of our competitors or may have the in-house capacity to perform the services we provide. As a result, such acquisitions could cause us to lose customers and the associated subscriber-based and search and display advertising revenue. Under our agreements with some of our customers, including Charter, Verizon and CenturyLink, they have the right to terminate the agreement if we are acquired by one of their competitors.

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

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

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

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

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

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

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

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

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

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

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

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

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

- any failure to maintain strong relationships and favorable revenue-sharing arrangements with our search and display advertising partners, in particular Google, including a reduction in the quantity or pricing of sponsored links that consumers click on or a reduction in the pricing of display advertisements by advertisers;
- any failure of significant customers to renew their agreements with us;
- our ability to attract new customers;
- our ability to increase sales of value added services and paid content to existing subscribers;
- any development by our significant customers of the in-house capacity to replace the services we provide;
- the timing and success of new service and product introductions by us, our customers or our competitors;
- variations in the demand for our services and products and the implementation cycles of our services and products by our customers;
- changes to Internet browser technology that renders our start experiences less competitive;
- changes in our pricing policies or those of our competitors;
- changes in the prices our customers charge for value added services and paid content;
- service outages, other technical difficulties or security breaches;
- limitations relating to the capacity of our networks, systems and processes;
- our failure to accurately estimate or control costs, including costs related to the initial launch of new customers;
- 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, Latin America and Europe. For example, in March 2013 we announced that we entered into a joint venture with Maxit Technology Incorporated, or Maxit, to supply authentication and aggregation solutions for the delivery of online content and services to customers in the People's Republic of China, or the PRC. We have limited experience in marketing and operating our services and products in international markets, and we may not be able to successfully develop our business in these markets. Our success in these markets will be directly linked to the success of relationships with potential customers, content partners and other third parties.

As the international markets in which we plan to operate continue to grow, we expect that competition in these markets will intensify. Local companies may have a substantial competitive advantage because of their greater understanding of, and focus on, the local markets. Some of our domestic competitors who have substantially greater resources than we do may



be able to more quickly and comprehensively develop and grow in international markets. International expansion may also require significant financial investment including, among other things, the expense of developing localized products, the costs of acquiring foreign companies and the integration of such companies with our operations, expenditure of resources in developing customer and content relationships and the increased costs of supporting remote operations.

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

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

Certain of our agreements with customers and content providers require us to make fixed payments to them. The aggregate amount of such fixed payments for the years ending December 31, 2014 (six months remaining), 2015, 2016, and the two years thereafter are approximately \$2.4 million, \$1.6 million, \$1.1 million, and \$0.4 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 most of our customers. These agreements generally call for specific system “up times” and 24 hours per day, seven days per week support and include penalties for non-performance. We may be unable to fulfill these commitments due to circumstances beyond our control, which could subject us to substantial penalties under those agreements, harm our reputation and result in a reduction of revenue or the loss of customers, which would in turn have an adverse effect on our business, financial condition and results of operations. To date, we have never incurred any material penalties.

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

The provision of our services and products depends on the continuing operation of our information technology and communications systems. Any damage to or failure of our systems could result in interruptions in our service. Such interruptions could harm our business, financial condition and results of operations, and our reputation could be damaged if people believe our systems are unreliable. Our systems are vulnerable to damage or interruption from snow storms, terrorist attacks, floods, fires, power loss, telecommunications failures, security breaches, computer malware, computer hacking attacks, computer viruses, computer denial of service attacks or other attempts to, or events that, harm our systems. Our data centers are also subject to break-ins, sabotage and intentional acts of vandalism and to potential disruptions if the operators of the facilities have financial difficulties. Although we maintain insurance to cover a variety of risks, the scope and amount of our insurance coverage may not be sufficient to cover our losses resulting from system failures or other disruptions to our online operations. For example, the limit on our business interruption insurance is approximately \$27.6 million. Any system failure or disruption and any resulting losses that are not recoverable under our insurance policies may materially harm our business, financial condition and results of operations. To date, we have never experienced any material losses.

Although we regularly back-up our systems and store the system back-ups in Atlanta, Georgia, Dallas, Texas, Lewis Center, Ohio, Denver, Colorado, Amsterdam, the Netherlands, and Buffalo, New York, we do not have full second-site redundancy. If we were forced to relocate to an alternate site and to rely on our system back-ups to restore the systems, we would experience significant delays in restoring the functionality of our platform and could experience loss of data, which could materially harm our business and our operating results.

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

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

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

A key element to our continued growth is the ability of our customers' consumers in all geographies to access our start experiences within acceptable load times. We refer to this as website performance. We may in the future experience platform disruptions, outages and other performance problems due to a variety of factors, including infrastructure changes, human or software errors, capacity constraints due to an overwhelming number of users accessing our technology simultaneously, and denial of service or fraud or security attacks. In some instances, we may not be able to identify the cause or causes of these website performance problems within an acceptable period of time. It may become increasingly difficult to maintain and improve website performance, especially during peak usage times, and as our solutions become more complex and our user traffic increases. If our start experiences are unavailable when consumers attempt to access them or do not load as quickly as they expect, consumers may seek other alternatives to obtain the information for which they are looking, and may not return to our start experiences as often in the future, or at all. This would negatively impact our relationships with our customers. We expect to continue to make significant investments to maintain and improve website performance. To the extent that we do not effectively address capacity constraints, upgrade our systems as needed and continually develop our technology and network architecture to accommodate actual and anticipated changes in technology, our business and operating results may be harmed.

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

We depend on the continued contributions of our senior management and other key personnel, especially Himesh Bhise, our new President and Chief Executive Officer effective August 4, 2014, George G. Chamoun, our Executive Vice President of Sales and Marketing, Scott A. Bailey, our Chief Operating Officer, and William J. Stuart, our Chief Financial Officer. The loss of the services of any of our current executive officers or other key employees could harm our business and our prospects. All of our executive officers and key employees are at-will employees, which means they may terminate their employment relationship with us at any time.

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

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

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

Following the merger of our predecessor companies, Chek, Inc., or Chek, and MyPersonal.com, Inc., or MyPersonal, to form Synacor, we expanded our business primarily through organic growth. We have sought to, and may in the future continue to seek to, grow through strategic acquisitions. As we strive to return the Company to growth, this may place, significant demands on our management and our operational and financial infrastructure. Our ability to manage our growth effectively and to integrate new technologies and acquisitions into our existing business will require us to continue to expand our operational, fi

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.**

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

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

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

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

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

We face many risks in connection with our joint venture, including, among other things, with respect to:

- Increasing competition in the industry and the JV Company's ability to compete in the Chinese market through its wholly foreign-owned subsidiary, or WFOE;

- The impact of regulatory changes in the industry;
- Potential difficulties associated with operating the joint venture and the WFOE;
- The joint venture's ability to obtain additional financing;
- The WFOE's ability to offer competitive services in the Chinese market at a favorable margin;
- General business and economic conditions, including seasonality of the industry and growth trends in the industry;
- Our ability to successfully enter the Chinese market and operate internationally;
- Potential delays, including obtaining permits, licenses and other governmental approvals;
- Trade barriers and potential duties; and
- Our and the joint venture's ability to protect intellectual property.

If we and the JV Company are not able to successfully manage these and other risks related to the joint venture, it could harm our business, financial condition and results of operations.

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

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

The operation of our business and our growth strategy may require significant additional capital, especially if we were to accelerate our expansion and acquisition plans. If the cash generated from operations and otherwise available to us is not sufficient to meet our capital requirements, we will need to seek additional capital, potentially through debt or equity financings, to fund our growth. We may not be able to raise needed capital on terms acceptable to us or at all. Financings, if available, may be on terms that are dilutive or potentially dilutive to our stockholders, and the prices at which new investors would be willing to purchase our securities may cause our existing stockholders to suffer substantial dilution. The holders of new securities may also receive rights, preferences or privileges that are senior to those of existing holders of our common stock. Any debt financing obtained by us in the future could contain restrictive covenants that may potentially restrict our operations, and if we do not effectively manage our business to comply with those covenants, our business, financial condition and results of operations could be adversely affected. If new sources of financing are required but are insufficient or unavailable, we could be required to delay, abandon or otherwise modify our growth and operating plans to the extent of available funding, which would harm our ability to grow our business.

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

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

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

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

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

Companies in the Internet and technology industries tend to own large numbers of patents, copyrights, trademarks and trade secrets, and frequently enter into litigation based on allegations of infringement or other violations of intellectual property rights. We have been subject to claims that the presentation of certain licensed content on our start experiences infringes certain patents of a third party, none of which have resulted in direct settlement or payments by us or any determination of infringement by us, and as we face increasing competition, the possibility of further intellectual property rights claims against us grows. Our technologies may not be able to withstand any third party claims or rights against their use. Any intellectual property claims, with or without merit, could be time-consuming, expensive to litigate or settle and could divert management resources and attention. An adverse determination also could prevent us from offering our services and products to others and may require that we procure substitute products or services for our customers.

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

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

We are not currently subject to any 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 e-mail addresses. Unauthorized disclosure of personal information regarding website visitors, whether through breach of our systems by an unauthorized party, employee theft or misuse, or otherwise, could harm our business. If there were an inadvertent disclosure of personal information, or if a third party were to gain unauthorized access to the personal information we possess, our operations could be seriously disrupted and we could be subject to claims or litigation arising from damages suffered by subscribers or our customers. In addition, we could incur significant costs in complying with the multitude of state, federal and foreign laws regarding the unauthorized disclosure of personal information. Finally, any perceived or actual unauthorized disclosure of the information we collect could harm our reputation, substantially impair our ability to attract and retain customers and have an adverse impact on our business.

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

We collect, and have access to, personal information of subscribers, including names, addresses, account numbers, credit card numbers and e-mail addresses. There are numerous federal, state and local laws around the world regarding privacy and the storing, sharing, use, processing, disclosure and protection of personal information and other subscriber data, the scope of which are changing, subject to differing interpretations, and may be inconsistent between countries or conflict with other rules. We generally comply with industry standards and are subject to the terms of our privacy policies and privacy-related obligations to third parties (including voluntary third-party certification bodies such as TRUSTe). We strive to comply with all

applicable laws, policies, legal obligations and industry codes of conduct relating to privacy and data protection to the extent possible. However, it is possible that these obligations may be interpreted and applied in a manner that is inconsistent from one jurisdiction to another and may conflict with other rules or our practices. Any failure or perceived failure by us to comply with our privacy policies, our privacy-related obligations to users or other third parties, or our privacy-related legal obligations, or any compromise of security that results in the unauthorized release or transfer of personal information or other subscriber data, may result in governmental enforcement actions, litigation or public statements against us by consumer advocacy groups or others and could cause our customers to lose trust in us, which could have an adverse effect on our business. Additionally, if third parties we work with, such as customers, vendors or developers, violate applicable laws or our policies, such violations may also put subscriber information at risk and could in turn have an adverse effect on our business.

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

We have derived and expect to continue to derive a substantial portion of our revenue from display advertising on our start experiences. Such advertising accounted for approximately 23%, 27%, and 29% of our revenue for the years ended December 31, 2011, 2012, and 2013, respectively, and 29% of our revenue for the six months ended June 30, 2014. 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 start experiences;
- maintaining consumer engagement on those start experiences;
- 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' subscribers from one high-speed Internet service provider to another could adversely affect our business, financial condition and results of operations.**

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

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

Effective internal controls are necessary for us to provide reliable financial reports and prevent fraud. In addition, Section 404 of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, 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 will 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 documented, designed or operating.

While we have determined that our internal control over financial reporting was effective as of December 31, 2013, 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, 2013 (as amended), 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.

In addition, a delay in compliance with the auditor attestation provisions of Section 404, when applicable to us, 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 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 carryforwards 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 June 30, 2014, we had substantial federal and state net operating loss carryforwards. Under Sections 382 and 383 of the Internal Revenue Code of 1986, as amended, or the Code, if a corporation undergoes an “ownership change,” the corporation's ability to use its pre-change net operating loss carryforwards to offset its post-change income and taxes may be limited. In general, an “ownership change” generally occurs if there is a cumulative change in our ownership by “five-percent stockholders” that exceeds 50 percentage points over a rolling three-year period. For these purposes, a five-percent stockholder is generally any person or group of persons that at any time during the applicable testing period has owned 5% or more of our outstanding stock. In addition, persons who own less than 5% of the outstanding stock are grouped together as one or more “public groups,” which are also treated as five-percent stockholders. Similar rules may apply under state tax laws. We may experience ownership changes in the future as a result of future transactions in our stock, some of which may be outside our control. As a result, our ability to use our pre-change net operating loss carryforwards to offset United States federal and state taxable income and taxes may be subject to limitations.

**Our joint venture's business prospects in China are dependent on government telecommunications infrastructure and budgetary policies, particularly the allocation of funds to sustain the growth of the telecommunications industry in China.**

Our joint venture's business prospects in China include telecommunication service operators, and telecommunication service operators in China are directly or indirectly owned or controlled by the government of China. Accordingly, our joint venture's business prospects in China will also be heavily dependent on these government policies. Insufficient future funding allocated to China's telecommunications industry by the government could directly reduce the market for our joint venture's software and services in China. Chinese government initiatives directed at the market could also significantly affect the market conditions for our joint venture's Chinese customers and influence their level of spending on the services we offer. While some of these initiatives may increase market competition and generate more demand for our services, the anticipated increase in demand may not materialize. Our joint venture's prospective customers may not adapt well to the market conditions under the evolving regulatory environment and their demand for our joint venture's software and services may decrease as a result. The telecommunications industry in China may also become less competitive over time, either as a result of market driven consolidations or as a result of government efforts to curtail competition. A less competitive market may create fewer incentives for spending on technology innovations and upgrades, which may directly affect our joint venture's business prospects in China.

**Our proprietary rights may be inadequately protected and there is a risk of poor enforcement of intellectual property rights in China.**

Our success and ability to compete depend substantially upon our intellectual property, which we protect through a combination of confidentiality arrangements and trademark registrations. 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. We enter into confidentiality agreements with most of our employees and consultants, and control access to, and distribution of, our documentation and other licensed information, including information licensed to the JV Company. Despite these precautions, it may be possible for a third party to copy or otherwise obtain and use our technology without authorization, or to develop similar technology independently. Since the Chinese legal system in general and the intellectual property regime in particular, are relatively weak, it is often difficult to enforce intellectual property rights in China.

Policing unauthorized use of our licensed technology is difficult and the steps we take may not prevent misappropriation or infringement of our proprietary rights. In addition, litigation may be necessary to enforce our intellectual property rights, to protect our trade secrets or to determine the validity and scope of the proprietary rights of others, which could result in substantial costs and diversion of our resources.

**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.

**Risks Related to Our Industry**

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

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

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

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

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

We have derived and expect to continue to derive a substantial majority of our revenue from search and display advertising on our start experiences. Such search and display advertising revenue accounted for approximately 79%, 83%, and 81% of our revenue for the years ended December 31, 2011, 2012, and 2013, or \$72.1 million, \$101.6 million, and \$90.4 million, respectively, and 78% of our revenue for the six months ended June 30, 2014, or \$38.4 million. However, the prospects for continued demand and market acceptance for Internet advertising are uncertain. If advertisers do not continue to increase their usage of the Internet as an advertising medium, our revenue would decline. Advertisers that have traditionally relied on other advertising media may not advertise on the Internet. Most advertising agencies and potential advertisers, particularly local advertisers, have only limited experience advertising on the Internet and devote only a small portion of their advertising expenditures to online advertising. As the Internet evolves, advertisers may find online advertising to be a less attractive or less effective means of promoting their services and products than traditional methods of advertising and may not continue to allocate funds for Internet advertising. Many historical predictions by industry analysts and others concerning the growth of the Internet as a commercial medium have overstated the growth of the Internet and you should not rely upon them. This growth may not occur or may occur more slowly than estimated.

Most of our search revenue is based on the number of paid “clicks” on sponsored links that are included in search results generated from our start experiences. 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 and MSN, a division of Microsoft. Advantages some of our existing and potential competitors hold over us include the following:

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

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



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

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

- user privacy and expression;
- ability to collect and/or share necessary information that allows us to conduct business on the Internet;
- export compliance;
- pricing and taxation;
- fraud;
- advertising;
- intellectual property rights;
- consumer protection;
- protection of minors;
- content regulation;
- information security; and
- quality of services and products.

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

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

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

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

The regulatory framework for privacy issues worldwide is currently in flux and is likely to remain so for the foreseeable future. Practices regarding the collection, use, storage, transmission and security of personal information by companies operating over the Internet have recently come under increased public scrutiny. The United States government, including the Federal Trade Commission and the Department of Commerce, has announced that it is reviewing the need for



greater regulation for the collection of information concerning consumer behavior on the Internet, including regulation aimed at restricting certain targeted advertising practices. In addition, the European Union is in the process of proposing reforms to its existing data protection legal framework, which may result in a greater compliance burden for companies with users in Europe. Various government and consumer agencies have also called for new regulation and changes in industry practices.

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

### **Risks Related to Ownership of Our Common Stock**

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

Our directors, executive officers and holders of more than 5% of our common stock, together with their affiliates, beneficially own or control, directly or indirectly, as of August 9, 2014 over 30% of our outstanding common stock. As a result, these stockholders, if they 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; 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 own some 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. 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 potential changes to the composition of the 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 now have demand and piggyback rights to require us to register with the SEC the shares of common stock issued upon conversion of such preferred stock. If we register any of these shares of common stock, the stockholders would be able to sell those shares freely in the public market. Additionally, some of these stockholders are currently able to sell these shares in the public market without registration under Rule 144.

In addition, the shares that are either subject to outstanding options 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 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 8, 2014, our trading price has ranged from \$2.12 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;
- recruitment or departure of key personnel, such as the departure of Mr. Frankel, our former President and Chief Executive Officer, and the appointment of Himesh Bhise, our current President and Chief Executive Officer;
- 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.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

In the quarterly period ended June 30, 2014, we issued and sold an aggregate of 30,000 shares of our common stock to Armstrong Diversified Investments for aggregate consideration of approximately \$1,200 upon the exercise of stock options that were granted under our 2000 Stock Plan. These securities were not registered under the Securities Act. Instead the sale of securities described in this Item 2 was deemed to be exempt under Section 4(2) of the Securities Act as a sale to an “accredited investor” as defined in Rule 501 of Regulation D promulgated under the Securities Act. The recipient of the securities in the transaction described above represented its intentions to acquire the securities for investment only and not with a view to or for sale in connection with any distribution and appropriate legends were affixed to the shares issued in this transaction.

*Use of Proceeds*

In February 2012, we completed the initial public offering of shares of our common stock, in which we issued and sold 5,454,545 shares of common stock at a price to the public of \$5.00 per share, for aggregate gross proceeds to the Company of \$27.3 million, in each case excluding shares of common stock sold by selling stockholders in the offering. The offer and sale of all of the shares in the IPO were registered under the Securities Act pursuant to a registration statement on Form S-1 (File No. 333-178049), which was declared effective by the SEC on February 9, 2012.

There has been no material change in the planned use of proceeds from our initial public offering as described in our final prospectus filed with the SEC on February 10, 2012 pursuant to Rule 424(b).

*Issuer Purchases of Equity Securities*

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
January 1, 2014-January 31, 2014	0	0	0	\$0
February 1, 2014-February 28, 2014	0	0	0	\$0
March 1, 2014-March 31, 2014	22,000 (1)	\$2.5256	22,000 (1)(2)	\$4,944,436.80
April 1, 2014-April 30, 2014	103,050 (1)	\$2.4784	103,050 (1)(2)	\$4,689,037.68
May 1, 2014-May 31, 2014	104,000 (1)	\$2.4183	104,000 (1)(2)	\$4,437,521.92
June 1, 2014-June 30, 2014	0	0	0	\$4,437,521.92

Notes:

- (1) Represents shares of outstanding common stock.
- (2) On March 5, 2014, we announced that our Board of Directors had approved a Stock Repurchase Program, which authorized the repurchase of up to \$5,000,000 worth of our outstanding common stock. The Stock Repurchase Program has no expiration date, and may be suspended or discontinued at any time without notice. All such shares were repurchased under the Stock Repurchase Program. Additionally, as of August 8, 2014, we have repurchased a total of 229,050 shares of our common stock under the Stock Repurchase Program at an average price per share of \$2.4557. As of August 8, 2014, we may yet purchase up to \$4,437,521.92 worth of our outstanding common stock under the Stock Repurchase Program.

**Item 3. Defaults Upon Senior Securities**

Not applicable.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**



Not applicable.

**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.

**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.

August 14, 2014

**SYNACOR, INC.**

By: /s/ HIMESH BHISE

**Himesh Bhise**

**President and Chief Executive Officer**

(Principal Executive Officer)

August 14, 2014

By: /s/ WILLIAM J. STUART

**William J. Stuart**

**Chief Financial Officer and Secretary**

(Principal Financial and Accounting Officer)

**EXHIBIT INDEX**

<b>Exhibit No.</b>	<b>Exhibit</b>
10.1*	Amendment #3 to Master Services Agreement between Verizon Corporate Services Group, Inc. and Synacor, Inc. dated as of June 6, 2014.
10.2*	Amendment #5 to Amended and Restated Master Services Agreement between Charter Communications Operating, LLC and Synacor, Inc. dated as of June 12, 2014.
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

\* Confidential treatment requested for portions of this document. The omitted portions have been filed with the Securities and Exchange Commission.

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

CONFIDENTIAL TREATMENT REQUESTED

AMENDMENT NO. 3  
TO  
MASTER SERVICES AGREEMENT

This Amendment No. 3 to Master Services Agreement (“Amendment No. 3”) effective as of June 6, 2014 (“Amendment No. 3 Effective Date”) is between **Synacor, Inc.** (“Synacor”) and **Verizon Corporate Services Group Inc., acting on behalf of itself and its Affiliates, including Verizon Online LLC** (“Verizon” or “Client”) under which the Parties hereto mutually agree to modify and amend the **Master Services Agreement**, dated as of **July 25, 2011** (including Supplements and, together with the Master Agreement, the “Agreement”). All terms defined herein shall be applicable solely to this Amendment No. 3. Any capitalized terms used herein, which are defined in the Agreement and not otherwise defined herein, shall have the meanings ascribed to them in the Agreement.

**WHEREAS**, Verizon is an Internet Service Provider (“ISP”) and maintains several web portals through which Verizon delivers content and certain functionality; and

**WHEREAS**, Synacor provides web portal solutions for ISPs; and

**WHEREAS**, Verizon currently engages with Synacor to have Synacor provide a white labeled portal solution using Synacor for delivery of web search, advertising, general interest content and other functionality through such web portal solution; and

**WHEREAS**, Verizon currently utilizes the services of Synacor to extend Verizon’s current offering of TV Everywhere services to Users; and

**WHEREAS**, Verizon desires to utilize the services of Synacor to create an improved platform and user experience for the offering of TV Everywhere services to Users; and

**WHEREAS**, Synacor desires to provide such services to Verizon as further described herein; and

**WHEREAS**, the Parties desire to modify certain terms and conditions of the Agreement, including but not limited to the addition of additional services as defined herein, as further described herein.

**NOW, THEREFORE**, in consideration of the premises and mutual covenants herein and for other good and valuable consideration, the sufficiency and receipt of which are hereby acknowledged, the Parties agree as follows:

- 1. Statement of Work.** Attached hereto is a Statement of Work No. 1 (the “Statement of Work No. 1”) which sets forth, among other things, the scope of the work to be performed by Synacor (the “TV/Video 3.0 Services”), and the expected deliverables as a result of the scope of work performed by Synacor.
- 2. TV Everywhere Services.** The Parties intend and agree that the TV/Video 3.0 Services be deemed incorporated into “TV Everywhere Services” as “TV Everywhere Services” is used in Section 2.1 of the Agreement, and other locations throughout the Agreement. [\*]
- 3. Definitions.** A new definition is added to Section 1 of the Agreement as follows:

“Phase 1 Launch Date” shall mean the date of Acceptance (as defined in Statement of Work No. 1 to Amendment No. 3 to this Agreement) of all deliverables under Phase 1 of

1 of 10

[\*] = CERTAIN INFORMATION HAS BEEN OMITTED AND FILED SEPARATELY WITH THE COMMISSION. CONFIDENTIAL TREATMENT HAS BEEN REQUESTED WITH RESPECT TO THE OMITTED PORTIONS.

CONFIDENTIAL TREATMENT REQUESTED

Statement of Work No. 1 to Amendment No. 3 to this Agreement, and launch of those deliverables to Users.

“Phase 2 Launch Date” shall mean the date of Acceptance of all deliverables under Phase 2 of Statement of Work No. 1 to Amendment No. 3 to this Agreement.

“Phase 3 Launch Date” shall mean the date of Acceptance of all deliverables under Phase 3 of Statement of Work No. 1 to Amendment No. 3 to this Agreement.

“New Payment Date” shall mean [\*]

4. **Development Fee.** In exchange for the development services to be provided by Synacor as part of the TV/Video 3.0 Services, Verizon shall pay Synacor the total sum of [\*] pursuant to the payment schedule set forth in Statement of Work No. 1. The particular payment amount may be invoiced by Synacor [\*], and shall be due and payable [\*].
5. [\*] **Content.** The [\*] content described in Phase 2 of Statement of Work No. 1 shall be provided [\*]

6. **Installation Plan.** The Parties mutually agree to create a plan regarding Verizon product installation of Verizon’s internet services in an effort to drive traffic to the Client Branded Portal and increase traffic over time throughout the Term. The Parties will work jointly on the planning and implementation of such plan with the goal of launching the test implementation by the end of the third quarter of [\*].

7. **Schedule Q – TV Everywhere Services. Section 6. Term.** Section 6, Term, of Schedule Q-TV Everywhere Services is amended and restated as follows:

**6. Term.** Subject to Section 7 of the Agreement, the term of the TVE Services shall be coterminous with the term of the Agreement.

8. **Schedule A - Pricing.** Section 1(a) of Schedule A of the Agreement is modified by replacing the section in its entirety with the following:

**Search Services and Advertising Revenue Share :** [\*]

2 of 10

[\*] = CERTAIN INFORMATION HAS BEEN OMITTED AND FILED SEPARATELY WITH THE COMMISSION. CONFIDENTIAL TREATMENT HAS BEEN REQUESTED WITH RESPECT TO THE OMITTED PORTIONS.

CONFIDENTIAL TREATMENT REQUESTED

[\*]

9. **Schedule A - Pricing .** Section 1(d) of Schedule A of the Agreement is modified by replacing the section in its entirety with the following:

**(d) Bandwidth Costs:** Unless otherwise mutually agreed by the Parties in writing, upon [\*] , Synacor shall be responsible for obtaining all necessary bandwidth to provide the Service to Users and Subscribers and Synacor will bear [\*] of the costs associated therewith, including but not limited to content distribution network costs related to the inclusion of video (excluding video related to services like FiOS or Flexview) on the Client Branded Portals, and Client [\*] , via a reduction in the Search and Advertising Revenue Share funds distributed to Client. In no event will the Bandwidth Costs attributed to Client exceed [\*] . Upon written request from Client to Synacor, the Parties agree

that they will meet and discuss in good faith the commercial feasibility of Synacor utilizing the [\*] . The Parties agree that if Synacor contracts with [\*] and pursuant to such contract, Synacor obtains bandwidth to provide the Service to Users, the Parties will agree in writing on any applicable adjustments to the Bandwidth Costs allocation set forth in this Agreement.

[\*]

10. **Schedule Q – TV Everywhere Services, Section 11. Channel Integration Fees.** Section 11 of Schedule Q is hereby deleted in its entirety.
11. **Schedule Q – TV Everywhere Services, Section 13. Maintenance Fees; Right of Termination.** Section 13 of Schedule Q is hereby deleted in its entirety and replaced with the following:

**Maintenance Fees; [\*]**

12. **EXHIBIT 1 TO SCHEDULE Q (TV EVERYWHERE SERVICES).** Exhibit 1 to Schedule Q (TV Everywhere Services) is modified as follows:

- a. The first sentence of **Section III A, API Availability** , is amended and restated as follows: “A. “API Availability” means that the entitlement related API is fully functional with

3 of 10

[\*] = CERTAIN INFORMATION HAS BEEN OMITTED AND FILED SEPARATELY WITH THE COMMISSION. CONFIDENTIAL TREATMENT HAS BEEN REQUESTED WITH RESPECT TO THE OMITTED PORTIONS.

### CONFIDENTIAL TREATMENT REQUESTED

[\*] average uptime in any calendar month.”

- b. The first sentence of **Section III C, API Availability Credits** , is amended and restated as follows:

“C. API Availability Credits – If Client makes a request to Synacor within [\*] days of the end of the month in which Synacor failed to meet the SLA, the API Availability credits set forth below will be applied to Client’s account for [\*] during which Synacor failed to meet the required API Availability of [\*] during the Term of the Agreement.”

13. **Press Release.** Each Party may issue a press release related to the relationship established under this Amendment No. 3 promptly after the Amendment No. 3 Effective Date. Such press release must be approved by the other Party.
14. **Counterparts.** This Amendment No. 3 may be executed in two (2) or more counterparts, each of which will be considered an original, but all of which together will constitute one and the same instrument. The exchange of a fully-executed Amendment No. 3 (in counterparts or otherwise) by fax or other electronic means shall be sufficient to bind the Parties to the terms and conditions of this Amendment No.3.
15. **Entire Agreement.** This Amendment No. 3 represents the complete and exclusive statement of the mutual understanding of the Parties and supersedes all previous written and oral agreements and communications relating to any of the subject matter hereof. Except as explicitly modified, all terms, conditions and provisions of the Agreement shall continue in full force and effect.

IN WITNESS WHEREOF , the Parties hereto have executed this Amendment No. 3 as of the Amendment No. 3 Effective Date.

**SYNACOR, INC. VERIZON CORPORATE SERVICES  
GROUP INC.**

By: \_\_\_/gc/ By: \_\_\_/jw/

Name: George Chamoun Name: John A. Wimsatt

Title: \_\_\_EVP Title: \_\_\_VP Product Development\_\_\_\_\_

Date: \_\_\_6-6-14 Date: \_\_\_6-25-14

4 of 10

[\*] = CERTAIN INFORMATION HAS BEEN OMITTED AND FILED SEPARATELY WITH THE COMMISSION. CONFIDENTIAL TREATMENT HAS BEEN REQUESTED WITH RESPECT TO THE OMITTED PORTIONS.

**CONFIDENTIAL TREATMENT REQUESTED**

**STATEMENT OF WORK NO. 1  
TO  
AMENDMENT NO. 3 TO MASTER SERVICES AGREEMENT  
TV/VIDEO 3.0 SERVICES**

This Statement of Work No. 1 to this Amendment No. 3 is governed by that certain Master Services Agreement between Synacor and Client, dated as of July 25, 2011, as amended (the "Agreement"). Capitalized terms used, but not defined herein, shall have the meanings ascribed to them in the Agreement.

Subject to the Assumptions set forth below, Synacor shall provide the services described herein. **I. Assumptions:**

[\*]

5 of 10

[\*] = CERTAIN INFORMATION HAS BEEN OMITTED AND FILED SEPARATELY WITH THE COMMISSION. CONFIDENTIAL TREATMENT HAS BEEN REQUESTED WITH RESPECT TO THE OMITTED PORTIONS.

CONFIDENTIAL TREATMENT REQUESTED

[\*]

**II. Overall service deliverables** [\*]

**III. Phase 1 - TV/Video 3.0 deliverables** to be complete and fully integrated with the initial deployment of the product: 1) Core Product Pages (some of which are described in more detail below):

[\*]

6 of 10

[\*] = CERTAIN INFORMATION HAS BEEN OMITTED AND FILED SEPARATELY WITH THE COMMISSION. CONFIDENTIAL TREATMENT HAS BEEN REQUESTED WITH RESPECT TO THE OMITTED PORTIONS.

**CONFIDENTIAL TREATMENT REQUESTED**

[\*]

**IV. Phase 2 - TV/Video 3.0 deliverables to be complete and fully integrated with the second deployment of the product:**

[\*]

7 of 10

[\*] = CERTAIN INFORMATION HAS BEEN OMITTED AND FILED SEPARATELY WITH THE COMMISSION. CONFIDENTIAL TREATMENT HAS BEEN REQUESTED WITH RESPECT TO THE OMITTED PORTIONS.

**CONFIDENTIAL TREATMENT REQUESTED**

**V. Phase 3 - TV/Video 3.0 deliverables to be complete and fully integrated with the third deployment of the product:**

[\*]

## VI. Service Level Agreement.

The Services provided as a result of this Statement of Work No. 1 shall be subject to, and Synacor shall comply with, all terms of the Service Level Agreements set forth in Schedule G of the Agreement, and as set forth in Exhibit 1 to Schedule Q.

## VII. Delivery of Services and Acceptance of TV/Video 3.0 Services

- A. Timing.** Each Party recognizes that there is a robust timeline being coordinated between the Parties, and each Party will make commercially reasonable best efforts to meet those associated timelines (to the extent such Party has responsibilities under this Statement of Work No.1 pertaining to a specific deliverable). The Parties will meet to set out such various timelines and milestones. The Parties agree that such timelines may be adjusted between the Parties as may be required, provided that the Parties shall cooperate with one another reasonably and in good faith to ensure that the Services contemplated by this Statement of Work No. 1 shall be implemented and conducted as set forth herein.
- B. Meetings, Updates.** Synacor and Client shall meet as needed during the Term to determine the schedule for delivery of the TV/Video 3.0 Services by Synacor to Client, identify gaps and outline upcoming strategy and high priority projects. Synacor will attend meetings and/or participate in telephone calls as reasonably requested by Client, its employee or contractors, or such other times as reasonably requested by Client, its employees, or contractors, to review Synacor's performance in accordance with this Statement of Work No. 1. Said employees, or contractors may attend such meetings and/or calls, at the sole discretion of Client. Synacor will provide Client with ongoing updates as to its progress on the Deliverables, including – when Synacor is near completion of a Deliverable -- providing Client with regular QA test case reporting success and failure metrics.
- C. Additional Definitions. The following definitions set apply to this Section VII:**
- i. "Acceptance"** means that one or more Deliverables satisfy the Acceptance Tests. Final Acceptance means that all Deliverables satisfy the Acceptance Tests. Non-acceptance means that one or more Deliverables have not satisfied the Client's Acceptance Tests. Notwithstanding the foregoing, Acceptance of a Deliverable and Final Acceptance of all Deliverables shall be deemed to have occurred, if either (a) Client has notified Synacor of Client's acceptance of the Deliverable(s), (b) the Deliverable(s) is/are commercially launched by Client, or (c) Client does not deliver notice of rejection [\*]
  - ii. "Acceptance Criteria"** means [\*] and against which the Deliverables may be evaluated for purposes of Acceptance or Non-acceptance thereof.
  - iii. "Acceptance Tests" or "Acceptance Testing"** mean the tests, reviews and other activities that are performed [\*] to determine whether the Deliverables meet the Acceptance Criteria.
  - iv. "Deficiency"** means [\*]

8 of 10

[\*] = CERTAIN INFORMATION HAS BEEN OMITTED AND FILED SEPARATELY WITH THE COMMISSION. CONFIDENTIAL TREATMENT HAS BEEN REQUESTED WITH RESPECT TO THE OMITTED PORTIONS.

CONFIDENTIAL TREATMENT REQUESTED

[\*]

**v. "Deliverables"** means, all of the goods, products, Services, work, work product, items, materials and property to be created, developed, produced, delivered, performed or provided by or on behalf of, or made available through, Synacor (or any agent, contractor or subcontractor of Synacor) in connection with this Statement of Work No. 1.

**vi. "Specifications"** means all specifications, requirements, technical standards, performance standards, representations and other criteria related to the Deliverables stated or expressed in this Agreement or this Statement of Work No. 1. Specifications shall include the Acceptance Criteria.

- D. Acceptance Testing.** Except as otherwise specified in the Statement of Work No. 1 or the Agreement, all Deliverables shall be subject to the Client's Acceptance Testing and Acceptance. Upon completion of all work to be performed by Synacor with respect to any Deliverable, Synacor shall notify Client that the Deliverable is ready for the Client to conduct Acceptance Tests. [\*], Client shall complete its Acceptance Testing and provide Synacor with notice of Acceptance or Nonacceptance with respect to each Deliverable that was evaluated during such Acceptance Testing. If the Client determines that a Deliverable satisfies its Acceptance Tests, the Client shall provide Synacor with notice of

Acceptance with respect to such Deliverable. If the Client determines that a Deliverable fails to satisfy its Acceptance Tests, the Client shall provide Synacor with notice of Nonacceptance with respect to such Deliverable. In the event the Client provides notice of Nonacceptance to Synacor with respect to any Deliverable, Synacor shall correct and repair such Deliverable and submit it to the Client within a reasonable time following Synacor's receipt of notice of Non-acceptance so that the Client may re-conduct its Acceptance Tests with respect to such Deliverable.

In the event the Client determines in good faith, after re-conducting its Acceptance Tests with respect to any Deliverable that Synacor has attempted to correct or repair pursuant to this section, that such Deliverable fails to satisfy its Acceptance Tests, then, so long as Client has provided timely notice to Synacor of such non-Acceptance, the Client shall have the continuing right, at its sole option, to:

[\*]

iv. suspend launch of any applicable impacted phase of TV/Video 3.0; or iv. terminate this Statement of Work No. 1 and/or seek any and all available remedies.

The Client's right to exercise the foregoing rights and remedies, including termination of this Statement of Work No. 1 shall remain in effect until Final Acceptance. [\*]

9 of 10

[\*] = CERTAIN INFORMATION HAS BEEN OMITTED AND FILED SEPARATELY WITH THE COMMISSION. CONFIDENTIAL TREATMENT HAS BEEN REQUESTED WITH RESPECT TO THE OMITTED PORTIONS.

### CONFIDENTIAL TREATMENT REQUESTED

#### **VIII. Development Fee Payment Schedule.**

Subject to the payments terms set forth in the Agreement and Amendment No. 3, Client shall pay Synacor the Development Fee referred to in Section 3 of Amendment No. 3 pursuant to the following payment schedule:

i. [\*] payable upon [\*] .

ii. [\*] payable upon [\*] .

iii. [\*] payable [\*] .

iv. [\*] payable upon of [\*] .

The above amounts shall be due and payable within [\*] days after receipt of Synacor invoice.

10 of 10

[\*] = CERTAIN INFORMATION HAS BEEN OMITTED AND FILED SEPARATELY WITH THE COMMISSION. CONFIDENTIAL TREATMENT HAS BEEN REQUESTED WITH RESPECT TO THE OMITTED PORTIONS.

CONFIDENTIAL TREATMENT REQUESTED

AMENDMENT #5

TO

AMENDED AND RESTATED MASTER SERVICES AGREEMENT

This Amendment ("Amendment") effective as of June 12th, 2014 ("Amendment Effective Date") is between **Synacor, Inc.** ("Synacor") and **Charter Communications Operating, LLC** ("Client") under which the parties hereto mutually agree to modify and amend the **Synacor Amended and Restated Master Services Agreement**, dated April 1, 2010 (including the exhibits, schedules and amendments thereto, the "Agreement"). Any capitalized terms used herein, which are defined in the Agreement and not otherwise defined herein, shall have the meanings ascribed to them in the Agreement.

**Whereas**, Client intends to launch a new web portal, which will be hosted and operated by Client; and

**Whereas**, Client desires to receive certain services from Synacor with respect to such new web portal, and Synacor desires to provide such services to Client, all on the terms and conditions set forth herein.

**Therefore**, in consideration of the premises and mutual covenants herein and for other good and valuable consideration, the sufficiency and receipt of which are hereby acknowledged, the parties agree as follows:

**1.0 New Services:** Synacor will provide to Client the [\*] services described in Schedule 1 hereto in accordance with the terms and conditions set forth therein.

**2.0 Definitions.** The Agreement is hereby amended by adding the following new definitions: [\*]

"Former Services" means the Services being provided under the Agreement as of the effective date of Amendment #5 to the Agreement. The Former Services do not include the New Services.

"New Portal" means the new Client-branded web portal to be launched, hosted, and operated by Client after the effective date of Amendment #5 to the Agreement, which shall operate as a replacement to the existing Client Branded Portal. Client in its sole discretion will determine the URL for such portal, and currently anticipates that the portal will be accessible at the URL [www.charter.net](http://www.charter.net).

"New Portal Commercial Launch Date" means the date upon which the New Portal is first made available to Users on a commercial basis.

"New Services" means the [\*] services being provided under Amendment #5 to the Agreement.

BUS\_RE/5266520.1

[\*] = CERTAIN INFORMATION HAS BEEN OMITTED AND FILED SEPARATELY WITH THE COMMISSION. CONFIDENTIAL TREATMENT HAS BEEN REQUESTED WITH RESPECT TO THE OMITTED PORTIONS.

CONFIDENTIAL TREATMENT REQUESTED

BUS\_RE/5266520.1

**3.0 Fees:** In exchange for the New Services, Client will pay to Synacor the fees set forth on Schedule 2 attached hereto.

**4.0 Term:** Section 7.1 of the Agreement is deleted in its entirety and replaced with the following: **Term.**

(a) *New Services.* This Agreement shall continue in full force and effect with respect to the New Services for a period of six months after the New Portal Commercial Launch Date, and thereafter shall automatically renew for successive six-month periods, unless either party notifies the other party in writing of its intention not to renew such services at least 90 days prior to expiration of the

then current term; provided that in no event will Synacor terminate this Agreement as it relates to the New Services, other than for cause, effective as of a date prior to two years after the New Portal Commercial Launch Date (the "New Services Term").

*(b) Former Services.* This Agreement shall continue in full force and effect with respect to the Former Services through March 31, 2015, except that Client shall have the unilateral right to terminate the Former Services at any time by providing Synacor no less than 90 days' prior written notice (or with regard to the Entitlement Services terminate those Services upon 60 days' prior written notice subject to the terms of Section 3.2 of Amendment 3); provided that in no event will Client terminate this Agreement as it relates to the Former Services, other than for cause, effective as of a date prior to March 31, 2014 (the "Former Services Term").

*(c) Term.* The term of this Agreement will continue until the last to expire of the New Services Term and Former Services Term, and is referred to herein as the "Term."

**5.0 Former Portal Services Term:** All references in the Agreement to "Term" shall hereafter be deemed to be replaced with "Former Services Term," except the references to "Term" in Sections 5 and 12 of the Agreement shall remain unchanged.

**6.0 Effects of Termination:** Upon any expiration or earlier termination of the New Services, all rights and obligations of Synacor and Client will cease with respect to such services, except that: (a) all obligations that accrued prior to the effective date of termination (including all payment obligations) will survive termination; and (b) each party will destroy (upon the written request of the other party) or return to the other party all of the other's Proprietary Information in its possession or under its control under Section 5.5 of the Agreement. The provisions of Schedule 2 to this Amendment (Fees, Payment), but only to the extent accruing prior to the effective date of termination, any indemnities and limitations of liability set forth in Schedule 1 of this Amendment, as the case maybe, and any other provision of the Agreement which by its nature survives, shall so survive such termination or expiration.

**7.0 Scope of Amendment:** This Amendment supersedes all proposals, oral or written, all negotiations, conversations, or discussions between or among parties relating to the subject matter of this Amendment and all past dealing or industry custom. This Amendment shall be integrated in and form part of the Agreement upon execution. All terms and conditions of the Agreement shall remain unchanged except as expressly modified in this Amendment; and the terms of the Agreement, as modified by this Amendment, are hereby ratified and confirmed. Where the terms of the Agreement conflict with those of this Amendment, however, the terms of this Amendment shall control. This Amendment may be executed in one or more 2

#### CONFIDENTIAL TREATMENT REQUESTED

counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same agreement.

[The remainder of this page has been intentionally left blank]

**CONFIDENTIAL TREATMENT REQUESTED**

**IN WITNESS WHEREOF** , the parties hereto have executed this Amendment as of the Amendment Effective Date.

**SYNACOR, INC. CHARTER COMMUNICATIONS  
OPERATING, LLC**

By: Charter Communications, Inc., its manager

By: \_\_\_/rf/ By: \_\_\_/rd/

Name: Ron Frankel Name: Richard J. DiGeronimo

Title: President & CEO Title: SVP, Product & Strategy

**CONFIDENTIAL TREATMENT REQUESTED**

**SCHEDULE 1**

**To Amendment #5 to Amended and Restated Master Services Agreement**

**NEW SERVICES**

**1. Definitions.[\*]**

2. Services.

- (a) Promptly after the Amendment Effective Date, Synacor will [\*]. The parties will establish a mutually agreeable date by which Synacor will complete such [\*] services pursuant to a mutually agreeable test plan, which date, subject to the terms and conditions herein, will be no later than [\*]
  
- (b) Upon Client's request, Synacor also will provide [\*. The parties will establish a mutually agreeable date by which Synacor will complete [\*] services for each [\*] pursuant to a mutually agreeable test plan. Thereafter, the parties will work together to determine target dates for [\*

BUS\_RE/5266520.1

[\*] = CERTAIN INFORMATION HAS BEEN OMITTED AND FILED SEPARATELY WITH THE COMMISSION. CONFIDENTIAL TREATMENT HAS BEEN REQUESTED WITH RESPECT TO THE OMITTED PORTIONS.

CONFIDENTIAL TREATMENT REQUESTED

[\*]

- (c) The services described in clauses (a) and (b) above collectively are referred to as the "New Services."
- (d) It is understood that Synacor is providing the New Services through [\*. If Client requires that Synacor utilize additional APIs or servers, then such services shall require an additional fee (as specified on Schedule 3 to the Amendment) (the "Integration Fee").
- (e) Synacor will operate the New Services in accordance with the SLA set forth in Exhibit B to this Schedule 1.
- (f) If Client becomes aware that [\*] (as defined below) is being made accessible [\*, Client may request corrective action from

Synacor by delivering a detailed notice of the issue to Synacor Technical Support (at [\*]), and Synacor will respond in accordance with the severity level response requirements set forth below:

- i. If Client in good faith reasonably believes [\*], Synacor will [\*]as follows: (1) if notification is delivered during Synacor business hours (i.e., 8:00 a.m. to 6:00 p.m. EST), [\*] after delivery of notice, and (2) if notification is delivered outside of Synacor business hours, [\*] after delivery of notice.
- ii. If [\*], Synacor will correct the error, [\*], within [\*]after delivery of notice.
- iii. If [\*], Synacor will [\*], within [\*]after delivery of notice.
- iv. If [\*]

### 3. Limitations.

- (a) Client acknowledges and agrees that Synacor will not be responsible for, nor liable in connection with, any failure in the New Services to the extent such failure results from: (i) [\*]; (ii) Client's negligence or willful acts or

BUS\_RE/5266520.1

[\*] = CERTAIN INFORMATION HAS BEEN OMITTED AND FILED SEPARATELY WITH THE COMMISSION. CONFIDENTIAL TREATMENT HAS BEEN REQUESTED WITH RESPECT TO THE OMITTED PORTIONS.

### CONFIDENTIAL TREATMENT REQUESTED

omissions; (iii) communications or technical failures outside of Synacor's facilities; or (iv) any issue outside of Synacor's control, including the acts or omissions of [\*].

- (b) Client acknowledges and agrees that [\*] 4. Client Responsibilities.

- (a) Client agrees to provide Synacor reasonable cooperation, assistance, information and access [\*] throughout the New Services Term, and Client agrees that its failure to do so may negatively impact Synacor's provision of the New Services. In such event, Synacor shall be excused from such performance to the extent Client's unreasonable action or omission has caused a delay in or otherwise prevented Synacor's performance hereunder.

(b) Client shall ensure that it has all rights and licenses necessary [\*\*]

5. License; Intellectual Property.

- (a) Client hereby grants to Synacor a nonexclusive, worldwide and royalty-free right and license to [\*\*] solely in connection with the New Services. Except for the limited rights and licenses expressly granted herein, Client and its licensors shall retain all right, title and interest in and to [\*\*], including any intellectual property rights or other proprietary rights therein and thereto.
- (b) Except for the limited rights and licenses expressly granted herein, Synacor shall retain all right, title and interest in and to the [\*\*], including: (i) the tools, templates, frameworks or

BUS\_RE/5266520.1

[\*\*] = CERTAIN INFORMATION HAS BEEN OMITTED AND FILED SEPARATELY WITH THE COMMISSION. CONFIDENTIAL TREATMENT HAS BEEN REQUESTED WITH RESPECT TO THE OMITTED PORTIONS.

**CONFIDENTIAL TREATMENT REQUESTED**

other software owned or licensed by Synacor and used in connection with therewith; (ii) all other materials (including any hardware), information, Synacor sourced meta-data and content, ideas, inventions, know-how, methods, processes, templates, tools, works of authorship, trade secrets and technologies that are owned or licensed by Synacor and that may be used in the performance of the New Services; and (iii) all intellectual property rights or other proprietary rights in and to any of the foregoing (all of the foregoing, [\*\*], being referred to as “[\*\*] Property”). Client shall not use [\*\*] Property except as specifically provided in this Schedule 1. All software, hardware and other technology used to provide the New Services will be installed, accessed and maintained only by or for Synacor and no license therein is granted to Client.

- (c) The parties acknowledge that the [\*\*] Property constitutes Synacor’s Proprietary Information and Section 4.3 of the Agreement shall apply to the [\*\*] Property and the New Services.

6. [\*\*]

7. Synacor Representations and Warranties. Synacor represents and warrants that: (a) Synacor is duly organized and validly existing under the laws of its state of incorporation, and has full power and authority to enter into the terms set forth in this Schedule 1 and

to carry out the provisions hereof; (b) the execution, delivery and performance of the New Services by Synacor does not conflict with any agreement, instrument or contract, to which Synacor is bound; (c) Synacor will use commercially reasonable efforts to protect the [\*] in accordance with applicable industry standards (without abrogating or otherwise limiting its confidentiality obligations under the Agreement) to insure that the [\*] is secure from unauthorized access and [\*] is free from any viruses, worms, or other code that will damage, interrupt or interfere with any software, content, data or hardware; (d) Synacor will perform its obligations and provide the New Services to Client in a professional and workmanlike manner and in compliance with any and all applicable laws; (e) Synacor owns and/or validly licenses all right, title and interest in and to the [\*] Property, each element thereof, and all intellectual property rights embodied therein; (f) [\*], Synacor has all necessary rights to provide the New Services to Client under this Schedule 1, and (g) to its knowledge, the New Services [\*], in whole or in part, do not and will not infringe upon or interfere with any right of publicity, patent, trademark, copyright, trade name or other intellectual property rights or misappropriate any trade secret of any third party, and are not defamatory, obscene, or otherwise unlawful in any jurisdiction. Synacor further represents and warrants to Client that during the Term, the New Services will be provided by qualified personnel in accordance with applicable United States federal law and the laws of such other jurisdictions as may be applicable thereto. Synacor will use commercially reasonable efforts, consistent with applicable industry standards and practices, to provide the New Services in a manner designed to minimize errors and interruptions. Nonetheless, the New Services may be temporarily unavailable for

BUS\_RE/5266520.1

[\*] = CERTAIN INFORMATION HAS BEEN OMITTED AND FILED SEPARATELY WITH THE COMMISSION. CONFIDENTIAL TREATMENT HAS BEEN REQUESTED WITH RESPECT TO THE OMITTED PORTIONS.

#### CONFIDENTIAL TREATMENT REQUESTED

scheduled maintenance or repairs by Synacor or by third-party providers, or because of other causes beyond Synacor's reasonable control, and all such New Services unavailability will be governed by the New Services SLA set forth in Exhibit B to this Schedule 1.

---

**Except as expressly provided in this Schedule 1, Synacor makes no warranties of any kind with regard to the [\*] , and expressly disclaims all other warranties, express or implied with respect thereto, including but not limited to the implied warranties of merchantability and fitness for a particular purpose.**

---

8. Client Representations and Warranties. Client represents and warrants that: (a) Client is duly organized and validly existing under the laws of its state of organization, and has full power and authority to enter into the terms of this Schedule 1 and to carry out the provisions hereof; (b) it has all rights necessary to enter into and perform under this Schedule 1 and to grant the limited rights and licenses granted herein including, without limitation, all necessary rights in the [\*], including without limitation, the right to allow integration of the [\*] with each [\*] as contemplated herein; (c) [\*] as contemplated in this Schedule 1 will not violate (i) Client's or any [\*] obligations under any other agreement or to any third party, (ii) any applicable laws or regulations, or (iii) Client's [\*]; and (d) to the best of Client's knowledge, the [\*] is not unlawful and does not infringe or interfere with any intellectual property right, contract, right of publicity, or any other proprietary right of any individual or entity. Client will be fully responsible for, and will reimburse Synacor for any and all liabilities arising out of any warranty concerning the New Services made by Client [\*] to any User [\*], except as expressly authorized in advance in writing by Synacor; provided that neither Client's grant nor any breach by Client of any warranty given by Client to its Users will be deemed to abrogate any expressly provided remedies Client would otherwise be entitled to under this Schedule 1.

---

**Except as expressly provided in this Schedule 1, Client makes no warranties of any kind with regard to the [\*] , and**

expressly disclaims all other warranties, express or implied with respect thereto, including but not limited to the implied warranties of merchantability and fitness for a particular purpose.

---

9. Indemnities.

- (a) Synacor shall indemnify, defend and hold Client harmless from and against any and all Claims suffered or incurred by Client from any third party claim arising out of or relating to (i) Synacor's breach of any of its obligations under this Agreement, or its representations and warranties set forth herein; (ii) the failure of any of the representations or warranties made by Synacor herein to be true; (iii) any third party claims relating to the matters covered by the foregoing breaches or failures; (iv) [\*]; (v) any claim that the [\*], or any use of the [\*] by Client or the Users as contemplated by this Schedule 1, infringes the intellectual property rights of any third party; and (vi) any injuries to persons or damage to property caused by the negligent, willful or intentional acts or omissions of Synacor, its agents or employees. The foregoing indemnity obligation is the sole indemnity obligation of Synacor with respect to the New Services and this Schedule 1.

9

BUS\_RE/5266520.1

[\*] = CERTAIN INFORMATION HAS BEEN OMITTED AND FILED SEPARATELY WITH THE COMMISSION. CONFIDENTIAL TREATMENT HAS BEEN REQUESTED WITH RESPECT TO THE OMITTED PORTIONS.

CONFIDENTIAL TREATMENT REQUESTED

- (b) Client shall indemnify, defend and hold Synacor harmless from and against any and all Claims suffered or incurred by Synacor from any third party claim arising out of or relating to (i) Client's breach of any of its obligations under this Agreement, or its representations and warranties set forth herein; (ii) the failure of any of the representations or warranties made by Client herein to be true; (iii) any third party claims relating to the matters covered by the foregoing breaches or failures; (iv) [\*], and (v) [\*].

10. Limitations of Liability.

The following limitation of liability shall apply solely to this Schedule 1.

**Notwithstanding anything to the contrary contained in this Schedule 1 or the Agreement, except for Synacor's indemnity obligations under Section 9(a) of this Schedule 1 or breaches of confidentiality obligations: (a) Synacor shall not be liable to Client, its agents, affiliates, clients, or any other persons, for any lost profits or indirect, incidental, special, punitive, consequential or similar damages, even if advised in advance of the possibility of such damages, and (b) in no event will Synacor's liability for any and all claims, in the aggregate, arising out of, relating to or in connection with the performance of its obligations hereunder exceed [\*]**

**Notwithstanding anything to the contrary contained in this Schedule 1 or the Agreement, except for Client's indemnity obligations under Section 9(b) of this Schedule 1 or breaches of confidentiality obligations: (a) Client shall not be liable to Synacor, its agents, affiliates, clients, or any other persons, for any lost profits or indirect, incidental, special, punitive, consequential or similar damages, even if advised in advance of the possibility of such damages, and (b) in no event will Client's liability for any and all claims, in the aggregate, arising out of, relating to or in connection with the performance of its**

obligations hereunder exceed [\*]

BUS\_RE/5266520.1

[\*] = CERTAIN INFORMATION HAS BEEN OMITTED AND FILED SEPARATELY WITH THE COMMISSION. CONFIDENTIAL TREATMENT HAS BEEN

REQUESTED WITH RESPECT TO THE OMITTED PORTIONS.

[\*]

11

REQUESTED WITH RESPECT TO THE OMITTED PORTIONS.

CONFIDENTIAL TREATMENT REQUESTED

[\*]

[\*] = CERTAIN INFORMATION HAS BEEN OMITTED AND FILED SEPARATELY WITH THE COMMISSION. CONFIDENTIAL TREATMENT HAS BEEN REQUESTED WITH RESPECT TO THE OMITTED PORTIONS.

---

CONFIDENTIAL TREATMENT REQUESTED

EXHIBIT B TO SCHEDULE 1

NEW SERVICES - SERVICE LEVEL AGREEMENT

1. SERVICE LEVELS

a. General

Synacor will provide the agreed to New Service levels seven (7) days a week, twenty-four (24) hours a day, every day of the year, consisting of monitoring, reporting, notification, repair of service outages and maintenance, as set forth in this Service Level Agreement (“SLA”).

It is expected that the evaluation of Synacor’s performance against this SLA will be evaluated [\*].

CONTACT INFORMATION:

Technical Service Support: 866.535.8286 or tsoc@synacor.com Network Operations Center: 800.716.8347 or noc@synacor.com

The foregoing Contact information may change upon reasonable notice to Client.

b. Monitoring

Synacor's 24x7 network operations center will collect and monitor data involving the following performance criteria and establish automated alarms to Synacor personnel when thresholds (as described below) are exceeded:

- (i) Network connectivity from Synacor servers to the Internet;
- (ii) Reachability and page response time of web tier servers for "static" content;
- (iii) Availability and response time of internal Synacor database systems;
- (iv) VPN availability to web services provided by Charter required for the New Services; and
- (v) System usage reflected by page loads, user authentications, business functions performed.

c. New Services Availability

(i) “[\*] Availability” will be measured as a percentage of available minutes of [\*] functionality during each month where the [\*] is continuously operable, available and responsive to end users without significant delay or malfunction. Specific targets established by this SLA for [\*] Availability are:

- [\*] Availability of [\*] ; and
- response times (latency) of no greater than [\*] (as measured by Synacor’s internal metrics).

## CONFIDENTIAL TREATMENT REQUESTED

Under the terms of this SLA, downtime counted against [\*] Availability will EXCLUDE the following items:

- a. downtime or degradation resulting from maintenance and occurring during a Scheduled Maintenance window or an approved Preventative Emergency Maintenance window (as defined below);
- b. the inability of Users to access [\*] as a result of such Users' Internet, network connection, [\*];
- c. impediments affecting the path (route) traveled in accessing Synacor's systems, except for those facilities owned, operated or maintained by Synacor or by a third party on behalf of Synacor;
- d. [\*]
- e. downtime or degradation resulting from bugs in third-party software not operated within the System;
- f. the inability of [\*], provided that the inability is not due, in whole or in part, to Synacor;
- g. downtime or degradation resulting from a security intrusion event as described in Section 1(f) SECURITY, below, or a 'denial-of-service' attack from external sources outside Synacor's control; or
- h. downtime or degradation resulting from problems with Client-provided data APIs, authentication mechanisms or similar services; or
- i. failure to provide New Services to avoid Excess Usage (as defined below).

(ii) To the extent the parties can determine a number of households affected by any downtime, the [\*] Availability will be computed based upon the percentage of households affected by the downtime, as compared to Client's total user base. For example, if it can be objectively determined that [\*] of Client's Subscriber base (measured in households) did not meet the standard required for [\*] Availability, as described in Section (c)(i) above, for [\*], the downtime for purposes of calculating [\*] Availability would be [\*]. Client will have the right to dispute Synacor's calculation of [\*] Availability.

(iii) [\*]

[\*] = CERTAIN INFORMATION HAS BEEN OMITTED AND FILED SEPARATELY WITH THE COMMISSION. CONFIDENTIAL TREATMENT HAS BEEN REQUESTED WITH RESPECT TO THE OMITTED PORTIONS.

## CONFIDENTIAL TREATMENT REQUESTED

(iv) [\*] Availability Credits – If Synacor fails to meet the [\*] Availability SLA in any month during the Term, it will identify such failure in its SLA Performance Reporting described in Section 1.d. below and notify Client of its rights under this Section (iv) within 30 days after the end of such month. Upon request of Client within [\*] after its receipt of such notification, Synacor will apply the [\*] Availability credits set forth below to Client's account for each month during which Synacor failed to meet the required [\*] Availability of [\*]. To the extent possible, the credits will be applied in the billing period following the month in which such request

occurs and will be detailed as a separate line item on the invoice. For example if SLA credits are requested in the month of September, such credits will be applied in the October billing period

a. A credit equal to [\*] of the aggregate fees paid to Synacor and Synacor's share of search revenue under the Agreement in the applicable month, plus an additional [\*] of such amounts for every increment of [\*] by which [\*] Availability fails to meet the required percentage, up to a maximum of [\*] of such amounts that would otherwise have been payable by Client to Synacor or retained by Synacor for the applicable month.

b. Chronic Unavailability: Client will receive the credits set forth in (a) above, and in addition will have the right to terminate the New Services upon [\*] written notice to Synacor, delivered in writing within [\*] after Client's receipt of reporting from Synacor showing that [\*]:

- (i) [\*] or more separate occasions, each lasting [\*] or more hours, over the course of any rolling three month period;
- (ii) [\*] aggregated over any rolling [\*] period of time;
- (iii) [\*] hours aggregated over any rolling [\*] period of time;
- (iv) [\*] hours aggregated over any rolling [\*] period of time; or
- (v) [\*] hours aggregated over any rolling [\*] period of time.

By way of clarification, the duration of each event during which [\*]. Termination rights exercised by client pursuant subsection (b) above will be deemed termination for cause under Section 7.2 of the Agreement. The remedies set forth in this Exhibit B will be the sole remedy for violation of the service levels agreed to in this Exhibit B.

d. Performance:

The Performance ("Performance") of the New Services is defined as the response time for [\*] and as otherwise agreed upon by the parties prior to the launch of the New Service (each, a "Response Time"), measured via Synacor's internal metrics. Testing will be performed using on-network server to server calls. Synacor's responsibility for Performance includes maintenance of Web server response, authentication performance, routers, switches, or peering connections (network hardware, cross-connects, or circuits that are Synacor's responsibility), or any other device, application or interface in Synacor's direct control, at no less than [\*] peak utilization. [\*]

CONFIDENTIAL TREATMENT REQUESTED

[\*] . If Synacor is unable to perform in accordance with any pertinent Response Time, then Synacor will be responsible for the following remedy:

Synacor will correct the identified Performance failures as soon as is possible using and pursuing to completion commercially reasonable efforts, and, in no event, later than [\*] after receipt of written notice from Client describing in reasonable detail the Performance failure of the New Portal [\*] , if applicable, Synacor will resubmit the Performance changes, in detail, to Client for testing. Client will conduct testing to verify that the Synacor corrective measures are successful during a testing period (“Test Period [\*]”). Within [\*] after the expiration of the Test Period, Client will provide Synacor with a written response accepting the Performance or rejecting the Performance (“First Rejection Notice”). Synacor will have an additional [\*] from the date Client submits a First Rejection Notice to correct the identified Performance failures. Client will conduct final Performance correction testing for a period of [\*] after the expiration of the Final Test Period, Client will provide Synacor with (A) written response accepting the Performance, or (B) written rejection if Client determines in good faith that the failed criteria identified in the First Rejection Notice have still not been corrected (a “Final Rejection Notice”). [\*] . If Client provides a Final Rejection Notice and the authorized representatives of each party do not otherwise agree to pursue further Performance testing and remedies, the Final Rejection Notice will, at the option of Client, constitute a notice of termination of the New Services.

e. Client Changes and/or Actions

Client acknowledges that it may have the ability to take actions or make any changes that can adversely affect the performance of the New Services. In some cases, Synacor may be able to mitigate the risk of the actions or changes as described in the table below; provided however, that this risk mitigation will require Client to provide notice to Synacor of its intent to make these changes, in sufficient detail and in advance of the actual change. [\*] Some examples of when notice is required to be given to Synacor are delineated below. Client should always provide a reasonable amount of notice to Synacor before taking any actions or making any changes that may adversely affect the performance of the New Services [\*] .

Action / Change	[*]	[*]	[*]

[\*]

[\*]

[\*]

[\*]

---

[\*] = CERTAIN INFORMATION HAS BEEN OMITTED AND FILED SEPARATELY WITH THE COMMISSION. CONFIDENTIAL TREATMENT HAS BEEN REQUESTED WITH RESPECT TO THE OMITTED PORTIONS.

CONFIDENTIAL TREATMENT REQUESTED

Action / Change	[*]	[*]	[*]
[*]	[*]	[*]	[*]

f. Security

Synacor’s Security Team will proactively evaluate security risk, develop and implement policies and incident prevention programs, educate management and staff about security policies, and handle computer security incidents. Synacor will comply with the Security requirements set forth in this SLA, including:

System Intrusion - In the event of a system intrusion by an unauthorized person or malicious code affecting Client, Synacor will notify Client’s Corporate Internet Security Team in writing or via email (via [xxxxxx@chartercom.com](mailto:xxxxxx@chartercom.com)) with [\*] of Synacor personnel validating a bona fide intrusion occurred.

Network Security – Synacor will maintain network firewalls devices to prevent unauthorized access to the network infrastructure and systems.

g. Scheduled Maintenance Windows

Synacor will conduct System maintenance during a [\*] window from [\*] Eastern Time every [\*] , should the need for such maintenance arise (“Scheduled Maintenance”). Synacor will provide at least [\*] advance written notice to Client for all Schedule Maintenance. Synacor may move or add maintenance windows as necessary upon Client’s written approval, and such approved maintenance will be considered Scheduled Maintenance. In the event a maintenance window will be needed in a given [\*] , Synacor will notify the Client no less than [\*] prior to the window. If it is determined during the window that the Scheduled Maintenance will run over the allotted window, the Client will be notified immediately and receive regular updates until the maintenance is complete; provided that no such extension will be excluded for purposes of calculating [\*] Availability, unless otherwise approved by Client in writing or by e-mail. During these scheduled maintenance windows and any extensions thereof, the system and services may be unavailable to Client and Client’s Users. [\*]

h. Emergency Maintenance Notification

Emergency maintenance may be needed in two types of situations. The first is the need to repair an issue that is creating downtime or degradation to the [\*] (“Reactive Emergency Maintenance”). The second is maintenance Synacor believes would be prudent to be perform prior to the Scheduled Maintenance period to avoid potential issues (“Preventative Emergency Maintenance”). In the event that either type of emergency maintenance is required, Synacor will



[\*] = CERTAIN INFORMATION HAS BEEN OMITTED AND FILED SEPARATELY WITH THE COMMISSION. CONFIDENTIAL TREATMENT HAS BEEN REQUESTED WITH RESPECT TO THE OMITTED PORTIONS.

## CONFIDENTIAL TREATMENT REQUESTED

make reasonable efforts to notify Client about the emergency maintenance window based on practicality and the degree of adverse affect on the applicable service or availability thereof. Reactive Emergency maintenance windows are counted against [\*] Availability percentages (as applicable). To the extent Client approves Preventative Emergency Maintenance (which approval expressly excuses such Preventative Emergency Maintenance from the calculation of the [\*] Availability percentages), or the need for the emergency maintenance window is necessitated by a Client change as described in Section 1(e) above, such maintenance will not be counted against the [\*] Availability percentages.

## 2. CUSTOMER SUPPORT PROCEDURES

### a. Incident Management

Tier 1 – Client will provide first level support to Users, consisting of (i) handling questions from Users regarding customer and technical support and access to [\*] ; (ii) accepting and responding to problem calls from Users relating to the New Services; (iii) supporting User devices and underlying Client systems and architecture; and (iv) providing notification to Synacor of changes, maintenance, and outages of underling systems that may affect the New Services.

Tier 2/Tier 3 – Synacor will provide second level support to Client, consisting of (i) accepting and responding to problem escalations reported by Users or representatives of Client with regard to problems that cannot be resolved readily by Client, (ii) resolving reported problems as set forth herein, (iii) providing notification to Client of changes, maintenance, and outages of underlying systems that may affect the New Services.

Synacor will provide Client and Users of Client (in the case of end-users, Tier 2 and Tier 3 level support) the following:

- (i) Technical Support offered in English.
- (ii) Email address for submitting 2nd level support incidents to Synacor.
- (iii) Phone support [\*].

### b. Priority

Client will estimate the priority at the time the incident is reported. The priority can change at any time during the process.

Incidents will be categorized by product category, with the following priorities definitions:

Priority 1 (P1) means that New Services are substantially non-operational, cause severe commercial impact, or require removal of content deemed inappropriate by Client. Without limiting the foregoing, the parties agree that the New Services will be deemed “substantially non-operational” [\*]. P1 incidents would not include unavailability of a widget or content from a particular Content Provider.

Priority 2 (P2) means that a problem with the New Services causes significant commercial impact and is not a P1 incident.

Priority 3 (P3) means a non-critical problem or incident with the New Services where Client is able to continue utilizing

the New Services and that is not a P1 or P2 incident.

BUS\_RE/5266520.1

[\*] = CERTAIN INFORMATION HAS BEEN OMITTED AND FILED SEPARATELY WITH THE COMMISSION. CONFIDENTIAL TREATMENT HAS BEEN REQUESTED WITH RESPECT TO THE OMITTED PORTIONS.

---

## CONFIDENTIAL TREATMENT REQUESTED

Priority 4 (P4) means a request or incident that is not a P1, P2 or P3 incident.

“Initial Response Time” means the elapsed time between the receipt of incident notification or escalation and the target time within which Synacor begins support as verified by a verbal or email confirmation to Client.

“Service Restore Time” means the elapsed time between the receipt of incident notification or escalation or knowledge of any incident and the target time within which Synacor has imposed a permanent fix or temporary patch, or has developed a workaround that allows use of the application substantially in accordance with its intended use and specifications. Examples of actions that may give rise to service restoration include:

- (a) A workaround is delivered and implemented;
- (b) The recommended replacement of any third party hardware, software or any part thereof, as agreed by Client, is completed; or
- (c) A product change request is generated and agreed upon by both parties, a delivery date is established and any other related terms and conditions are agreed upon.

“Root Cause Resolve Time” means the elapsed time between the receipt of incident notification or escalation or knowledge of any incident and the target time within which Synacor has determined the root cause of the incident and a permanent fix has been implemented to return the **re 1** to an operable state that is substantially the same as its pre-failure state, and with respect to software applications, a code change in the form of a patch or a new revision that corrects the problem has been delivered, successfully installed and is working.

Standard Support Response times are as follows:

Incident Priority	Initial Response Time	Service Restore Time	Root Cause Resolve Time
<b>re 1</b>	<b>re 1</b>	<b>re 1</b>	<b>re 1</b>
<b>re 1</b>	<b>re 1</b>	<b>re 1</b>	<b>re 1</b>
<b>re 1</b>	<b>re 1</b>	<b>re 1</b>	<b>re 1</b>
<b>re 1</b>	<b>re 1</b>	<b>re 1</b>	<b>re 1</b>

Client will set the initial incident priority, which may later be amended by Synacor after discussion with Client, in accordance with the priority definitions set forth above. Synacor will be primarily responsible for the control and management of incident calls and escalation to resources within Synacor.

### c. Escalation Path

The escalation process consists of the reporting, troubleshooting, diagnosis, and resolution processes. All incidents are assigned to a Synacor Support Engineer substantially in accordance with the Standard Support Response Times set forth herein. However, Synacor may choose from time to time to handle issues outside of the escalation path indicated below if, in Synacor’s sole judgment, such issues either need to be escalated more quickly or can be resolved without escalation.

[\*] = CERTAIN INFORMATION HAS BEEN OMITTED AND FILED SEPARATELY WITH THE COMMISSION. CONFIDENTIAL TREATMENT HAS BEEN REQUESTED WITH RESPECT TO THE OMITTED PORTIONS.

**CONFIDENTIAL TREATMENT REQUESTED**

Escalation Levels	Escalation Response Time	Synacor
Level 1	Synacor Technical Support Agents available 24 hours per day, 7 days per week.	Support Supervisor tsoc@synacor.com 1.866.535.8286
Level 2	Level 2 should be contacted if the issue is not answered [*]	Technical Support Operations Center Manager [*]
Level 3	Level 3 should be contacted if the issue is not answered [*] from either Level 1 or Level 2.	Director of TechOps [*]
Level 4	Level 4 should be contacted if the issue is not answered [*] from Level 1, Level 2 or Level 3.	VP of IT [*]
Level 5	Level 5 should be contacted if the issue is not answered within 60 minutes from Level 1, Level 2, Level 3 or Level 4.	COO Scott Bailey 716.362.3724
Level 6	Level 6 should be contacted if the issue is not answered within 90 minutes from Level 1, Level 2, Level 3, Level 4, or Level 5.	CEO Ron Frankel 716.362.3700

**3. REPORTING**

Synacor (a) will deliver to Client weekly an electronic report that contains the following information, as such information categories may change from time to time at the reasonable request of Client, and (b) will maintain and provide Client with Web-based access to a reporting tool containing the following categories of information, updated no less frequently than [\*] :

---

## USAGE DATA

### 1. Unique Users accessing New Services [\*]

20

BUS\_RE/5266520.1

[\*] = CERTAIN INFORMATION HAS BEEN OMITTED AND FILED SEPARATELY WITH THE COMMISSION. CONFIDENTIAL TREATMENT HAS BEEN REQUESTED WITH RESPECT TO THE OMITTED PORTIONS.

## CONFIDENTIAL TREATMENT REQUESTED

### SLA PERFORMANCE REPORTING

10. [\*] Availability calculation
11. Average Response Time
12. Initial Response, Service Restore, and Root Cause Resolve Times for each product and service measured
13. Mean time to repair by Priority Level
14. Escalation history
15. Maintenance Performed, including type of maintenance and when performed.

Synacor will provide Client reports detailing (i) the number, cause, and resolution status of Client-related system outages and (ii) the performance of Synacor with respect to its system availability obligations hereunder, each of which will be sent to Client in an electronic format within [\*] days of Client's request therefor and otherwise no more than [\*] days after the expiration of each calendar quarter. Client may require reasonable changes to the formatting or structure and layout of the report from time to time.

**4. SYNACOR APPLICATION DEVELOPMENT.** Synacor will be expected to implement minor bug fixes or minor functional releases during the New Services Term. Synacor is expected to implement supporting mechanisms for such work as described below:

a. Application Environments. Synacor will configure and maintain servers and network equipment as necessary to operate distinct development and stage environments (separate from the production environment) for use in development of patches to the current production release and larger functional releases planned for future dates. The development and stage environments do not need to be full-scale in terms of customer data or transaction capacity but must be able to operate all software modules used within the New Services without overlap. Client understands and agrees that such servers, network equipment, and development and staging environments may be used for multiple clients' projects, provided that Client's projects will not reside in such environments at the same time as other clients' projects.

b. Software Change Documentation. Prior to the deployment of any software or configuration change, Synacor will provide Charter a written summary (i.e., release notes) of the software change itemizing:

- (i) all Client-related software changes that affect the user experience or the integration with Client included in a patch or functional release;
- (ii) all fixes for previously identified defects included in the release;

(iii) all new functional enhancements included in the release; and

(iv) a summary of any quick “smoke tests” that Synacor is performing on the updated system to confirm the presence of bug fixes or new functions.

**CONFIDENTIAL TREATMENT REQUESTED**

**SCHEDULE 2**

**To Amendment #5 to Amended and Restated Master Services Agreement**

**FEES; PAYMENTS**

1. New Services Fee:

Monthly Fee(s):

In exchange for the New Services, commencing upon the New Portal Launch Date and for the duration of the New Services Term, Client shall pay to Synacor [\*] per month. In addition, upon [\*], Client also shall pay Synacor [\*] per month for the duration of the New Services Term.

Integration Fee:

If Synacor provides the additional services described in Section 2(d) of Schedule 1 to this Amendment #5, Client shall pay to Synacor a mutually agreeable Integration Fee. Synacor shall not be obligated to provide any such Integration Services until the parties have agreed on the fee for such services.

2. Payment Terms:

Synacor will invoice Client the New Services fee(s) on a monthly basis, and Client will be obligated to pay such amount within [\*] after receipt of invoice.

If there is an Integration Fee, Synacor will invoice Client for such fee after completion of the underlying services, and such amount

will be due within [\*] after receipt of invoice.

[\*] = CERTAIN INFORMATION HAS BEEN OMITTED AND FILED SEPARATELY WITH THE COMMISSION. CONFIDENTIAL TREATMENT HAS BEEN REQUESTED WITH RESPECT TO THE OMITTED PORTIONS.

## CERTIFICATIONS

I, Himesh Bhise, certify that:

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

Date: August 14, 2014

/s/ Himesh Bhise

Chief Executive Officer

## CERTIFICATIONS

I, William J. Stuart, certify that:

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

Date: August 14, 2014

/s/ William J. Stuart

Chief Financial Officer

**CERTIFICATION OF 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**

I, Himesh Bhise, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Synacor, Inc. on Form 10-Q for the quarterly period ended June 30, 2014 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in such Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Synacor, Inc.

August 14, 2014

/s/ Himesh Bhise

---

Himesh Bhise

*President and Chief Executive Officer*

*(Principal Executive Officer)*

I, William J. Stuart, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Synacor, Inc. on Form 10-Q for the quarterly period ended June 30, 2014 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in such Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Synacor, Inc.

August 14, 2014

/s/ William J. Stuart

---

William J. Stuart

*Chief Financial Officer*

*(Principal Financial and Accounting Officer)*

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to Synacor, Inc. and will be retained by Synacor, Inc. and furnished to the Securities and Exchange Commission or its staff upon request. This certification "accompanies" the Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing.