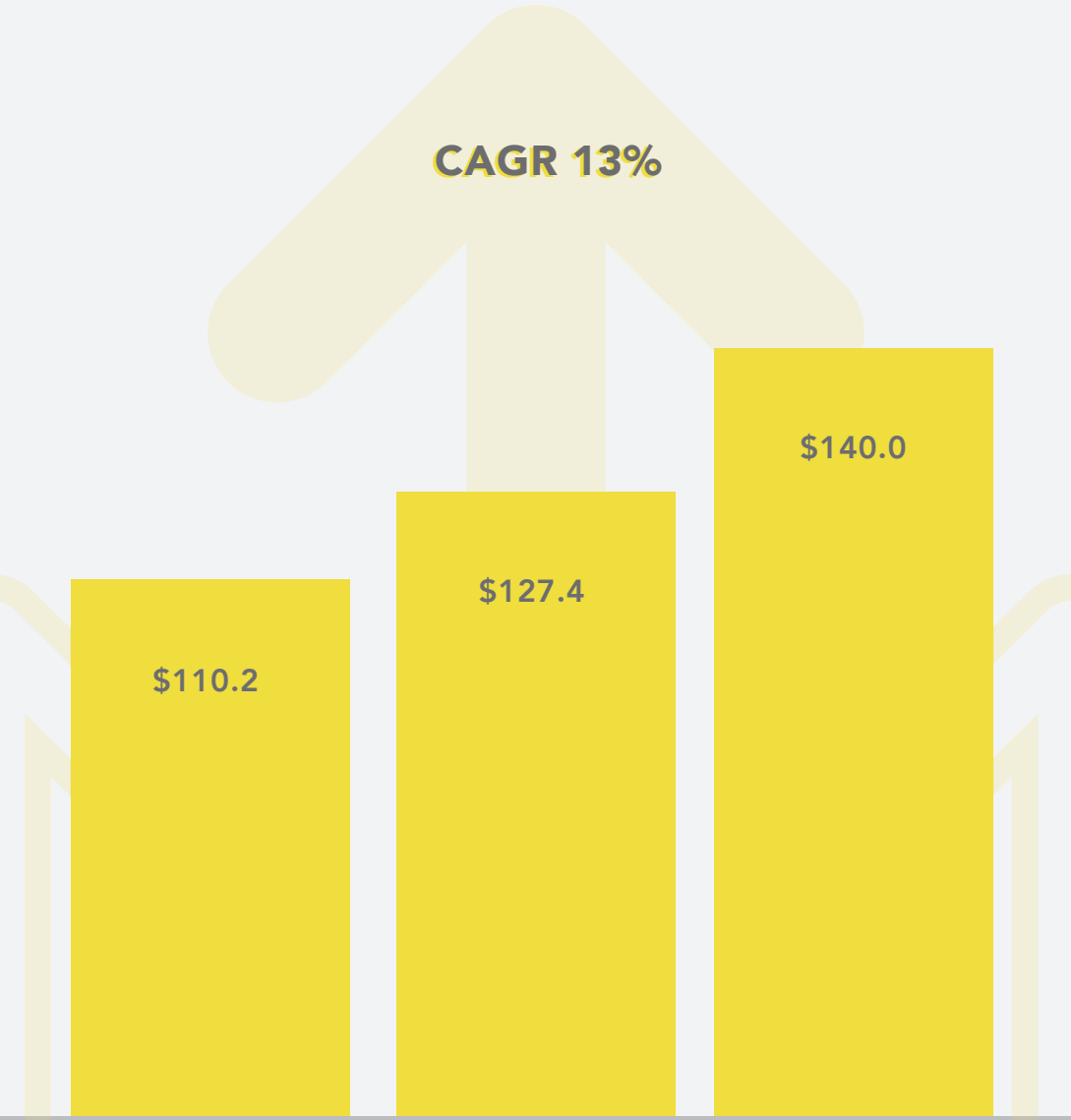




ANNUAL REPORT
2017

DOUBLE-DIGIT REVENUE GROWTH



2015

2016

2017

ANNUAL REVENUE, \$ MILLIONS



DEAR FELLOW SHAREHOLDERS,

Synacor had a strong finish to 2017, positioning us well for improved profitability and future growth. Our 2017 revenue was \$140.0 million, representing 10% year-over-year growth. In the fourth quarter alone, we delivered \$46.0 million of revenue, the highest-revenue quarter in the history of the company.

Here are a few highlights from the past year:

- **We launched att.net** – a property that successfully engages millions of consumers every month.
- **We scaled our supply side-focused advertising platform** – helping hundreds of publishers drive higher monetization.
- **We added Cloud ID customers** – offering a streamlined authentication experience, fraud management and scalability advantages.
- **We invested in the Zimbra Email and Collaboration platform** – launching product enhancements via Zimbra 8.8, growing our channel network to more than 1,900 partners, winning more than 500 new customers and taking our enterprise customer count to 4,000 worldwide.

We have been pivoting Synacor away from a desktop search monetization business toward an Advertising & Media and Software Platforms business. As we look forward to 2018, we are committed to improving the bottom line, balanced with prudent investment in revenue growth.

- Our **Media & Advertising** business originated with portal advertising, but now we offer sticky, publisher-focused, multi-platform advertising products and monetization for hundreds of publishers reaching about 200 million monthly visitors.
- Our **Software Platforms** include Zimbra email and Cloud ID, representing enhanced, open-source-driven communication and authentication for thousands of customers, including ISPs, content providers, governments and enterprise.

Thank you, our shareholders, for your ongoing support of Synacor. We look forward to new achievements and continued success in 2018.

Sincerely,

A handwritten signature in black ink, appearing to read 'Himesh'.

Himesh Bhise
CEO and Member, Synacor Board of Directors

STREAMLINED PAY TV IDENTITY MANAGEMENT

- Trusted by 120+ service providers, 3 of the top 5 virtual MVPDs and numerous content providers
- Pre-integrated with more than 500 apps and websites for federated authentication



NETWORKS

DELIVERED ADVANCED DIGITAL EXPERIENCES

- Increased mobile traffic
- Engaging millions of consumers every month
- Launched new att.net experience



INVESTED IN GROWING EMAIL & COLLABORATION PLATFORM

- Added more than 500 customers taking us to 4,000 enterprise and government customers worldwide
- Grew base of channel partners to more than 1,900



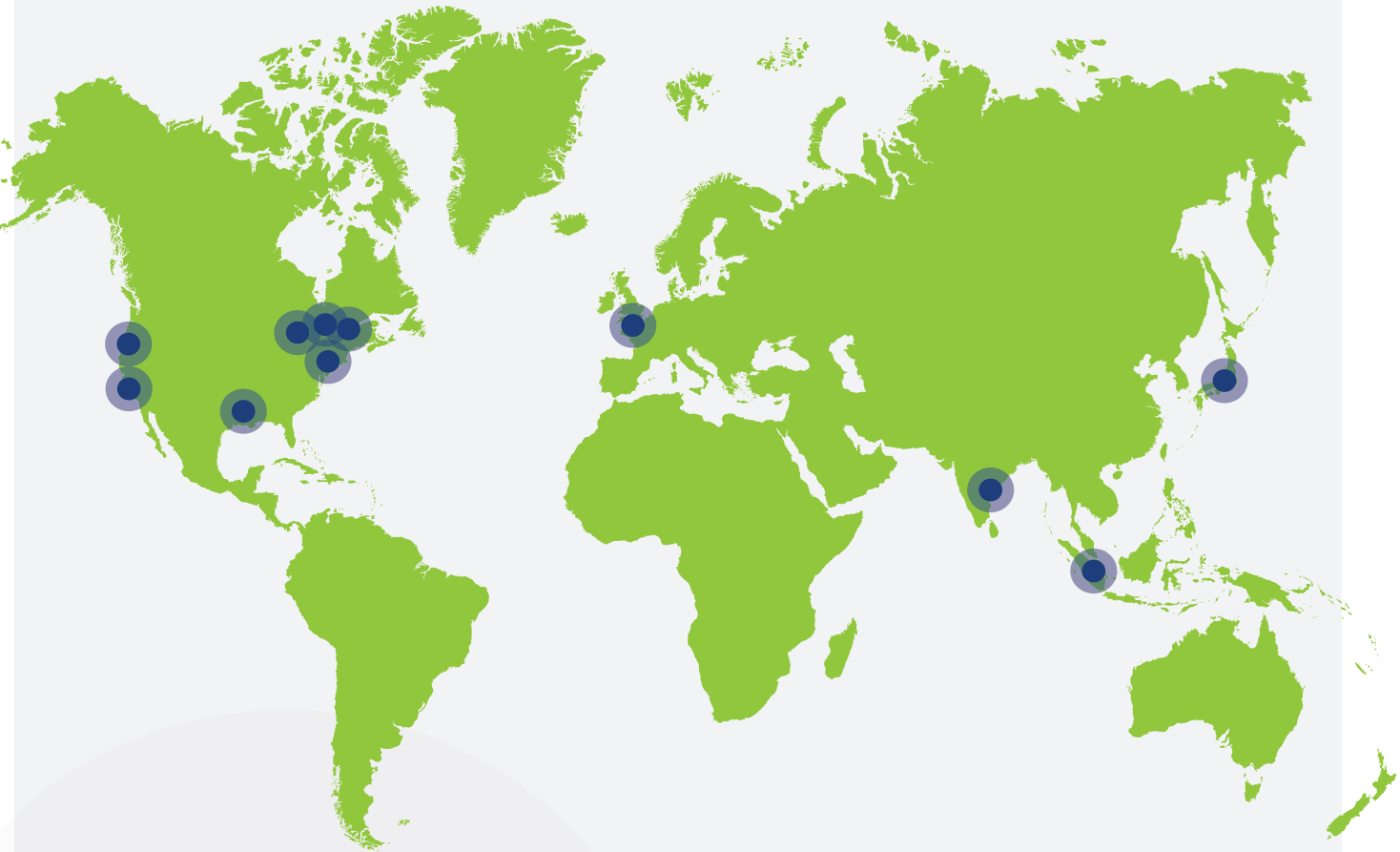
SCALED SUPPLY-SIDE ADVERTISING

- Publisher-focused, multi-platform advertising products and monetization
- Hundreds of publishers



COMPANY OFFICES

Boston | **Buffalo** | Dallas | London | Los Angeles | New York
Ottawa | Pune | San Francisco | Singapore | Tokyo



UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2017

OR

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

For the transition period from _____ to _____
Commission File Number 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)

Securities registered pursuant to Section 12(b) of the Act:

(Title of each class)

Common Stock, \$0.01 par value

(Name of each exchange on which registered)

The Nasdaq Global Market

Securities registered pursuant to Section 12(g) of the Act:

None.

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated filer

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

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

The aggregate market value of shares of common stock held by non-affiliates as of June 30, 2017, the last business day of the registrant's most recently completed second fiscal quarter, computed by reference to the closing sale price of \$3.65 per share on The Nasdaq Global Market on June 30, 2017, was approximately \$116.2 million. For purposes of this disclosure, shares of common stock held by persons who held more than 10% of the outstanding shares of common stock at such time and shares held by executive officers and directors of the registrant have been excluded because such persons may be deemed to be affiliates. This determination of executive officer or affiliate status is not necessarily a conclusive determination for other purposes.

As of March 13, 2018, there were 38,796,722 shares of the registrant's common stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the definitive Proxy Statement to be used in connection with the registrant's 2018 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K to the extent stated. That Proxy Statement will be filed within 120 days of registrant's fiscal year ended December 31, 2017.

TABLE OF CONTENTS

PART I

Item 1.	Business	2
Item 1A.	Risk Factors	9
Item 1B.	Unresolved Staff Comments	27
Item 2.	Properties	27
Item 3.	Legal Proceedings	27
Item 4.	Mine Safety Disclosures	27

PART II

Item 5.	Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	28
Item 6.	Selected Financial Data	29
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	32
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	47
Item 8.	Financial Statements and Supplementary Data	47
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	48
Item 9A.	Controls and Procedures	48
Item 9B.	Other Information	50

PART III

Item 10.	Directors, Executive Officers and Corporate Governance	51
Item 11.	Executive Compensation	51
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	51
Item 13.	Certain Relationships and Related Transactions, and Director Independence	51
Item 14.	Principal Accounting Fees and Services	51

PART IV

Item 15.	Exhibits, Financial Statement Schedules	52
Item 16.	Form 10-K Summary	52

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K includes forward-looking statements that reflect our current views with respect to future events or our future financial performance, are based on information currently available to us, and involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to differ materially from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. All statements, other than statements of historical fact, are statements that could be deemed forward-looking statements, including statements containing the words “believes,” “can,” “expects,” “anticipates,” “estimates,” “intends,” “objective,” “plans,” “possibly,” “potential,” “predicts,” “targets,” “likely,” “may,” “might,” “would,” “should,” “could,” and similar expressions or phrases (including the negatives of such expressions or phrases). We intend all such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and the Private Securities Litigation Reform Act of 1995. Forward-looking statements include, but are not limited to, statements in the sections of this Annual Report on Form 10-K titled “Trends Affecting Our Business” and “Key Initiatives” as well as statements about:

- our expected future financial performance;
- our expectations regarding our operating expenses;
- our strategies and business plan;
- our ability to maintain or broaden relationships with existing customers and develop relationships with new customers;
- our success in anticipating market needs or developing new or enhanced services and products to meet those needs;
- our expectations regarding market acceptance of our services and products;
- our ability to recruit and retain qualified technical and other key personnel;
- our competitive position in our industry, as well as innovations by our competitors;
- our success in managing growth;
- our expansion in international markets;
- our ability to successfully integrate assets and personnel from our acquisitions;
- our success in identifying and managing potential acquisitions;
- our capacity to protect our confidential information and intellectual property rights;
- our need to obtain additional funding and our ability to obtain funding in the future on acceptable terms; and
- anticipated trends and challenges in our business and the markets in which we operate.

Any forward-looking statements contained in this Annual Report on Form 10-K are based upon our historical performance and our current plans, estimates and expectations. The inclusion of this forward-looking information should not be regarded as a representation by us or any other person that the future plans, estimates or expectations contemplated by us will be achieved. All forward-looking statements involve risks, assumptions and uncertainties. Given these risks, assumptions and uncertainties, you should not place undue reliance on any forward-looking statements. The occurrence of the events described, and the achievement of the expected results, depend on many factors, some or all of which are not predictable or within our control.

Actual results may differ materially from expected results. See “Risk Factors” and elsewhere in this Annual Report on Form 10-K for a more complete discussion of these risks, assumptions and uncertainties and for other risks, assumptions and uncertainties. These risks, assumptions and uncertainties are not necessarily all of the important factors that could cause actual results to differ materially from those expressed in any of our forward-looking statements.

Other unknown or unpredictable factors also could harm our results. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Annual Report on Form 10-K might not occur, and we therefore qualify all of our forward-looking statements by these cautionary statements. Any forward-looking statement made by us in this Annual Report on Form 10-K speaks only as of the date on which it is made. Except as required by law, we undertake no obligation to update publicly or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Unless expressly indicated or the context requires otherwise, the terms “Synacor,” “Company,” “we,” “us,” and “our” in this document refer to Synacor, Inc., a Delaware corporation, and, where appropriate, our wholly-owned subsidiaries.

PART I

ITEM 1. BUSINESS

Our Business

We enable our customers to better engage with their consumers. Our customers include video, internet and communications providers, device manufacturers, governments and enterprises. We are their trusted technology development, multiplatform services and revenue partner. Our customers use our technology platforms and services to scale their businesses and extend their subscriber relationships. We deliver managed portals, advertising solutions, email and collaboration platforms, and cloud-based identity management.

We enable our customers to provide their consumers engaging, multiscreen experiences with products that require scale, actionable data and sophisticated implementation. Through our Managed Portals and Advertising solutions, we enable our customers to earn incremental revenue by monetizing media among their consumers. At the same time, because consumers have high expectations for their online experience as a result of advances in video, mobile and social, we provide, through our Recurring and Fee-Based Revenue solutions, a suite of products and services that helps our customers successfully meet those high expectations by enabling them to deliver to their consumers access to the same digital content across all devices, including PCs, tablets, smartphones and connected TVs.

Products and Services

Our Managed Portals and Advertising solutions provide our customers with substantial revenue opportunities generated by their consumers' engagement across devices. Managed Portals and Advertising solutions generated 60% of our revenue for 2017.

Our Managed Portals are intended to be daily destinations for consumers and are delivered across devices and under our customers' own brand names. To help our customers increase their consumers' engagement, we deliver relevant content, such as top news, entertainment, and long- and short-form video and apps, on our Managed Portals. We have licensing and distribution agreements with a wide range of programmers and content and service providers. In addition, consumers have the ability through our portals to manage their email and messaging, pay bills, receive special promotions and perform other account management needs.

We monetize the online traffic generated by consumers through search advertising, digital advertising (including video), and syndicated content on our Managed Portals. As we monetize our customers' online traffic on our Managed Portals, we share a portion of this revenue with our customers, resulting in a mutually beneficial partnership.

Our Recurring and Fee-Based Revenue solutions generated 40% of our revenue for 2017 and are comprised of our Cloud-based Identity Management solutions, Email/Collaboration Services, and paid content and premium services:

Cloud ID Authentication

Consumers can watch TV on a myriad of devices, but many find the login process frustrating. Synacor Cloud ID addresses this issue by offering home-based auto-authentication and social login, which improve the consumer experience by reducing login failures.

Once a consumer is authenticated, our Search & Discovery Metadata Platform helps them find their desired content successfully and easily. We curate videos every day and have compiled more than 10 million video assets from hundreds of sources. We believe that we fill an important role for our customers as use of streaming video increases and consumers' video content consumption preferences shift away from traditional viewing habits.

Email/Collaboration

Our Email/Collaboration Services include white-label hosting, security and migration. With the acquisition of certain assets related to the Zimbra Email/Collaboration products and services business (the "Zimbra assets" or "Zimbra") in 2015, our software and managed service offering now supports a network of more than 1,900 channel partners (value-added resellers, or VARs, and Business Service Providers, or BSPs), and over 4,000 enterprise, government and nonprofit customers, and it powers approximately 530 million mailboxes.

Our Strategy

Our strategy is, with operational and financial discipline, to:

- increase value for existing customers by optimizing consumer experience and monetization;
- innovate on Synacor-as-a-platform for advanced services;
- win new customers in current and related verticals; and
- extend our product portfolio into emerging growth areas.

Increasing value for existing customers by optimizing user experience and monetization

With respect to our Managed Portals and Advertising solutions, 95% of our customers' consumers have upgraded to our latest-generation portal. Our portal, with its engaging user experience and responsive design for desktop and mobile web, and our mobile apps, have video threaded throughout and is designed to optimize consumer engagement and monetization. We are also decreasing the implementation time for customers to launch our latest-generation portal.

Innovating on Synacor-as-a-platform for advanced services

Our Cloud ID Authentication platform is reported as having some of the highest consumer login success rates in the industry.

In 2017, we expanded our Cloud ID relationships with content providers, service providers, OTT players, and device manufacturers. We delivered Authentication services for HBO GO, providing, for example, authentication in connection with the *Game of Thrones*' record-breaking seventh season premiere. Additionally, Apple uses Synacor's Authentication services to support Apple *Single Sign-On*. The current wave of multichannel video programming distributors, or MVPDs, launched by Apple are almost all running on Synacor's Cloud ID Advanced Authentication platform. Our Authentication services also support three of the top five OTT players including Sling TV and PlayStation Vue, simplifying the consumer log-in experience.

Our acquisitions of the Zimbra assets in 2015 and certain assets from Technorati in 2016 resulted in innovations in our email/collaboration and digital advertising capabilities, respectively.

Winning new customers in current and related verticals

We have an established presence among broadband and pay-TV providers in the U.S. and Canada. Some of these providers use our complete suite of solutions, and others use only certain components. We view this as a growth opportunity within our existing customer base.

On May 4, 2016, we announced that AT&T selected Synacor to develop AT&T's new multiplatform digital experience to enhance user engagement and experience. The new multiplatform experiences integrate multiple avenues for monetization including a combination of targeted banner advertising, pre-roll video ads and popular promoted content. We expect that our partnership with AT&T will create a virtuous cycle that benefits all our current customers, and makes Synacor platforms more attractive for new customers.

In the fourth quarter of 2017, Synacor added more than 150 new Zimbra Email and Collaboration Suite customers around the world.

Extending our product portfolio into emerging growth areas

We plan to capitalize on opportunities such as international expansion and delivery of business services. Through our acquisition of the Zimbra assets we have expanded our international customer base, and we believe this represents an opportunity to find new customers for our Managed Portals and Advertising solutions.

Technology and Operations

Technology Architecture

To route traffic through our network in the most efficient manner, we use load-balancing products. These products spread work among multiple servers and link controllers that monitor the availability and performance of multiple connections. Our technology is reliable, fault tolerant and scalable through the addition of more servers as usage grows. In 2017 and 2016, we spent

\$27.4 million and \$25.6 million, respectively (exclusive of depreciation and amortization) on technology and development activities. The cost of these activities is generally not borne directly by our customers.

Data Center Facilities

We currently operate and maintain eight data centers in regionally diverse locations and have a network operations center that is staffed 24 hours a day, seven days a week. Our primary data centers are located in shared facilities in Allen, Texas; Atlanta, Georgia; Dallas, Texas; Lewis Center, Ohio; Denver, Colorado; Toronto, Canada; Watertown, Massachusetts; and Amsterdam, The Netherlands. All systems are fully monitored for reporting continuity and fault isolation. The data centers are each in a physically secure facility using monitoring, environmental alarms, closed circuit television and redundant power sources. Our network operations center also is located in a secure facility.

Customers

Our Managed Portals and Advertising customers principally consist of high-speed internet service providers, such as AT&T, Windstream, Mediacom and CenturyLink, as well as consumer electronics manufacturers, such as Toshiba America Information Systems, Inc. (Toshiba). Contracts with these customers typically have an initial term of two to three years from the deployment of our Managed Portals and frequently provide for one or more automatic renewal terms of one to two years each. Our Managed Portals and Advertising customer contracts typically contain service level agreements that call for specific system “up times” and 24 hours per day, seven days per week support. As of December 31, 2017, we had agreements with over 50 Managed Portals and Advertising customers.

Our Recurring and Fee-Based customers consist of high-speed internet service providers along with enterprises, government and nonprofit organizations, either directly or through resellers. Contracts with these customers typically have an initial term of one to three years and frequently provide for one or more automatic renewal terms of one to two years each. Our Recurring and Fee-Based customer contracts also typically contain service level agreements that call for specific system “up times” and 24 hours per day, seven days per week support. As of December 31, 2017, we had agreements, both directly and indirectly through resellers, with over 120 high-speed internet service providers and over 4,000 enterprise, government and nonprofit customers.

For 2017, revenue attributable to two of our customers exceeded 10% of our revenue each, and on a combined basis accounted for approximately 28% of our revenue, or \$39.4 million.

Content and Service Providers

We license the content available in our Managed Portals, including free and paid content offerings and premium services, from numerous third-party content and service partners. These partners provide a variety of content, including news and information, entertainment, sports, music, video, games, shopping, travel, autos, careers and finance. Our relationships with content providers give consumers access to over one hundred thousand short-form video and articles each month. To obtain this content, we enter into a variety of licensing arrangements with the content providers. These arrangements are typically one to three years in duration with payment terms that may be based on traffic, advertising revenue share, number of subscribers, flat fee payments over time, or some combination thereof. In addition to using licensed content to populate our Managed Portals, we also provide premium services and paid content that subscribers may purchase for additional fees. As of December 31, 2017, we had arrangements with over 65 content providers, such as The Associated Press, CNN, Tribune Content Agency, Gracenote, and Bankrate.

Sales and Marketing

Managed Portals and Advertising Solutions

Our sales and marketing efforts focus on five primary areas: customer acquisitions, client services, account management, marketing and advertising sales. Our customer acquisition team consists of direct sales personnel who call upon prospective customers, typically large and mid-sized high-speed internet service providers and consumer electronics manufacturers. A significant amount of time and effort is devoted to researching and analyzing the requirements and objectives of each prospective customer. Each bid is specifically customized for the prospective customer, and often requires many months of interaction and negotiation before an agreement is reached.

Once an agreement is reached, our client services team, working closely with the customer acquisition team, assumes responsibility for managing the customer relationship during the time of the initial deployment and integration period, which is usually three to six months. During this period, the customer’s technology is assessed and, if required, modifications are proposed to make it compatible with our technology. The client services team is responsible for the quality of the client deployment, customer relationship management during the time of deployment, and integration and project management associated with upgrades and enhancements.

After deployment, our account management team takes over management of the customer relationship, analyzing the ways in which a customer could further benefit from increased use of our products and services. The account management team is responsible for ongoing customer relationship management, upgrades and enhancements to the available products and services, as well as tracking the financial elements and performance of the customer relationship.

Our marketing team works closely with our account management team to deliver marketing programs that support our customers' sales efforts as well as their consumers' interaction with these products and services. We assist our customers in developing marketing materials and advertising that can be accessed by consumers through different media outlets, including the internet, print, television and radio. We also assist our customers in training their customer service representatives to introduce and sell premium services and our paid content offerings to new and existing customers.

Our advertising sales team sells advertising inventory directly to advertisers, frequently through the advertising agencies representing those advertisers. These advertisers may be small companies with the advertising locally or regionally focused on the Managed Portals of one customer, or large companies with nationwide advertising on the Managed Portals of many customers. We have a team of direct advertising sales employees and independent advertising sales representatives focused on this effort and will continue to develop this team and attempt to grow the amount of advertising revenue generated with our customers. As of December 31, 2017, we had arrangements with over 100 advertising partners such as AppNexus, Comcast Spotlight, Criteo, DoubleClick, NCC Media, Mediavest, and Telaria.

Email/Collaboration

We market our Email/Collaboration product through both direct and indirect sales channels. Our regional sales and marketing teams host several events each year with partners and run various campaigns to generate sales leads. Once a lead has been identified, our internal sales representatives work closely with our regional partners on better identifying the opportunity and gathering customer requirements.

We sell to internet service providers primarily through a direct sales force consisting of regional account executives. Sales cycles can be six months or longer. We sell to prospective government, nonprofit and enterprise customers through a two-tier indirect model via over 1,900 channel partners (VARs and BSPs). Our VARs sell on-premise licenses to end customers while our BSPs sell a cloud service to the end customer. Sales cycles can range from thirty days to six months, depending on size and scope.

Government Regulation

We generally are not regulated other than under international, federal, state and local laws applicable to the internet or e-commerce or to businesses in general. Some regulatory authorities have enacted or proposed specific laws and regulations governing the internet and online entertainment. These laws and regulations cover issues such as taxation, pricing, content, distribution, quality and delivery of services and products, electronic contracts, intellectual property rights, user privacy and information security.

Federal laws regarding the internet that could have an impact on our business include the following: the Digital Millennium Copyright Act of 1998, which is intended to reduce 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, which imposes additional restrictions on the ability of online services to collect user information from minors; and the Protection of Children from Sexual Predators Act, which requires online service providers to report evidence of violations of federal child pornography laws under certain circumstances.

There are numerous federal, state and local laws, rules and guidelines around the world regarding privacy and the collection, storing, sharing, use, processing, disclosure, destruction and security of personal information and other subscriber data, the scope of which are changing, subject to differing interpretations, and may be inconsistent between countries or conflict with other rules. For example, the new EU General Data Protection Regulation (replacing the current EU Data Protection Directive) entered into force in May 2016 and will apply beginning in May 2018. The Regulation will introduce new data protection requirements for companies processing data of European citizens, as well as substantial fines for breaches of the data protection rules. These laws impact our business because we collect and use personal information through our technology. We use this information to deliver more relevant content and services and provide consumers with a personalized online experience. We share this information on an aggregate basis with our customers and content providers and, subject to confidentiality agreements, to prospective customers and content providers. 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. The United States Department of Commerce designed the EU-US Privacy Shield and the Swiss-U.S. Privacy Shield with the European Commission and the Swiss Federal Data Protection and Information Commissioner, respectively, in order to facilitate (but do not, alone, constitute) compliance with the applicable data protection requirements. We certified compliance with the EU-US Privacy Shield in December 2016 and the Swiss-U.S. Privacy Shield in June 2017. Laws such as the Regulation, CAN-SPAM Act of 2003 or other user privacy or security laws could require us to incur additional expenditures for compliance, result

in governmental enforcement actions, significant fines, loss of access to data transfer mechanisms or litigation, restrict our and our customers' ability to market products to their consumers, create uncertainty in internet usage and reduce the demand for our services and products or require us to make changes to our data and security practices and our services and products, including Managed Portals.

Intellectual Property

We believe that the protection of our intellectual property is critical to our success. We rely on copyright, trademark and patent enforcement, contractual restrictions and trade secret, trade dress and domain name laws to protect our brand and other proprietary and intellectual property rights. We have entered into confidentiality and invention assignment agreements with our employees and contractors, and nondisclosure agreements and other agreements containing confidentiality protections with certain parties with whom we conduct business in order to limit access to, and disclosure of, our proprietary information and technology, such as trade secrets, confidential information, know-how and technical information. We have applied for patents to protect certain of our intellectual property. In addition, we have acquired intellectual property, including patents and trademarks, through our acquisitions including Zimbra, Technorati, NimbleTV and Teknision. We have three trademark registrations in the United States for SYNACOR (U.S. Registration Numbers 5108679, 2845578 and 2811272).

We endeavor to protect our internally-developed systems and maintain our trademarks. We generally control access to and use of our proprietary software and other confidential information through the use of internal and external controls, including contractual protections with employees, contractors, customers and partners, and our software is protected by United States and international copyright laws.

In addition to legal protections, we believe that factors such as the technological and creative skills of our personnel, new product developments, frequent product enhancements and reliable product support and services are essential to establishing and maintaining a technology leadership position.

Competition

The market for internet-based services and products in which we operate is highly competitive and involves rapidly-changing technologies and customer and consumer requirements, as well as evolving industry standards and frequent product introductions. While we believe that our technology offers considerable value and flexibility to our customers by helping them to extend their consumer relationships to a wide variety of internet-based services, we face competition at four levels:

- When one of our prospective or existing customers considers another supplier, including one of our partners, for elements of the services or products which we provide.
- When consumers choose to rely on other vendors for similar products and services.
- When content and service providers prefer to establish direct relationships with one or more of our customers.
- When one of our customers decides to make the significant headcount and technology investment to develop products and services in-house similar to those that we provide.

Our technology competes primarily with high-speed internet service providers that have internal information technology staff capable of developing similar solutions in-house.

Managed Portals and Advertising Solutions

In addition, with respect to our Managed Portals and Advertising solutions, we compete with companies such as Facebook, Inc.; Google; Oath, a division of Verizon; Hulu; Netflix; Amazon; and MSN, a division of Microsoft Corporation, or Microsoft, which have destination websites of their own or are capable of delivering content, service offerings and search or advertising models similar to ours.

We also compete with providers of paid content and services over the internet, especially companies with the capability of bundling paid content and premium services in much the same manner that we do. These companies include WatchESPN, F-Secure Corporation, Exent Technologies Ltd., Zynga Inc., MLB Advanced Media, Symantec Corporation, McAfee, Inc., Activision Blizzard, Inc. and Electronic Arts Inc. In some cases we have performed software integrations with these companies on behalf of our customers or, as in the case of F-Secure Corporation, we have partnered with them in order to offer their services more broadly to all our customers.

We believe the principal competitive factors in our markets include a company's ability to:

- reinforce the brands of our cable, satellite, telecom and consumer electronics customers;
- produce products that are flexible and easy to use;
- offer competitive fees for Managed Portal development and operation;
- generate additional revenue for our customers;
- enable our customers to be involved in designing the "look and feel" of their online presence;
- offer services and products that meet the changing needs of our customers and their consumers, including emerging technologies and standards;
- provide high-quality product support to assist the customer's service representatives; and
- aggregate content to deliver more compelling bundled packages of paid content.

We believe that we distinguish ourselves from potential competitors in three principal ways. First, we provide a white-label solution that, unlike the co-branded approach of most of our competitors, creates a consumer experience that reinforces our customers' and partners' brands. Second, we give customers control over the sign-on process and billing function for a wide range of internet services and content by integrating with their internal systems (where applicable) thereby allowing our customers to "own the consumer." Finally, our solutions are flexible and neutral, meaning that we allow deliverables that are customized to our customers' specific needs, as well as advanced video solutions that are either end-to-end or a la carte.

Email/Collaboration

With respect to our Email/Collaboration solutions, we compete primarily with Google and Microsoft in the enterprise and government markets, and with Open-Xchange and OpenWave in the internet service provider markets.

We believe the principal competitive factors in the email/collaboration market include a company's ability to:

- provide customers the ability to perform security and compliance audits of our source code;
- deliver anti-spam, anti-virus and encryption technologies;
- provide products and services at lowest possible total cost of ownership (TCO);
- provide local partners the ability to store data within the legal jurisdiction of the country where their customers do business;
- provide an enterprise-ready solution suitable for large-scale deployments including such enterprise features such as delegated administration, detailed logging, and performance and availability transparency;
- offer access to real-time performance and availability statistics;
- afford customers and partners the ability to rebrand their cloud collaboration experience; and
- make available to partners both integrations and extensions to the collaboration cloud environment specific to customers' needs.

We believe that we distinguish ourselves from potential competitors in several ways. First, we offer our Email/Collaboration products and services a la carte, enabling customers to buy only the services they need, providing for a much lower TCO. Second, our Zimbra Email/Collaboration solution is a complete feature-rich, enterprise-ready solution scalable up to 40 million mailboxes. Finally, our products are customizable and extendable and designed to meet very high standards of security.

Employees

As of December 31, 2017, we had 320 employees in the United States and 129 based internationally. Of these employees, 446 were full-time employees. None of our employees are represented by a labor union, and we consider current employee relations to be good.

Corporate Information

Synacor's predecessor company was originally formed as a New York corporation, and in November 2002, Synacor re-incorporated under the laws of the State of Delaware. Our headquarters are located at 40 La Riviere Drive, Buffalo, New York 14202, and our telephone number is (716) 853-1362.

We have determined that we have a single reporting segment. A summary of our financial information by geographic location is found in Note 7, *Information About Segment and Geographic Areas*, in the Notes to Consolidated Financial Statements. Our international operations and sales subject us to a variety of risks; see Item 1A, "Risk Factors," for further discussion.

Available Information

Our internet website address is <http://www.synacor.com>. We provide free access to various reports that we file with or furnish to the Securities and Exchange Commission, or SEC, through our website, as soon as reasonably practicable after they have been filed or furnished. These reports include, but are not limited to, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports. Our SEC reports can be accessed through the investor relations section of our website, or through <http://www.sec.gov>. Information on our website does not constitute part of this Annual Report on Form 10-K or any other report we file or furnish with the SEC. Stockholders may request copies of these documents from:

Synacor, Inc.
Investor Relations Department
40 La Riviere Drive
Suite 300
Buffalo, New York 14202

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 Annual Report on Form 10-K, together with any other documents we file with the SEC.

Risks Related to Our Business

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

Although we have diversified our product portfolio and our customer base, we continue to derive a substantial portion of our revenue from a small number of Managed Portal customers. Revenue attributable to these customers includes the Recurring and Fee-Based revenue earned directly from them, as well as the search and digital advertising revenue earned through our relationships with our advertising partners, such as Google, based on traffic generated from our Managed Portals. For 2016, revenue attributable to one customer accounted for approximately 16% of our revenue, or \$20.8 million, and no other customer accounted for 10% or more of our revenue for that period. For 2017, revenue attributable to two customers each exceeded 10% of our total revenue, and on a combined basis accounted for approximately 28% of our revenue, or \$39.4 million.

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

We derive a substantial portion of our revenue from AT&T, with revenue attributable to AT&T exceeding the revenue attributable to any of our other customers. If our contract with AT&T is not renewed or is otherwise terminated, or if revenue from the AT&T relationship were to decline due to competitive or other reasons, our results of operations and financial position would be adversely affected.

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 adversely affect our financial performance.

We rely on traffic on our Managed Portals to generate search and digital advertising revenue, a substantial portion of which is derived from text-based links to advertisers' websites as a result of internet searches. We have a revenue-sharing relationship with Google under which we include a Google-branded search tool on our Managed Portals. When a consumer makes a search request using this tool, we deliver it to Google, and Google returns search results to us that include advertiser-sponsored links. If the consumer clicks on a sponsored link, Google receives payment from the sponsor of that link and shares a portion of that payment with us. We then typically share a portion of that payment with the applicable customer. Our Google-related search advertising revenue attributable to our customers, which consists of the portion of the payment from the sponsor that Google shares with us, accounted for approximately 14%, 12%, and 28% of our revenue in 2017, 2016, and 2015 or \$20.1 million, \$15.9 million, and \$31.2 million respectively. Our agreement with Google was extended in February 2018 for a one-month period and expires on March 28, 2018. Historically, we and Google and its affiliates have operated under short-term extensions during negotiations of renewals. Additionally, Google may terminate our agreement if we experience a change in control, if we enter into an agreement providing for a change in control, if we do not maintain certain search and digital advertising revenue levels or if we fail to conform to Google's search policies and advertising policies. Google may from time to time change its existing, or establish new, methodologies and metrics for valuing the quality of internet traffic. Any changes in these methodologies, metrics and advertising technology platforms could decrease the advertising rates that we receive and/or the amount of revenue that we generate from digital advertisements. If advertisers were to discontinue their advertising via internet searches, if Google's revenue from search-based advertising were to decrease, if Google's share of the search revenue were to be increased or if our agreement with Google were to be terminated for any reason or renewed on less favorable terms, our business, financial condition and results of operations would be adversely affected. Moreover, consumers' increased use of search tools other than the Google-branded search tool we provide would have similar effects.

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

We have reported pre-tax net income in only three years, 2009, 2011 and 2012, in amounts of \$0.3 million, \$3.9 million, and \$5.6 million, respectively. In all other years, we have incurred losses, and at December 31, 2017 our cumulative U.S. federal net operating loss carryforward was \$27 million. We have previously taken cost saving measures, including a reduction in workforce, in September 2014. However, our expenses have increased and may increase in future periods as we implement initiatives designed to grow our business including, among other things, the ongoing costs and expenses we must incur in connection with providing Managed Portal and Advertising solutions to AT&T, acquisitions of complementary businesses (such as our acquisition of the Zimbra assets and our acquisition of assets from Technorati), the development and marketing of new services and products, licensing of content, expansion of our infrastructure and international expansion. If our revenue does not sufficiently increase to offset these expected increases in operating expenses, or if we are not able to sufficiently reduce costs in the event our revenue increases fail to materialize, we may incur significant losses and may not be profitable. For example, although our revenue in 2017 increased as compared to 2016 and our revenue in 2016 increased as compared to 2015, we have not yet returned to profitability. We may not be able to return to or maintain profitability in the future. Any failure to achieve or maintain profitability may adversely affect our business, financial condition, results of operations and impact our ability to utilize our net operating loss carryforwards. As a result of our pre-tax cumulative losses, we have established a full valuation allowance against our net deferred income tax asset, which includes our net operating loss carryforwards.

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

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

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

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

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

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

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

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

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

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

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

Our revenue from high-speed internet service and communications providers, including our search and digital advertising revenue generated by online consumer traffic on our Managed Portals and our revenue from our Email/Collaboration offerings, accounted for approximately 63% in 2017, approximately 63% in 2016 and approximately 82% in 2015. The cable and telecommunications industries have experienced consolidation over the past several years, and we expect that this trend will continue. As a result of consolidation, some of our customers may be acquired by companies with which we do not have existing relationships and which may have relationships with one of our competitors or may have the in-house capacity to perform the services we provide. As a result, such acquisitions could cause us to lose customers and the associated revenue. Under our agreements with some of our customers, including CenturyLink, they have the right to terminate the agreement if we are acquired by one of their competitors.

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

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

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

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

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

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

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

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

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

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

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

Our future growth and profitability will depend in large part on the effectiveness and efficiency of our efforts to provide a compelling consumer experience that increases consumer engagement with our Managed Portals. We have made and will continue to make substantial investments in features and functionality for our technology that are designed to drive consumer engagement. We invested more than \$10 million through June 30, 2017 in start-up expenses, development expenses and capital expenditures relating to our contract with AT&T.

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

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

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

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

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

We license the content that we aggregate on our Managed Portals from numerous third-party content providers, and our future success is highly dependent upon our ability to maintain and enter into new relationships with these and other content providers. In some cases, we are required under our contracts, including our contract with AT&T, to provide our customers' consumers access to certain types of content. 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 an adverse effect on our operating results. Our rights to the content that we offer to our customers and their consumers are not exclusive, and the content providers could license their content to our competitors. Our content providers could even grant our competitors exclusive licenses. In addition, our customers are not prohibited from entering into content deals directly with our content providers. Any failure to enter into or maintain satisfactory arrangements with content providers would adversely affect our ability to provide a variety of attractive services and products to our customers. Our reputation and operating results could suffer as a result, and it may be more difficult for us to develop new relationships with potential customers.

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

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

In 2016, we announced an initiative to promote support for our open source Zimbra Email/Collaboration solution with the expectation that the initiative would lead to increased maintenance, support and professional service revenue, and we received our first customer orders for maintenance and support services related to the open source solution. However, there can be no assurance that this initiative will yield a material increase in revenue.

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

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

- any failure to maintain strong relationships and favorable revenue-sharing arrangements with our Managed Portals and Advertising partners, in particular Google, including a reduction in the quantity or pricing of sponsored links that consumers click on or a reduction in the pricing of digital advertisements by advertisers;
- the timing of our investment in, or the timing of our monetization of, our products and services, such as our end-to-end video solutions portfolio or our Zimbra Email/Collaboration product;
- any failure of significant customers to renew their agreements with us;
- our ability to attract new customers;
- our ability to increase sales of premium services and paid content to our existing customers’ consumers;
- any development by our significant customers of the in-house capacity to replace the solutions we provide;
- the release of new product and service offerings by our competitors or our customers;
- variations in the demand for our services and products and the implementation cycles of our services and products by our customers;
- changes to internet browser technology that may render our Managed Portals less competitive;
- changes in our pricing policies or those of our competitors;
- changes in the prices our customers charge their consumers for email, premium services and paid content;
- service outages, other technical difficulties or security breaches;
- limitations relating to the capacity of our networks, systems and processes;
- our failure to accurately estimate or control costs, including costs related to the implementation of our solutions for new customers;
- maintaining appropriate staffing levels and capabilities relative to projected growth;
- the timing of costs related to the development or acquisition of technologies, services or businesses to support our existing customers and potential growth opportunities; and
- general economic, industry and market conditions and those conditions specific to internet usage and online businesses.

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

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

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

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

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

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

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

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

Certain of our agreements with Managed Portals and Advertising customers and content providers require us to make fixed payments to them. The aggregate amount of such fixed payments for the year ending December 31, 2018 is approximately \$2.7 million. We are required to make these fixed payments regardless of the achievement of any revenue objectives or subscriber or usage levels. If we do not achieve our financial objectives, these contractual commitments would constitute a greater percentage of our revenue than originally anticipated and would adversely affect our profitability.

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

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

In addition, certain of our agreements with customers contain penalties for certain types of non-performance which, if not timely rectified, could result in substantial financial penalties to us.

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 \$20 million for cyber loss (and \$38 million for physical loss). Any system failure or disruption and any resulting losses that are not recoverable under our insurance policies may harm our business, financial condition and results of operations. To date, we have never experienced any material losses.

Not all of our data centers are on full second-site redundancy, only certain customers require this capability. We regularly back-up our systems and store the system back-ups in Atlanta, Georgia; Watertown, Massachusetts; Dallas and Allen, Texas; Lewis Center, Ohio; Denver, Colorado; Toronto, Canada; and Amsterdam, the Netherlands. If we were forced to relocate to an alternate site and to

rely on our system back-ups to restore the systems, we would experience significant delays in restoring the functionality of our platform and could experience loss of data, which could harm our business and our operating results.

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

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

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

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

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

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

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

Our future success also depends on our ability to identify, attract and retain highly skilled technical, managerial, finance, marketing and creative personnel. Further, we will need to hire personnel outside the United States to continue to pursue an international expansion strategy. 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.

Through much of our history, our business expansion had resulted from organic growth. More recently, however, we have sought to, and may continue to seek to, grow through strategic acquisitions. For example, in the first quarter of 2016, we acquired certain assets from Technorati, and in 2015, we acquired the Zimbra assets and certain assets of NimbleTV. Our goal of returning to growth may place significant demands on our management and our operational and financial infrastructure. Our ability to manage our growth effectively and to integrate new technologies and acquisitions (such as the assets acquired from Technorati, Zimbra, and NimbleTV) into our existing business will require us to continue to expand our operational, financial and management information systems and to continue to retain, attract, train, motivate and manage key employees. Growth could strain our ability to:

- develop and improve our operational, financial and management controls;
- enhance our reporting systems and procedures;
- recruit, train and retain highly skilled personnel;
- maintain our quality standards; and
- maintain customer and content owner satisfaction.

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

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

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

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

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

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

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

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. For example, we invested more than \$10 million in 2016 and 2017 in operating

expenses and capital expenditures preparing to support AT&T as a customer, and an additional \$4.6 million in 2017 in the development of internal-use software and software for sale or license to other customers. If the cash generated from operations and otherwise available to us is not sufficient to meet our capital requirements, we will need to seek additional capital, potentially through debt or equity financings, to fund our growth. We may not be able to raise needed capital on terms acceptable to us or at all. Financings, if available, may be on terms that are dilutive or potentially dilutive to our stockholders, and the prices at which new investors would be willing to purchase our securities may cause our existing stockholders to suffer substantial dilution. The holders of new securities may also receive rights, preferences or privileges that are senior to those of existing holders of our common stock. As with our credit facility with Silicon Valley Bank, any debt financing obtained by us in the future could contain financial or other covenants that may potentially restrict our operations, and if we do not effectively manage our business to comply with those covenants, our business, financial condition and results of operations could be adversely affected.

While we successfully raised approximately \$20.0 million in an underwritten public offering of 6,187,846 shares of our common stock in April and May of 2017, the net proceeds of that offering may not be sufficient to meet our objectives, including funding our growth plans and potential acquisitions as they may arise.

In addition, while we are in compliance at December 31, 2017 with the financial covenants contained in our credit facility with Silicon Valley Bank, our future financial performance, including our future capital expenditures, may potentially cause us to become not in compliance with those covenants, possibly restricting our ability to continue to borrow under our credit facility.

If new or existing sources of financing are required but are insufficient or unavailable, we could be required to delay, abandon or otherwise modify our growth and operating plans to the extent of available funding, which would harm our ability to grow our business.

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

The protection of our intellectual property is critical to our success. We rely on copyright and service mark enforcement, contractual restrictions and trade secret laws to protect our proprietary rights. We have entered into confidentiality and invention assignment agreements with our employees and contractors, and nondisclosure agreements with certain parties with whom we conduct business to limit access to and disclosure and distribution of our proprietary information. Additionally, we have applied for patents to protect certain of our intellectual property. We have registered several marks and filed many other trademark applications in the United States. We have not applied for copyright protection in any jurisdiction including in the United States. However, if we are unable to adequately protect our intellectual property, it may be possible for a third party to copy or otherwise obtain and use our intellectual property without authorization, and, our business may suffer from the piracy of our technology and the associated loss in revenue.

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

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

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

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

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

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

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

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

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

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

We collect, and have access to, personal information of subscribers, including names, addresses, account numbers, credit card numbers and email addresses. There are numerous federal, state and local laws, rules and guidelines around the world regarding privacy and the collection, storing, sharing, use, processing, disclosure, destruction and security of personal information and other subscriber data, the scope of which are changing, subject to differing interpretations, and may be inconsistent between countries or conflict with other rules. For example, the EU General Data Protection Regulation, or the Regulation, will be enforced beginning in May 2018. The Regulation will replace the existing 1995 European Union Data Protection Directive, or the Directive, and will introduce new and onerous data protection requirements for companies processing data of European citizens, as well as substantial fines for breaches of the data protection rules. In 2016, to facilitate compliance with the Directive, the European Commission and the United States Department of Commerce designed a program known as the EU-U.S. Privacy Shield, or the Privacy Shield, which provides a mechanism for U.S. companies to comply with data protection requirements under the Directive when transferring personal information from the European Economic Area, or the EEA, to the United States. The Privacy Shield includes more stringent operational and legal requirements for parties processing EEA personal information and imposes significant penalties for non-compliance. Similarly, in early 2017, the Swiss Federal Data Protection and Information Commissioner and the United States Department of Commerce designed a program known as the Swiss-U.S. Privacy Shield, which provides a mechanism for U.S. companies to comply with Swiss data protection requirements when transferring personal information from Switzerland to the United States. We certified compliance with the EU-U.S. Privacy Shield and the Swiss-U.S. Privacy Shield to the United States Department of Commerce in December 2016 and June 2017, respectively. Compliance with the EU-U.S. Privacy Shield and Swiss-U.S. Privacy Shield are not, alone, sufficient to comply with the obligations contained in the Directive or the Regulation.

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, we may fail to comply with such laws, rules and guidelines, and it is possible that these obligations may be interpreted and applied in a manner that is inconsistent from one jurisdiction to another and may conflict with other rules or our practices. Any failure or perceived failure by us to comply with our privacy policies, our privacy-related obligations to users or other third parties, or our privacy-related legal obligations (including obligations in agreements with our

customers), or any compromise of security that results in the unauthorized release or transfer of personal information or other subscriber data, may result in governmental enforcement actions, significant fines, loss of access to data transfer mechanisms, litigation or public statements against us by consumer advocacy groups or others and could cause our customers to lose trust in us, or, in some situations, terminate their agreements with us, all of which could have an adverse effect on our business. Additionally, if third parties we work with, such as customers, vendors or developers, violate applicable laws or our policies, such violations may also put subscriber information at risk and could in turn have an adverse effect on our business.

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

We have derived and expect to continue to derive a substantial portion of our revenue from digital advertising, including advertising on our Managed Portals. Such advertising accounted for approximately 45%, 46%, and 43% of our revenue for the years ended December 31, 2017, 2016, and 2015, respectively. Our ability to attract and retain advertisers and, ultimately, to generate advertising revenue depends on a number of factors, including:

- increasing the numbers of consumers using our Managed Portals;
- maintaining consumer engagement on those Managed Portals;
- competing effectively for advertising spending with other online and offline advertising providers.

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

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

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

If we are unable to implement and maintain effective internal control over financial reporting, investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our common stock could be adversely affected.

As a public company, we are required to maintain internal control over financial reporting and to disclose any material weaknesses in such internal control. A material weakness is defined as a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our financial statements will not be prevented or detected on a timely basis. Section 404 of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, requires that we evaluate and determine the effectiveness of our internal control over financial reporting and provide a management report on internal control over financial reporting. The Sarbanes-Oxley Act also requires that our management report on internal control over financial reporting be attested to by our independent registered public accounting firm.

During our assessment of internal control over financial reporting as of December 31, 2017, we identified three material weaknesses in our internal control over financial reporting: (i) an ineffective control environment due to a lack of sufficient qualified accounting personnel with an appropriate level of knowledge and experience, (ii) ineffective control activities due to the lack of timeliness in executing business process controls, and (iii) ineffective monitoring controls to ascertain whether the components of internal control were present and functioning. We are working to remediate these material weaknesses. For more information about these material weaknesses and our remediation efforts, see Item 9A. "Controls and Procedures." Although we plan to complete this remediation process as quickly as possible, we cannot at this time estimate how long it will take, and our efforts may not be successful in remediating these material weaknesses. As part of the remediation process, we may incur additional costs in improving our internal control over financial reporting.

Many of the internal controls we have implemented pursuant to the Sarbanes-Oxley Act are process controls with respect to which a material weakness may be found whether or not any error has been identified in our reported financial statements. This may be confusing to investors and result in damage to our reputation, which may harm our business. Additionally, the proper design and assessment of internal controls over financial reporting are subject to varying interpretations, and as a result, application in practice may evolve over time as new guidance is provided by regulatory and governing bodies and as common practices evolve. This could

result in continuing uncertainty regarding the proper design and assessment of internal controls over financial reporting and higher costs necessitated by ongoing revisions to internal controls.

We must continue to monitor and assess our internal control over financial reporting. If we are unable to successfully remediate these material weaknesses or if we identify additional material weaknesses, we may not detect errors on a timely basis and our financial statements may be materially misstated. This could harm our operating results, cause us to fail to meet our SEC reporting obligations or Nasdaq listing requirements on a timely basis, adversely affect our reputation, cause our stock price to decline or result in inaccurate financial reporting or material misstatements in our annual or interim financial statements.

Notwithstanding the material weaknesses identified during our assessment, we have concluded, and our auditors have expressed an unqualified opinion, that the Consolidated Financial Statements included in this Annual Report on Form 10-K present fairly, in all material respects, the financial position of the Company at December 31, 2017 and December 31, 2016 and the consolidated results of operations and cash flows for each of the three fiscal years in the period ended December 31, 2017 in conformity with U.S. generally accepted accounting principles.

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 December 31, 2017, we had substantial federal and state net operating loss carryforwards. Under Sections 382 and 383 of the Internal Revenue Code of 1986, as amended, or the Code, if a corporation undergoes an “ownership change,” the corporation’s ability to use its pre-change net operating loss carryforwards to offset its post-change income and taxes may be limited. In general, an “ownership change” generally occurs if there is a cumulative change in our ownership by “five-percent stockholders” that exceeds 50 percentage points over a rolling three-year period. For these purposes, a five-percent stockholder is generally any person or group of persons that at any time during the applicable testing period has owned 5% or more of our outstanding stock. In addition, persons who own less than 5% of the outstanding stock are grouped together as one or more “public groups,” which are also treated as five-percent stockholders. Similar rules may apply under state tax laws. We may experience ownership changes in the future as a result of future transactions in our stock, some of which may be outside our control. As a result, our ability to use our pre-change net operating loss carryforwards to offset United States federal and state taxable income and taxes may be subject to limitations.

Risks Related to Our Industry

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

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

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

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

A majority of our revenue is derived from our Managed Portals and Advertising solutions; our revenue would decline if advertisers do not continue their usage of the internet as an advertising medium.

We have derived and expect to continue to derive a majority of our revenue from search and digital advertising, including advertising on our Managed Portals. Such search and digital advertising revenue accounted for approximately 60%, 59% and 71% of our revenue for the years ended December 31, 2017, 2016 and 2015, or \$83.6 million, \$74.9 million, and \$78.3 million respectively. However, the prospects for continued demand and market acceptance for internet advertising are uncertain. If advertisers do not continue to increase their usage of the internet as an advertising medium, our revenue would decline. Advertisers that have traditionally relied on other advertising media may not advertise on the internet. As the internet evolves, advertisers may find online advertising to be a less attractive or less effective means of promoting their services and products than traditional methods of advertising and may not continue to allocate funds for internet advertising. Many historical predictions by industry analysts and others concerning the growth of the internet as a commercial medium have overstated the growth of the internet and 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 Managed Portals. Generally, each time a consumer clicks on a sponsored link, the search provider that provided the commercial search result receives a fee from the advertiser who paid for such sponsored link and the search provider pays us a portion of that fee. We, in turn, typically share a portion of the fee we receive with our customer. If an advertiser receives what it perceives to be a large number of clicks for which it needs to pay, but that do not result in a desired activity or an increase in sales, the advertiser may reduce or eliminate its advertisements through the search provider that provided the commercial search result to us. This reaction would lead to a loss of revenue to our search providers and consequently to lesser fees paid to us, which would have a 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: Google; Oath, a division of Verizon; and MSN, a division of Microsoft. Advantages some of our existing and potential competitors hold over us include the following:

- significantly greater revenue and financial resources;
- stronger brand and consumer recognition;
- the capacity to leverage their marketing expenditures across a broader portfolio of services and products;
- ability to offer their products at significantly lower prices or at no cost;
- 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 harm our business, financial condition and results of operations.

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

Over time, we expect state, federal and international legislative bodies to continue to enact more stringent laws and regulations relating to the internet. The adoption or modification of laws related to the internet could harm our business, financial condition and results of operations by, among other things, increasing our costs and administrative burdens. Due to the increasing popularity and use of the internet, many laws and regulations relating to the internet are being debated at the international, federal and state levels, which are likely to address a variety of issues such as:

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

Several federal laws that could have an impact on our business have been adopted. For example, the Digital Millennium Copyright Act of 1998 reduces the liability of online service providers of third-party content, including content that may infringe copyrights or rights of others, but requires strict compliance with certain provisions to qualify for the safe harbor provisions; the Children’s Online Privacy Protection Act imposes additional restrictions on the ability of online services to collect user information from minors under the age of 13; and the Protection of Children from Sexual Predators Act requires online service providers to report evidence of violations of federal child pornography laws under certain circumstances.

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

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

Increased regulation and industry standards related to internet privacy issues may prevent us from providing our current products and solutions to our customers, thereby harming our business.

The regulatory framework for privacy issues worldwide is currently in flux and is likely to remain so for the foreseeable future. Practices regarding the collection, use, storage, sharing, processing, disclosure, destruction and security of personal information by companies operating over the internet have come under increased public scrutiny and, as a result, there are an increasing number of regulations and industry standards that affect our business. Regulators, including the Federal Trade Commission and regulators in the EEA, have restricted and continue to restrict our ability to use personal information and therefore may limit or inhibit our ability to operate our business. In addition, many nations and economic regions have privacy protections that are more stringent or otherwise at odds with those in the United States. For example, the EEA traditionally has imposed stricter obligations and provided for more onerous penalties than the United States. The new EU General Data Protection Regulation (replacing the current EU Data Protection Directive) entered into force in May 2016 and will apply beginning in May 2018. The Regulation will introduce new data protection requirements in the European Union, as well as substantial fines for breaches of the data protection rules. Complying with new privacy

and security requirements, whether imposed by regulation, contract or industry standard, will require additional expenditures and may result in a greater compliance burden for companies with employees or users in the EEA.

We may incur expenses to comply with privacy and security standards and protocols imposed by law, regulation, industry standards or contractual obligations. Our business, including our ability to operate and expand internationally, could be adversely affected if legislation or regulations are adopted, interpreted or implemented in a manner that is inconsistent with our current business practices and that require changes to these practices, our services or our privacy policies.

Risks Related to Ownership of Our Common Stock

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

Our directors and executive officers and their respective affiliates, beneficially own or directly or indirectly control (including by voting proxy), as of March 14, 2018, approximately 19% of our outstanding common stock (including exercisable options). These stockholders, if they were to act together, would have the ability to influence significantly the outcome of matters submitted to our stockholders for approval, including the election of directors and any merger, consolidation or sale of all or substantially all of our assets. In addition, these stockholders, if they act together, would have the ability to influence significantly the management and affairs of our company. Accordingly, this concentration of ownership might harm the trading price of our common stock by:

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

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

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

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

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

Certain of our stockholders who held shares of our preferred stock before the consummation of our public offering (and who now hold shares of our common stock) may be 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 warrants or that may be granted in the future under our equity plans will become eligible for sale in the public market to the extent permitted by the provisions of various vesting agreements.

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

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

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

- our board of directors is classified into three classes of directors with staggered three-year terms;
- our directors may only be removed for cause, and only with the affirmative vote of a majority of the voting interest of stockholders entitled to vote;
- only our board of directors and not our stockholders will be able to fill vacancies on our board of directors;
- only our chairman of the board, our chief executive officer or a majority of our board of directors, and not our stockholders, are authorized to call a special meeting of stockholders;
- our stockholders will be able to take action only at a meeting of stockholders and not by written consent;
- our amended and restated certificate of incorporation authorizes undesignated preferred stock, the terms of which may be established and shares of which may be issued without stockholder approval; and
- advance notice procedures apply for stockholders to nominate candidates for election as directors or to bring matters before an annual meeting of stockholders.

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

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

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

We have not historically paid cash dividends on our capital stock, 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 March 14, 2018, our trading price has ranged from \$1.03 to \$18.00. The trading price of our common stock may be subject to wide fluctuations in response to various factors, some of which are beyond our control, including but not limited to the various factors set forth in this “Risk Factors” section, as well as:

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

- 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. In particular, we have incurred and expect to continue to incur significant expenses and devote substantial management effort toward ensuring compliance with the requirements of Section 404 of the Sarbanes-Oxley Act, including remediating the material weaknesses described in Item 9A. "Controls and Procedures." For example, we have assigned additional personnel within our finance department to the implementation, administration and evaluation of our internal control over financial reporting, and we engaged an outside public accounting firm to provide us with the services of accounting support personnel.

Moreover, the rules and regulations applicable to public companies 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 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our corporate headquarters are located at 40 La Riviere Drive, Buffalo, New York 14202. We lease approximately 31,000 square feet of office space at this address pursuant to a sublease agreement that expires in November 2018 and, following that, a direct lease that expires November 2021.

We also maintain administrative and product development offices in New York, New York; Ottawa, Ontario, Canada; Westford, Massachusetts; Frisco, Texas; Los Angeles and San Francisco, California; Pune, India; London, United Kingdom; Tokyo, Japan; Paris, France; and Singapore. Our data centers are located in Atlanta, Georgia; Dallas and Allen, Texas; Watertown, Massachusetts; Lewis Center, Ohio; Denver, Colorado; Toronto, Canada; and Amsterdam, The Netherlands.

We believe that our facilities are adequate to meet our current needs and that suitable additional or substitute space will be available as needed.

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock has been listed on The Nasdaq Global Market, or Nasdaq, under the symbol "SYNC" since February 10, 2012.

The following table sets forth, for the indicated periods, the high and low sales prices per share by quarter for our common stock as reported by Nasdaq:

Fiscal Year 2017 Quarters Ended:	High	Low
March 31, 2017	\$ 4.25	\$ 2.90
June 30, 2017	\$ 4.20	\$ 3.25
September 30, 2017	\$ 3.95	\$ 2.30
December 31, 2017	\$ 2.85	\$ 1.96
Fiscal Year 2016 Quarters Ended:		
March 31, 2016	\$ 1.95	\$ 1.38
June 30, 2016	\$ 3.98	\$ 1.33
September 30, 2016	\$ 3.34	\$ 2.51
December 31, 2016	\$ 3.40	\$ 2.65

Holders of Record

As of March 14, 2018, there were 103 holders of record of our common stock. The number of holders of record of our common stock does not reflect the number of beneficial holders whose shares are held by depositors, brokers or other nominees.

Dividend Policy

We have never declared or paid cash dividends on our common stock. It is our policy to retain earnings to finance the growth and development of our business and, therefore, we do not anticipate paying any dividends in the foreseeable future. Any future determination as to the declaration and payment of dividends, if any, will be at the discretion of our board of directors and will depend on the existing conditions, including our financial condition, operating results, applicable Delaware law, contractual restrictions, capital requirements, business prospects and other factors our board of directors may deem relevant. For example, our loan and security agreement with Silicon Valley Bank restricts our ability to pay any dividends. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources."

Securities Authorized for Issuance under Equity Compensation Plans

The information required to be disclosed by Item 201(d) of Regulation S-K regarding our equity securities authorized for issuance under our equity incentive plans is incorporated herein by reference to the section entitled "Securities Authorized for Issuance Under Equity Compensation Plans" in our definitive Proxy Statement for our Annual Meeting of Stockholders to be filed with the Commission within 120 days after the end of fiscal year 2017 pursuant to Regulation 14A.

Recent Sales of Unregistered Securities

None.

Use of Proceeds

Not applicable.

Issuer Purchases of Equity Securities

None.

ITEM 6. SELECTED FINANCIAL DATA

You should read the following selected consolidated historical financial data below in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the financial statements, related notes and other financial information included in this Annual Report on Form 10-K. The selected consolidated financial data in this section is not intended to replace the financial statements and is qualified in its entirety by the financial statements and related notes included in this Annual Report on Form 10-K.

We derived the selected consolidated financial data for the years ended December 31, 2017, 2016, and 2015 and as of December 31, 2017 and 2016 from our audited consolidated financial statements and related notes, which are included in this Annual Report on Form 10-K. We derived the selected consolidated financial data for the years ended December 31, 2014 and 2013 and as of December 31, 2015, 2014 and 2013 from our audited consolidated financial statements and related notes, which are not included in this Annual Report on Form 10-K. Our historical results are not necessarily indicative of the results to be expected in the future.

	Year Ended December 31,				
	2017	2016	2015 (4)	2014	2013
	(in thousands except share and per share data)				
Consolidated Statements of Operations Data:					
Revenue	\$ 140,027	\$ 127,373	\$ 110,245	\$ 106,579	\$ 111,807
Costs and operating expenses:					
Cost of revenue (1)	70,053	59,146	54,423	57,939	59,622
Technology and development (1)(2)	27,642	25,612	20,007	26,259	28,458
Sales and marketing (2)	24,941	22,846	16,272	10,807	8,124
General and administrative (1)(2)	17,800	19,695	15,543	14,249	11,663
Depreciation and amortization	9,820	9,235	6,901	5,126	4,650
Gain on sale of domain	—	—	—	(1,000)	—
Total costs and operating expenses	150,256	136,534	113,146	113,380	112,517
Loss from operations	(10,229)	(9,161)	(2,901)	(6,801)	(710)
Gain on sale of investment	1,987	—	—	—	—
Interest expense	(433)	(318)	(245)	(218)	(193)
Other expense	(2)	(42)	(16)	(28)	(37)
Loss before income taxes	(8,677)	(9,521)	(3,162)	(7,047)	(940)
Provision (benefit) for income taxes	1,100	1,219	239	4,821	(134)
Loss in equity interest	—	—	(73)	(1,063)	(561)
Net loss	<u>\$ (9,777)</u>	<u>\$ (10,740)</u>	<u>\$ (3,474)</u>	<u>\$ (12,931)</u>	<u>\$ (1,367)</u>
Net loss per share:					
Basic	<u>\$ (0.27)</u>	<u>\$ (0.36)</u>	<u>\$ (0.12)</u>	<u>\$ (0.47)</u>	<u>\$ (0.05)</u>
Diluted	<u>\$ (0.27)</u>	<u>\$ (0.36)</u>	<u>\$ (0.12)</u>	<u>\$ (0.47)</u>	<u>\$ (0.05)</u>
Weighted average shares used to compute net loss per share:					
Basic	<u>36,381,299</u>	<u>30,251,685</u>	<u>28,213,838</u>	<u>27,389,793</u>	<u>27,306,882</u>
Diluted	<u>36,381,299</u>	<u>30,251,685</u>	<u>28,213,838</u>	<u>27,389,793</u>	<u>27,306,882</u>
Other Financial Data:					
Adjusted EBITDA (3)	<u>\$ 2,337</u>	<u>\$ 3,179</u>	<u>\$ 7,593</u>	<u>\$ 2,180</u>	<u>\$ 6,501</u>

Notes:

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

	Year Ended December 31,				
	2017	2016	2015 (4)	2014	2013
	(in thousands)				
Technology and development	\$ 744	\$ 921	\$ 936	\$ 1,621	\$ 1,184
Sales and marketing	636	784	942	599	348
General and administrative	1,110	1,066	1,237	1,375	1,029
	<u>\$ 2,490</u>	<u>\$ 2,771</u>	<u>\$ 3,115</u>	<u>\$ 3,595</u>	<u>\$ 2,561</u>

- (3) We define adjusted EBITDA as net loss plus: provision (benefit) for income taxes, interest expense, other expense, depreciation and amortization, asset impairments, loss in equity interest, stock-based compensation, losses on disposal of property and equipment, acquisition costs and certain one-time items, and minus gains on sales of investments. Please see “Adjusted EBITDA” below for more information and for a reconciliation of adjusted EBITDA to net (loss) income, the most directly comparable financial measure calculated and presented in accordance with GAAP.
- (4) Results for 2015 include the results of operations relating to the acquired Zimbra assets since the closing of the acquisition in September 2015.

	As of December 31,				
	2017	2016	2015 (4)	2014	2013
	(in thousands)				
Consolidated Balance Sheet Data:					
Cash and cash equivalents	\$ 22,476	\$ 14,315	\$ 15,697	\$ 25,600	\$ 36,397
Accounts receivable, net	31,696	27,386	24,341	20,479	14,569
Property and equipment, net	20,505	14,406	14,377	15,128	14,085
Total assets	108,780	93,399	89,026	66,238	74,789
Long-term debt and capital lease obligations	5,815	6,996	7,581	1,383	885
Total stockholders' equity	54,345	39,649	46,104	42,482	52,231

Adjusted EBITDA

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

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

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

- although depreciation and asset impairments are non-cash charges, the assets being depreciated or impaired may have to be replaced in the future, and adjusted EBITDA does not reflect capital expenditure requirements for such replacements or for new capital expenditure requirements;
- adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- adjusted EBITDA does not consider the potentially dilutive impact of equity-based compensation;
- adjusted EBITDA does not reflect the impact of tax payments that may represent a reduction in cash available to us;
- adjusted EBITDA does not reflect the impact of principal or interest payments required to service our capital leases or long-term debt borrowings (if any);
- adjusted EBITDA does not reflect the impact of the cost of business acquisitions on the cash available to us;
- adjusted EBITDA does not reflect the impact of non-recurring items, such as the costs associated with reductions in workforce, on the 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) income and our other GAAP results. The following table presents a reconciliation of adjusted EBITDA to net (loss) income for each of the periods indicated:

	Year Ended December 31,				
	2017	2016	2015	2014	2013
	(in thousands)				
Reconciliation of Adjusted EBITDA:					
Net loss	\$ (9,777)	\$ (10,740)	\$ (3,474)	\$ (12,931)	\$ (1,367)
Provision (benefit) for income taxes	1,100	1,219	239	4,821	(134)
Interest expense	433	318	245	218	193
Other expense	2	42	16	28	37
Depreciation and amortization	9,820	9,235	6,901	5,126	4,650
Capitalized software impairment	256	334	—	—	—
Stock-based compensation expense	2,490	2,771	3,115	3,595	2,561
Gain on sale of investment	(1,987)	—	—	—	—
Loss in equity interest	—	—	73	1,063	561
Gain on sale of domain	—	—	—	(1,000)	—
Reduction in workforce severance and related costs	—	—	—	1,260	—
Acquisition costs	—	—	478	—	—
Adjusted EBITDA	<u>\$ 2,337</u>	<u>\$ 3,179</u>	<u>\$ 7,593</u>	<u>\$ 2,180</u>	<u>\$ 6,501</u>

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our results of operations and financial condition should be read in conjunction with the information set forth in "Selected Financial Data" and our financial statements and the notes thereto included in this Annual Report on Form 10-K. This discussion contains forward-looking statements based upon our current expectations, estimates and projections that involve risks and uncertainties. Actual results could differ materially from those anticipated in these forward-looking statements due to, among other considerations, the matters discussed under "Risk Factors" and "Special Note Regarding Forward-Looking Statements."

Overview

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

We generate revenue from consumer traffic on our Managed Portals, which we collect from our search partner, Google Inc., or Google, our advertising network providers and directly from advertisers. We typically share a portion of this search and digital advertising revenue with our customers. We also generate Recurring and Fee-Based revenue for the use of our technology, email/collaboration, premium services and paid content. Growth in our business is dependent on expansion of relationships with our existing customers and new customers adopting our solutions and their respective consumers' use of our Managed Portals ramping up as described below. Since our acquisition of the Zimbra assets in September 2015, we generate revenue from the licensing and distribution of our Email/Collaboration products and services, including perpetual licenses, and we generate recurring revenue in the form of maintenance and support fees as well. As we expand our Cloud ID, syndicated content and Email/Collaboration offerings, we expect to generate increased Recurring and Fee-Based revenue from our customers.

During 2017, Managed Portals and Advertising revenue was \$83.6 million, an increase of 12% compared to \$74.9 million in 2016. Search revenue increased by \$4.3 million, or 27%, in 2017 compared to 2016. We believe the increase was due to higher search activity associated with the AT&T portal, which was fully implemented by the end of the second quarter of 2017, offset in part by the increased usage of competitor search tools on other devices, such as tablets and smartphones, generally across the consumer base. In addition, we believe a portion of the decrease was due to the continued residual effect of the placement of our Managed Portals on the second tab of the default Windows 8 internet browser by our consumer electronics customers. Further, upgrades to the Windows 10 operating system default to Microsoft's latest Edge browser and displace users' previous browser settings including default homepages, which can also lead to decreased search and digital advertising revenue.

We anticipate that search activity and our search revenue will increase in 2018 when we report a full year of revenue associated with our AT&T portal services contract. In addition, we anticipate search activity will increase on smartphones and tablets in the future and we believe our continuing investment in our next-generation Managed Portals and Advertising solutions will allow us to compete more effectively for search activity on smartphones and tablets.

Digital advertising revenue increased by \$4.4 million, or 8%, to \$63.4 million in 2017 from \$59.0 million in 2016. This increase was due primarily to increased advertising revenue associated with the new AT&T portal, which was fully implemented at June 30, 2017, and increased syndicated advertising activity, particularly as a result of our acquisition of Technorati in February 2016.

We anticipate video advertising will continue to become an increasing percentage of our advertising revenue which may also serve to increase our advertising cost-per-thousand impressions (referred to as cost per mille, or CPMs). We also anticipate that the signing and launching of new customers and our mobile product initiatives may help add new search and digital advertising revenue in future years.

Our Recurring and Fee-Based revenue consists of fees charged for the use of our proprietary technology and for the use of, or access to, services, which consisted primarily of our Email/Collaboration products, professional services, and products such as Cloud ID, security, online games, music and other premium services and paid content. In addition, we also generate revenue from the licensing and distribution of our Email/Collaboration products and services, including perpetual licenses and recurring revenue in the form of subscriber maintenance and support fees. During 2017, Recurring and Fee-Based revenue was \$56.5 million, an increase of 8% from \$52.5 million in 2016. This increase was primarily driven in approximately even parts by growth in Cloud ID revenue, increased professional services revenue, and increased perpetual license revenue relating to our Zimbra Email/Collaboration product. We believe there are opportunities to generate new sources of Recurring and Fee-Based revenue, such as by cross-selling solutions that generate Recurring and Fee-Based revenue into the customer base we obtained as part of the acquisition of the Zimbra assets.

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

Revenue attributable to our customers includes the Recurring and Fee-Based revenue earned directly from them, as well as the search and digital advertising revenue generated through our relationships with our search and digital advertising partners (such as Google for search advertising and advertising networks, advertising agencies and advertisers for digital advertising). This revenue is attributable to our customers because it is produced from the traffic on our Managed Portals. These search and advertising partners provide us with advertisements that we then deliver with search results and other content on our Managed Portals. Since our search advertising partner, Google, and our advertising network partners generate their revenue by selling those advertisements, we create a revenue stream for these partners. In 2017, revenue attributable to two customers accounted for approximately 18% and 10% of our revenue, respectively, totaling \$39.4 million. In 2017 search advertising through our relationship with Google generated approximately 14% of our revenue, or \$20.1 million (all of which was attributable to our customers). In 2016 revenue attributable to one customer accounted for approximately 16% of our revenue, or \$20.8 million.

The initiatives described below under “Key Initiatives” are expected to contribute to our ability to maintain and grow revenue and return to profitability via increases in advertising revenue, increases in customers and our consumer reach, and increases in availability of products across more devices. We expect the period in which we experience a return on future investments in each of these initiatives to differ. For example, more direct advertising at higher rates 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.

Trends Affecting Our Business

Our customers, predominantly high-speed internet service providers that also offer television services, are facing increasing competition from companies that deliver video content over the internet, more commonly referred to as “over-the-top,” or OTT. These new competitors include a number of large and growing companies, such as Google, Netflix, Inc., or Netflix, Hulu, LLC, or Hulu, and Amazon.com Inc., or Amazon. With the increased availability of high-speed internet access and over-the-top programming, consumers’ video content consumption preferences may shift away from current viewing habits.

As a result, many of our customers and potential customers are compelled to find new ways to deliver services and content to their consumers via the internet. We expect this pressure to become even greater as more video content becomes available online. We expect to continue to benefit from this trend as customers adopt our solutions to package and deliver video programming and other related authentication services on our Managed Portals.

Another trend affecting our customers and our business is the proliferation of internet-connected devices, especially mobile devices. Smartphones, tablets and connected TVs have made it more convenient for consumers to access services and content online, including television programming. To remain competitive, our customers and potential customers must have the capability to deliver their services and products to consumers on these new devices. Our technology enables them to extend their presence beyond traditional personal computers, and we expect that some portion of our revenue growth will come from traffic on these devices.

Our business is also affected by growth in advertising on the internet, for which the proliferation of high-speed internet access and internet-connected devices will be the principal drivers. We believe we have experienced a decline in search advertising revenue based on consumers’ internet searching habits increasingly transitioning to mobile devices. However, the launch of the AT&T portal has resulted in an increase in search advertising revenue. In addition, we believe there continue to be growth opportunities for advertising related to the video, images and text on our Managed Portals and hosted email/collaboration products. We expect our results of operations will benefit from the growth in the number of mobile internet users as our customers adopt our mobile and tablet offerings.

We continue to be impacted by consumer electronics customers that have the Windows 8 and Windows 10 operating systems pre-installed on their laptop or desktop computers; our Managed Portals are placed on a second tab when the Windows 8 internet browser is launched, and in certain instances, without our Google search bar. Further, upgrades to the Windows 10 operating system default to Microsoft’s latest Edge browser and displace users’ previous browser settings including default homepages, which can also lead to decreased search and digital advertising revenue. Unless consumers change their browser settings back to our Managed Portals, their usage of our Managed Portals would likely decline and our results of operations could be negatively impacted. These Windows updates have caused us to reduce our revenue expectations from our consumer electronics customers.

Key Initiatives

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

- increase value for existing customers by optimizing consumer experience and monetization;
- innovate on Synacor-as-a-platform for advanced services;
- win new customers in current and related verticals; and
- extend our product portfolio into emerging growth areas.

Key Business Metric

In addition to the line items in our financial statements, we review the number of Multiplatform Unique Visitors to evaluate our business, determine the allocation of resources and make decisions regarding business strategies. Following the acquisition of the Technorati media solutions platform in 2016 this metric has included visitors through our advertising network. We believe disclosing this metric is useful for investors and analysts to understand the underlying trends in our business. The following table reflects the number of multiplatform unique visitors for the years ended December 31, 2017, 2016 and 2015:

	Year Ended December 31,		
	2017	2016	2015
Multiplatform Unique Visitors	223,688,767	208,411,347	20,902,492

We define Multiplatform Unique Visitors as consumers who have visited one of our Managed Portals, from either mobile or desktop sources at least once, or have viewed one of our advertisements through our advertising network, computed on an average monthly basis during a particular time period. As the number of Multiplatform Unique Visitors increases, we expect that we will generate additional revenue from our Managed Portals and Advertising solutions. We rely on comScore to provide this data. comScore estimates this data based on the U.S. portion of the internet activity of its worldwide panel of consumers and its proprietary data collection method.

Components of our Results of Operations

Revenue

We derive our revenue from two categories: revenue generated from search and digital advertising activities and Recurring and Fee-Based revenue, each of which is described below. The following table shows the revenue in each category, both in amount and as a percentage of revenue, for 2017, 2016 and 2015.

	Year Ended December 31,		
	2017	2016	2015
		(in thousands)	
Revenue:			
Search and digital advertising	\$ 83,556	\$ 74,889	\$ 78,316
Recurring and fee-based	56,471	52,484	31,929
Total revenue	<u>\$ 140,027</u>	<u>\$ 127,373</u>	<u>\$ 110,245</u>
Percentage of revenue:			
Search and digital advertising	60%	59%	71%
Recurring and fee-based	40	41	29
Total revenue	<u>100%</u>	<u>100%</u>	<u>100%</u>

Search and Digital Advertising Revenue

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

- In the case of search advertising, we have a revenue-sharing relationship with Google, pursuant to which we include a Google-branded search tool on our Managed Portals. When a consumer makes a search query using this tool, we deliver the query to Google and they return search results to consumers that include advertiser-sponsored links. If the consumer clicks on a sponsored link, Google receives payment from the sponsor of that link and shares a portion of that payment with us. The net payment we receive from Google is recognized as revenue.
- Digital advertising includes video, image and text advertisements delivered on one of our Managed Portals, or in the case of syndicated advertising, delivered on ad space from other publishers. Advertising inventory is filled with advertisements sourced by our direct sales force, independent advertising sales representatives and advertising network partners. Revenue is generated for us when an advertisement displays, otherwise known as an impression, or when consumers view or click an advertisement, otherwise known as an action. Digital advertising revenue is calculated on a cost per impression or cost per action basis. Revenue is recognized based on amounts received from advertising customers as the impressions are delivered or the actions occur, according to contractually-determined rates.

Recurring and Fee-Based Revenue

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

Revenue is also recognized from the licensing and distribution of our Email/Collaboration products and services, including perpetual licenses. Revenue from perpetual licenses is recognized upon execution of the contract, and when all other criteria have been met. Revenue from subscription licenses and support services are recognized over the term of the subscription or support services arrangement. Effective January 1, 2018, the accounting for revenue recognition of subscription licenses has changed, as more fully described in Note 1, *The Company and Summary of Significant Accounting Policies*, of the Notes to the Consolidated Financial Statements.

Costs and Expenses

Cost of Revenue

Cost of revenue consists primarily of revenue sharing, content acquisition costs, co-location facility costs, royalty costs, and product support costs. Revenue sharing consists of amounts accrued and paid to customers for the internet traffic on Managed Portals we operate on our customers' behalf and where we are the primary obligor, resulting in the generation of search and digital advertising revenue. The revenue-sharing agreements with customers are primarily variable payments based on a percentage of the search and digital advertising revenue. Content-acquisition agreements may be based on a fixed payment schedule, on the number of subscribers per month, or a combination of both. Fixed-payment agreements are expensed on a straight-line basis over the term defined in the agreement. Agreements based on the number of subscribers are expensed on a monthly basis. Co-location facility costs consist of rent and operating costs for our data center facilities. Royalty costs consist of amounts due to third parties for the license of their applications or technology sold with or embedded in our email software. Product support costs consist of employee and operating costs directly related to our maintenance and professional services support.

Technology and Development

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

Sales and Marketing

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

General and Administrative

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

Depreciation and Amortization

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

Other Expense

Other expense consists primarily of foreign exchange gains and losses, net of interest income earned.

Interest Expense

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

Gain on Sale of Investment

We sold our \$1.0 million investment in the preferred stock of Blazer & Flip Flops, Inc. during 2017, recognizing a gain of \$2.0 million on the sale.

Provision for Income Taxes

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

Loss in Equity Interest

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

Critical Accounting Policies

The preparation of consolidated financial statements in conformity with U.S. GAAP requires estimates and assumptions that affect the reported amounts and classifications of assets and liabilities, revenue and expenses, and the related disclosures of contingent liabilities in the financial statements and accompanying notes. The SEC has defined a company's critical accounting policies as the ones that are most important to the portrayal of the company's financial condition and results of operations, and which require the company to make its most difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Based on this definition, we have identified the following critical accounting policies and estimates addressed below. We also have other key accounting policies, which involve the use of estimates, judgments, and assumptions that are significant to understanding our results. See Note 1, *The Company and Summary of Significant Accounting Policies*, of the Notes to the Consolidated Financial Statements. Although we believe that our estimates, assumptions, and judgments are reasonable, they are based upon information available at the time. Actual results may differ significantly from these estimates under different assumptions, judgments or conditions.

Revenue Recognition

We recognize revenue when the following criteria are met: persuasive evidence of an arrangement exists; delivery has occurred; the selling price is fixed or determinable; and collectability is reasonably assured.

The terms of our arrangements with our customers, Google and our advertising network partners are specified in written agreements. These written agreements constitute the persuasive evidence of the arrangements with our customers that are a pre-condition to the recognition of revenue. The evidence used to document that delivery or performance has occurred generally consists of communication of either numbers of subscribers or the revenue generated in a reporting period from customers, advertising partners, vendors and our own internally-generated reports. Occasionally, a customer will notify us of subsequent adjustments to previously reported subscriber data. These adjustments, once accepted by us, will result in adjustments to revenue and cost of revenue. The historical occurrences of such adjustments, and the amounts involved, have not been significant.

Although prices used in our revenue recognition formulas are generally fixed pursuant to the written arrangements with our customers, Google and our advertising network partners, the number of subscribers or the amount of search and digital advertising revenue that are subject to our pricing arrangements are not known until the reporting period has ended. Although this data is, in most cases, available prior to the completion of our periodic financial statements, this data may need to be estimated. When made, these estimates are based upon our historical experience with the relevant party. Adjustments to these estimates have historically not been significant. The receipt of this volume data also serves to verify that we have appropriately satisfied our obligation to our customers for that reporting period. Adjustments are recorded in the period in which the data is received.

Certain Recurring and Fee-Based revenue is derived from the sale of software licenses on a perpetual or subscription basis, for which revenue is recognized upon receipt of an external agreement and delivery of the software, provided the fees are fixed and determinable, and collection is probable. For agreements that include one or more elements to be delivered at a future date, revenue is recognized using the residual method, under which the vendor-specific objective evidence (“VSOE”) of fair value of the undelivered elements is deferred, and the remaining portion of the agreement fee is recognized as license revenue. If VSOE of fair value has not been established for certain undelivered elements, revenue is deferred until those elements have been delivered or their fair values have been determined.

We undertake an evaluation of the creditworthiness of both new and, on a periodic basis, existing customers. Based on these reviews we determine whether collection of our prospective revenue is probable.

We have adopted the provisions of Accounting Standards Update, or “ASU” 2014-09, *Revenue from Contracts with Customers* (*Accounting Standards Codification, or “ASC” 606*), which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. Companies are permitted to adopt ASC 606 using a full retrospective or modified retrospective method. We adopted the standard on January 1, 2018 using a modified retrospective method.

While we continue to assess all potential impacts of the standard, it is currently anticipated that the standard will not have a material impact on our Consolidated Statements of Operations and Consolidated Statements of Cash Flows. However, we anticipate that the standard will have a material impact on our Consolidated Balance Sheets, with the primary impact being a reduction in deferred revenue relating to subscription license revenue from our Email/Collaboration contracts, which is included within Recurring and Fee-Based revenue. We currently recognize subscription license revenue from these contracts over the subscription term of the contracts (which are typically six months or longer). We have concluded, because its obligations under the contracts have been satisfied in full upon delivery of the license, that revenue for such contracts will be recognized upon delivery rather than ratably over the term of the subscription. We project that approximately \$2.5 million of deferred revenue from subscription license contracts will be credited to accumulated deficit as of January 1, 2018, and following that date, revenue for such contracts will be recognized in full upon delivery of the license. Maintenance and support revenue will continue to be deferred and recognized over the term of the subscription.

Revenue Sharing

We pay our Managed Portals and Advertising customers a portion of the revenue generated from search and digital advertising. The portion paid to our customers depends on, among other things, the consumer base of the customer and their expected ability to drive consumer traffic to our Managed Portals. This revenue consists of the consideration we receive from Google and our digital advertising partners in connection with traffic supplied by the applicable customer.

Gross Versus Net Presentation of Revenue for Revenue Sharing

We evaluate our relationship between our search and digital advertising partners and our Managed Portals and Advertising customers in accordance with ASC 605-45, *Principal Agent Considerations*. We have determined that the revenue derived from traffic supplied by our customers is reported on a gross basis because we are the primary obligor (we are responsible to our customers for fulfilling search and digital advertising services and premium and other services), are involved in the service specifications, perform part of the service, have discretion in supplier selection, have latitude in establishing price and bear credit risk.

Stock-Based Compensation

We account for stock-based compensation in accordance with the authoritative guidance on stock compensation. Under the fair value recognition provisions of this guidance, stock-based compensation is measured at the grant date based on the fair value of the award and is recognized as expense, net of estimated forfeitures, over the requisite service period, which is generally the vesting period of the respective award. As a result, we are required to estimate the amount of stock-based compensation we expect to be forfeited based on our historical experience. If actual forfeitures differ significantly from our estimates, stock-based compensation expense and our results of operations could be materially impacted. Determining the fair value of stock-based awards at the grant date requires judgment. We use the Black-Scholes option-pricing model to determine the fair value of stock options. The determination of the grant date fair value of options using an option-pricing model is affected by our common stock fair value as well as assumptions regarding a number of other complex and subjective variables. These variables include the fair value of our common stock, our expected stock price volatility over the expected term of the options, stock option exercise and cancellation behaviors, risk-free interest rates, and expected dividends, which are estimated as follows:

Expected Term - The expected term was estimated using the simplified method allowed under SEC guidance. As we develop more experience, our estimate of the life of awards may change.

Volatility - Expected stock price volatility for our common stock was estimated by blending our average historic price volatility with that of our industry peers based on daily price observations over a period equivalent to the expected term of the stock option grants. Industry peers consist of several public companies in the technology industry, some larger and some similar in size, stage of life cycle and financial leverage. We did not rely on implied volatilities of traded options in our industry peers' common stock because the volume of activity was relatively low. We intend to continue to consistently apply this process using the same or similar public companies until a sufficient amount of historical information regarding the volatility of our own common stock share price becomes available, enabling us to give greater weight to our own experience, or unless circumstances change such that the identified companies are no longer similar to us, in which case, more suitable companies whose share prices are publicly available would be utilized in the calculation.

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

Dividend Yield - We have never declared or paid any cash dividends and do not presently plan to pay cash dividends in the foreseeable future. Additionally, our loan and security agreement with Silicon Valley Bank restricts our ability to pay any dividends. See "Management's Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources." Accordingly, we used an expected dividend yield of zero.

Income Taxes

We record income taxes using the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in our financial statements or tax returns. In estimating future tax consequences, generally all expected future events other than enactments or changes in the tax law or rates are considered. Valuation allowances are provided when necessary to reduce deferred tax assets to the amount expected to be realized. The recorded balances of deferred tax assets and liabilities are adjusted for changes in tax rates (such as those enacted by the United States federal government in December 2017) upon enactment of the changes.

We provide reserves as necessary for any uncertain tax positions taken on our tax filings. First, we determine if a tax position is more likely than not to be sustained upon audit solely based on technical merits, including resolution of related appeals or litigation processes, if any. Second, based on the largest amount of benefit, which is more likely than not to be realized on ultimate settlement we recognize any such differences as a liability. In the event that any unrecognized tax benefits are recognized, the effective tax rate will be affected. Although we believe our estimates are reasonable, no assurance can be given that the final tax outcome of these matters will be the same as these estimates. These estimates are updated quarterly based on factors such as changes in facts or circumstances, changes in tax law, new audit activity, and effectively settled issues.

We follow specific and detailed guidelines in each tax jurisdiction regarding the recoverability of any tax assets recorded on the balance sheet and provide necessary valuation allowances as required. Future realization of deferred tax assets ultimately depends on the existence of sufficient taxable income of the appropriate character (for example, ordinary income or capital gain) within the carryback or carryforward periods available under the tax law. We regularly review our deferred tax assets for recoverability based on historical taxable income, projected future taxable income, the expected timing of the reversals of existing temporary differences and tax planning strategies. Our judgments regarding future profitability may change due to many factors, including future market conditions and our ability to successfully execute our business plans and/or tax planning strategies. Should there be a change in our ability to recover our deferred tax assets, our tax provision would increase or decrease in the period in which the assessment is changed.

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.

	Year Ended December 31,		
	2017	2016 (in thousands)	2015
Revenue	\$ 140,027	\$ 127,373	\$ 110,245
Costs and operating expenses:			
Cost of revenue (1)	70,053	59,146	54,423
Technology and development (1)(2)	27,642	25,612	20,007
Sales and marketing (2)	24,941	22,846	16,272
General and administrative (1)(2)	17,800	19,695	15,543
Depreciation and amortization	9,820	9,235	6,901
Total costs and operating expenses	150,256	136,534	113,146
Loss from operations	(10,229)	(9,161)	(2,901)
Gain on sale of investment	1,987	—	—
Interest expense	(433)	(318)	(245)
Other expense	(2)	(42)	(16)
Loss before income taxes	(8,677)	(9,521)	(3,162)
Provision for income taxes	1,100	1,219	239
Loss in equity interest	—	—	(73)
Net loss	\$ (9,777)	\$ (10,740)	\$ (3,474)

Notes:

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

	Year Ended December 31,		
	2017	2016 (in thousands)	2015
Technology and development	\$ 744	\$ 921	\$ 936
Sales and marketing	636	784	942
General and administrative	1,110	1,066	1,237
	\$ 2,490	\$ 2,771	\$ 3,115

	Year Ended December 31,		
	2017	2016	2015
Revenue	100%	100%	100%
Costs and operating expenses:			
Cost of revenue (1)	50	46	49
Technology and development (1)	19	20	18
Sales and marketing	18	18	15
General and administrative (1)	13	16	14
Depreciation and amortization	7	7	6
Total costs and operating expenses	<u>107</u>	<u>107</u>	<u>103</u>
Loss from operations	(7)	(7)	(3)
Gain on sale of investment	1	—	—
Interest expense	—	—	—
Other expense	—	—	—
Loss before income taxes	(6)	(7)	(3)
Provision for income taxes	1	1	—
Loss in equity interest	—	—	—
Net loss	<u>(7)%</u>	<u>(8)%</u>	<u>(3)%</u>

Note:

(1) Exclusive of depreciation and amortization shown separately.

Comparison of Years Ended December 31, 2017, 2016 and 2015

Revenue

	Year Ended December 31,			2016 to 2017 % Change	2015 to 2016 % Change
	2017	2016	2015		
	(in thousands)				
Revenue:					
Search and digital advertising	\$ 83,556	\$ 74,889	\$ 78,316	12%	(4)%
Recurring and fee-based	\$ 56,471	52,484	31,929	8%	64%
Total revenue	<u>\$ 140,027</u>	<u>\$ 127,373</u>	<u>\$ 110,245</u>	10%	16%
Percentage of revenue:					
Search and digital advertising	60%	59%	71%		
Recurring and fee-based	40	41	29		
Total revenue	<u>100%</u>	<u>100%</u>	<u>100%</u>		

In 2017, our revenue increased by \$12.7 million, or 10%, compared to 2016. Search and digital advertising revenue increased by \$8.7 million, driven by increases in both search revenue and digital advertising revenue, while Recurring and Fee-Based Revenue increased by \$4.0 million, or 8% over the prior year. Search revenue increased by \$4.3 million, or 27%, while digital advertising revenue increased by \$4.4 million, or 7%, compared to 2016. The increases in both search and digital advertising were largely the result of revenue attributable to our AT&T Portal which was deployed during the second quarter of 2017 and was fully deployed (i.e. on personal computers, smartphones and tablets) at June 30, 2017. Also contributing to the increase in digital advertising revenue was a \$12.3 million increase in syndicated advertising revenue. Partially offsetting the increase in search revenue resulting from the deployment of the AT&T portal were continued effects of lower search activity associated with the increased usage of competitor search tools on other devices, such as tablets and smartphones, generally across the consumer base. In addition, we believe a portion of the decrease was due to the continued residual effect of the placement of our Managed Portals on the second tab of the default Windows internet browsers. Partially offsetting the increase in digital advertising revenue from AT&T and syndicated advertising were revenue decreases from decreased advertising revenue attributable to other portal clients and the effects of lower digital advertising CPMs. The \$4.0 million increase in Recurring and Fee-Based Revenue was the result of increased CloudID services revenue, professional services revenue and revenue from perpetual licenses of our Email/Collaboration products.

In 2016, our revenue increased by \$17.1 million, or 16%, compared to 2015. Search and digital advertising revenue decreased by \$3.4 million, driven by a \$15.4 million decrease in search revenue, or 49%, compared to 2015, and offset partially by a \$12.0 million increase in digital advertising revenue, or 26%, as compared to 2015. The increase in digital advertising was driven by a

combination of an increase syndicated advertising and an increase in video advertising and higher contractual rates for such advertisements. Video advertising yields higher CPMs than traditional image or text advertising. We believe the decrease in search revenue was due to lower search activity associated with the increased usage of competitor search tools on other devices, such as tablets and smartphones, generally across the consumer base. In addition, we believe a portion of the decrease was due to the residual effect of the placement of our Managed Portals on the second tab of the default Windows 8 internet browser by our consumer electronics customers. Recurring and Fee-Based Revenue increased \$20.6 million, or 64% primarily due to increases in usage of our Email/Collaboration, Cloud ID and video solutions by our customers. Our 2016 results include a full year of revenue and related costs and expenses relating to our Zimbra Email/Collaboration products and services, while 2015 included results only from the date of acquisition (September 2015).

Cost of Revenue

	Year Ended December 31,			2016 to 2017 % Change	2015 to 2016 % Change
	2017	2016	2015		
	(in thousands)				
Cost of revenue	\$ 70,053	\$ 59,146	\$ 54,423	18%	9%
Percentage of revenue	50%	46%	49%		

In 2017, our cost of revenue increased by \$10.9 million, or 18%, compared to 2016, and our cost of revenue increased as a percentage of revenue from 46% in 2016 to 50% in 2017. The increase in our cost of revenue, as well as the increase in our cost of revenue as a percentage of revenue, were both driven primarily by increased revenue share costs attributable to the AT&T Portal and increased syndicated advertising costs.

In 2016, our cost of revenue increased by \$4.7 million, or 9%, compared to 2015. However, our cost of revenue decreased as a percentage of revenue from 49% in 2015 to 46% in 2016. The increase in our cost of revenue was driven primarily by increased syndicated advertising costs. The decrease in our cost of revenue as a percentage of revenue resulted from a shift in mix, as higher-margin Email/Collaboration revenue increased in 2016 as compared to 2015, offset partially by the effect of increased lower-margin syndicated advertising revenue in 2016 as compared to the prior year.

Technology and Development Expenses

	Year Ended December 31,			2016 to 2017 % Change	2015 to 2016 % Change
	2017	2016	2015		
	(in thousands)				
Technology and development	\$ 27,642	\$ 25,612	\$ 20,007	8%	28%
Percentage of revenue	19%	20%	18%		

In 2017, technology and development expenses increased by \$1.8 million, or 7%, compared to 2016. The increase was primarily due to additional headcount and spending in technology and development activities in association with our AT&T portal services product launch, as well as increased spending on new product design.

In 2016, technology and development expenses increased by \$5.6 million, or 28%, compared to 2015. The increase was primarily due to increased headcount and spending in technology and development activities in preparation for our 2017 AT&T portal services product launch. We added or redeployed 52 positions specifically devoted to the development of the AT&T portal. We anticipated that total expenditures for the AT&T portal would be approximately \$10 million, consisting of \$8 million of operating expense and \$2 million of capital expenditures. Of this amount, approximately \$6.3 million of operating expense and \$1.9 million of capital expenditures were incurred during 2016, primarily in technology and development. Also contributing to the increase in technology and development expenses in 2016 over 2015 were the costs associated with the addition of the former Zimbra development group.

Sales and Marketing Expenses

	Year Ended December 31,			2016 to 2017 % Change	2015 to 2016 % Change
	2017	2016	2015		
	(in thousands)				
Sales and marketing	\$ 24,941	\$ 22,846	\$ 16,272	9%	40%
Percentage of revenue	18%	18%	15%		

In 2017, sales and marketing expenses increased by \$2.1 million, or 9%, compared to 2016. The increase was primarily due to increased sales commissions and marketing expenses incurred in connection with the AT&T portal launch.

In 2016, sales and marketing expenses increased by \$6.6 million, or 40%, compared to 2015. The increase was primarily due to a full year of personnel and other expenses relating to sales and marketing of the Zimbra Email/Collaboration product and services in 2016, as compared to four months in 2015. With the acquisition of the Zimbra assets in September 2015, we acquired sales and marketing teams in Europe, Japan, Singapore, India and Latin America.

General and Administrative Expenses

	Year Ended December 31,			2016 to 2017 % Change	2015 to 2016 % Change
	2017	2016	2015		
	(in thousands)				
General and administrative	\$ 17,800	\$ 19,695	\$ 15,543	(10)%	27%
Percentage of revenue	13%	15%	14%		

In 2017, general and administrative expenses decreased by \$1.6 million, or 8%, compared to 2016. The decrease is due principally to lower recruiting costs and lower incentive compensation expense in 2017 as compared to 2016, offset partially by increased professional fees.

In 2016, general and administrative expenses increased by \$4.2 million, or 27%, compared to 2015. The increase is due principally to increased facility costs and administrative personnel relating to our two new or acquired offices in the United States and four international offices acquired with the Zimbra assets, plus increased professional fees year over year.

Depreciation and amortization

	Year Ended December 31,			2016 to 2017 % Change	2015 to 2016 % Change
	2017	2016	2015		
	(in thousands)				
Depreciation and amortization	\$ 9,820	\$ 9,235	\$ 6,901	6%	34%
Percentage of revenue	7%	7%	6%		

In 2017, depreciation and amortization increased by \$0.6 million, or 6%, compared to 2016, primarily attributable to the increased depreciation associated with capital expenditures for new data centers and internally developed software, the most significant of which was the AT&T portal. The capitalized costs of developing the AT&T portal, placed in service during 2017, totaled \$3.0 million, of which \$1.1 million was incurred in 2016.

In 2016, depreciation and amortization increased by \$2.3 million or 34%, compared to 2015, primarily attributable to a \$1.6 million increase in amortization of acquired Zimbra-related intangible assets, and additional depreciation expense relating to our acquired and internally-developed fixed assets.

Gain on Sale of Investment

	Year Ended December 31,			2016 to 2017 % Change	2015 to 2016 % Change
	2017	2016	2015		
		(in thousands)			
Gain on sale of investment	\$ 1,987	\$ —	\$ —	NM	NM
Percentage of revenue	1%	—	—		

We realized a gain of \$2.0 million on the sale of our \$1.0 million investment in the preferred stock of Blazer & Flip Flops, Inc., or “B&FF”, a strategic investment we had made in 2013. During 2017, B&FF was acquired by accesso Technology Group, plc, a U.K. public company, and we received, in connection with this transaction, cash consideration of \$2.2 million and stock in the acquiring company valued at approximately \$0.4 million. This stock was sold in September 2017 for \$0.5 million. In addition, we may receive contingent consideration of cash and stock totaling approximately \$0.5 million, which was held back to secure B&FF’s indemnification obligations under the purchase and sale agreement. These amounts have been valued at approximately \$0.3 million, and may be received after the 18-month indemnification period expires. The sale was unique to 2017 and no such transactions occurred in the comparative periods.

Other Expense

	Year Ended December 31,		
	2017	2016	2015
		(in thousands)	
Other expense	\$ (2)	\$ (42)	\$ (16)

For each of 2017, 2016 and 2015, other expense consisted primarily of foreign currency transaction losses related to our foreign operations.

Interest Expense

	Year Ended December 31,		
	2017	2016	2015
		(in thousands)	
Interest expense	\$ (433)	\$ (318)	\$ (245)

Interest expense during 2017, 2016 and 2015 primarily relates to interest on capital leases and long-term debt. The increase in interest expense in 2017 over the prior year was a result of higher capital lease balances and higher interest rates, offset partially by the effect of having paid off our line of credit in the second quarter of 2017.

Provision for Income Taxes

	Year Ended December 31,		
	2017	2016	2015
		(in thousands)	
Provision for income taxes	\$ 1,100	\$ 1,219	\$ 239

Our 2017 income tax provision includes \$0.7 million of foreign withholding taxes, \$0.3 million of current tax relating to our foreign subsidiaries’ earnings, a \$0.3 increase in our net deferred income tax liability, and a tax benefit amounting to \$0.2 million from the change in United States corporate tax rates from 35% to 21% with the December 2017 enactment of the Tax Cuts and Jobs Act of 2017. Certain foreign governments require tax withholdings on remittances relating to our sales in those countries. Such withholdings add to our foreign tax credit which is available to defray future U.S. income taxes; however because we have recorded a full valuation allowance against our U.S. net operating loss and credit carryforwards, such withholdings are recognized in deferred income tax expense.

Our 2016 income tax provision includes \$0.8 million of foreign withholding taxes, \$0.2 million of current tax relating to our foreign subsidiaries’ earnings, and \$0.1 million of deferred income tax expense. Certain foreign governments require tax withholdings on remittances relating to our sales in those countries. Such withholdings add to our foreign tax credit which is available to defray

future U.S. income taxes; however because we have recorded a full valuation allowance against our U.S. net operating loss and credit carryforwards, such withholdings are recognized in deferred income tax expense.

Unaudited Quarterly Results of Operations and Other Data

The following tables present our unaudited quarterly results of operations and other data for the eight quarters ended December 31, 2017. This unaudited quarterly information has been prepared on the same basis as our audited consolidated financial statements and, in the opinion of management, the statement of operations data includes all adjustments, consisting of normal recurring adjustments, necessary for the fair presentation of the results of operations for these periods. This table should be read in conjunction with our consolidated financial statements and related notes located elsewhere in this Annual Report on Form 10-K. The results of operations for any quarter are not necessarily indicative of the results of operations for any future periods.

	For the Three Months Ended							
	March 31, 2016	June 30, 2016	September 30, 2016	December 31, 2016	March 31, 2017	June 30, 2017	September 30, 2017	December 31, 2017
	(in thousands, except per-share data)							
Statements of Operations Data:								
Revenue	\$ 30,260	\$30,476	\$ 31,721	\$ 34,916	\$ 26,540	\$31,216	\$ 36,269	\$ 46,002
Costs and operating expenses:								
Cost of revenue (1)	12,972	13,516	14,611	18,047	12,562	14,462	17,620	25,409
Technology and development (1)	5,873	6,591	6,791	6,357	7,298	6,904	6,748	6,692
Sales and marketing	5,650	5,620	5,907	5,669	6,661	6,185	6,179	5,916
General and administrative (1)	5,022	5,134	4,871	4,668	3,964	4,361	4,495	4,980
Depreciation and amortization	2,098	2,270	2,414	2,453	2,184	2,224	2,596	2,816
Total costs and operating expenses	31,615	33,131	34,594	37,194	32,669	34,136	37,638	45,813
(Loss) income from operations	<u>\$ (1,355)</u>	<u>\$ (2,655)</u>	<u>\$ (2,873)</u>	<u>\$ (2,278)</u>	<u>\$ (6,129)</u>	<u>\$ (2,920)</u>	<u>\$ (1,369)</u>	<u>\$ 189</u>
Net (loss) income	<u>\$ (1,565)</u>	<u>\$ (2,757)</u>	<u>\$ (3,365)</u>	<u>\$ (3,053)</u>	<u>\$ (6,656)</u>	<u>\$ (3,276)</u>	<u>\$ 261</u>	<u>\$ (106)</u>
Net (loss) income per share:								
Basic	<u>\$ (0.05)</u>	<u>\$ (0.09)</u>	<u>\$ (0.11)</u>	<u>\$ (0.10)</u>	<u>\$ (0.21)</u>	<u>\$ (0.09)</u>	<u>\$ 0.01</u>	<u>\$ (0.00)</u>
Diluted	<u>\$ (0.05)</u>	<u>\$ (0.09)</u>	<u>\$ (0.11)</u>	<u>\$ (0.10)</u>	<u>\$ (0.21)</u>	<u>\$ (0.09)</u>	<u>\$ 0.01</u>	<u>\$ (0.00)</u>

Note:

(1) Exclusive of depreciation and amortization shown separately.

Liquidity and Capital Resources

Our primary liquidity and capital resource requirements are for financing working capital, investing in capital expenditures such as computer hardware and software, supporting research and development efforts, introducing new technology, enhancing existing technology, and marketing our services and products to new and existing customers.

In April 2017, we completed an underwritten public offering (the "Offering") of our common stock in which we sold 5,715,000 shares at a public offering price of \$3.50 per share. Subsequently, in May 2017, and as part of the Offering, we completed the sale of 472,846 additional shares of our common stock at the same price upon the exercise of the underwriters' over-allotment option, for a total of 6,187,846 shares. The Offering resulted in total net proceeds of approximately \$20.0 million after deducting underwriters' discounts and commissions and offering expenses. The net proceeds will be used for general corporate purposes and additional working capital, and, in part, were used to fully repay our bank debt. We believe the net proceeds have strengthened our balance sheet and allow us to acquire, or finance on more attractive terms, equipment and make other capital investments necessary to support additional customers and the delivery of additional services to our existing customers. In addition, we may also use a portion of the net proceeds to acquire or invest in businesses, products or technologies that we believe are complementary to our own, as such opportunities may arise.

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

In September 2013, we entered into a Loan and Security Agreement with Silicon Valley Bank, or the Lender, which was most recently amended in June 2017. We refer to the agreement, as amended, as the "Loan Agreement." The Loan Agreement provides for

a \$12.0 million secured revolving line of credit with a stated maturity of September 27, 2018. The credit facility is available for cash borrowings, subject to a formula based upon eligible accounts receivable. As of December 31, 2017, we had no outstanding borrowing under the Loan Agreement; subject to the operation of the borrowing formula, the full \$12.0 million was available for draw under the Loan Agreement at December 31, 2017.

Borrowings under the Loan Agreement bear interest, at our election, at an annual rate based on either the “prime rate” as published in The Wall Street Journal or LIBOR for the relevant period. If our liquidity coverage ratio (the ratio of cash plus eligible accounts receivable to borrowings under the Agreement) exceeds 2.75 to 1, LIBOR-based advances bear interest at LIBOR plus 3.5% and prime rate advances bear interest at the prime rate plus 1.0%. If our liquidity coverage ratio falls below 2.75 to 1, LIBOR-based advances bear interest at LIBOR plus 4.0% and prime rate advances bear interest at the prime rate plus 1.5%. For LIBOR advances, interest is payable (i) on the last day of a LIBOR interest period or (ii) on the last day of each calendar quarter. For prime rate advances, interest is payable (a) on the first day of each month and (b) on each date a prime rate advance is converted into a LIBOR advance.

Our obligations to the Lender are secured by a first priority security interest in all our assets, including our intellectual property. The Loan Agreement contains customary events of default, including non-payment of principal or interest, violations of covenants, material adverse changes, cross-default, bankruptcy and material judgments. Upon the occurrence of an event of default, the Lender may accelerate repayment of any outstanding balance. The Loan Agreement also contains certain financial covenants and other agreements that are customary in loan agreements of this type, including restrictions on paying dividends and making distributions to our stockholders. As of December 31, 2017, we were in compliance with the covenants and anticipate continuing to be so.

As of December 31, 2017, we had approximately \$22.5 million of cash and cash equivalents. We believe that our existing cash and cash equivalents, along with cash flows from operations and availability under our revolving credit line, will be sufficient to meet our anticipated working capital, interest payments, capital lease payment obligations and capital expenditure requirements for at least the next 12 months.

Cash Flows

	Year Ended December 31,		
	2017	2016	2015
	(in thousands)		
Statements of Cash Flows Data:			
Cash flows (used in) provided by operating activities	\$ (263)	\$ 8,249	\$ 7,650
Cash flows used in investing activities	\$ (5,231)	\$ (8,439)	\$ (20,496)
Cash flows provided by (used in) financing activities	\$ 13,695	\$ (1,187)	\$ 2,943

Cash Provided (Used) by Operating Activities

Operating activities used \$0.3 million of cash in 2017. Cash flow from operating activities resulted from our net loss, adjusted for non-cash items, and changes in our operating assets and liabilities. We had a net loss of \$9.8 million, which included non-cash depreciation and amortization of \$9.8 million, non-cash stock-based compensation of \$2.5 million, gain on sale of our investment of \$2.0 million, a loss of the disposal of property and equipment of \$0.2 million, an impairment of capitalized software of \$0.3 million, and non-cash deferred income tax benefit of \$0.1 million. Changes in our operating assets and liabilities used \$1.3 million of cash, primarily due to an increase in our accounts receivable of \$4.1 million, offset partially by increases in accounts payable, accrued expenses and other current liabilities totaling \$3.3 million and a decrease in deferred revenue totaling \$0.8 million. The increase in our accounts receivable was primarily attributable to the increase in revenue in 2017 as compared to the prior year. The increase in our accounts payable and accrued expenses was primarily the result of increased payables for revenue share cost of revenue and syndicated advertising costs and the timing of such payments. The decrease in deferred revenue was principally the result of the conversion of a subscription and support contract to a perpetual license, offset in part by cash advances from other customers.

Operating activities provided \$8.2 million of cash in 2016. The positive cash flow from operating activities primarily resulted from our net loss, adjusted for non-cash items, and changes in our operating assets and liabilities. We had a net loss of \$10.7 million, which included non-cash depreciation and amortization of \$9.2 million, non-cash stock-based compensation of \$2.8 million, and non-cash deferred income tax provision of \$0.1 million. Changes in our operating assets and liabilities provided \$6.3 million of cash, primarily due to an increase in our accounts payable and other current liabilities totaling \$9.1 million and an increase in deferred revenue totaling \$1.5 million, offset partially by increases in our accounts receivable of \$2.2 million and prepaid expenses and other current assets of \$2.0 million. The increase in our accounts receivable was primarily attributable to the increase in revenue in 2016 as compared to the prior year. The increase in our accounts payable and accrued expenses of \$9.1 million was primarily the result of increased payables for

syndicated advertising costs and timing of such payments. The increase in prepaid expenses and other current assets was principally the result of required prepayments of development costs and salable enhancements relating to our Zimbra Email/Collaboration product.

Operating activities provided \$7.7 million of cash in 2015. The cash flow from operating activities primarily resulted from our reduced net loss and improved collections from our accounts receivable. Net loss was \$3.5 million, which included non-cash depreciation and amortization of \$6.9 million and non-cash stock-based compensation of \$3.1 million. Changes in our operating assets and liabilities provided \$1.0 million of cash, primarily due to increases in deferred revenue of \$3.5 million and accrued expenses and other current liabilities of \$2.1 million, combined with a decrease of our accounts payable of \$3.6 million. The decrease in our accounts payable was primarily driven by the timing of payment of invoices to our vendors. The increase in our prepaid and other current assets was primarily due to the increase of prepayments to vendors for components of our cost of revenue and insurance coverages.

Cash Used by Investing Activities

Our primary investing activities have consisted of purchases of property and equipment, and payments for acquisitions. 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 make significant investments in property and equipment and development of software in 2018 and thereafter.

Cash used by investing activities totaled \$5.2 million in 2017. Cash expenditures for purchases of property and equipment, primarily related to the build-out of our data centers and the development of both internal use software and software for sale or license, totaled \$7.9 million. We received total cash proceeds of \$2.6 million for the sale of B&FF.

Cash used by investing activities in 2016 was \$8.4 million, of which \$5.9 million was expended for purchases of property and equipment (primarily related to the build-out of our data centers and internal-use software development), of which \$1.9 million relates specifically to preparation for the early 2017 deployment under our portal services contract with AT&T. Cash used in investing activities also included the cash outlay for the acquisition of Technorati, which totaled \$2.5 million in 2016.

Cash used by investing activities in 2015 was \$20.5 million, consisting of \$17.3 million of cash used for the acquisition of the Zimbra assets, net of cash acquired, and \$3.2 million for purchases of property and equipment (specifically related to the build-out of our data centers and internal-use software development).

Cash (Used) Provided by Financing Activities

Net cash provided by financing activities totaled \$13.7 million in 2017. We received net proceeds totaling \$20.0 million from our public stock offering, and \$2.2 million from the exercise of common stock options. We fully repaid our \$5.0 million bank financing balance, and made payments totaling \$1.9 million on our capital lease obligations. In addition, we paid \$1.3 million of contingent consideration payments relating to our 2015 acquisition of Zimbra and our 2016 acquisition of assets from Technorati.

Net cash used by financing activities totaled \$1.2 million in 2016. We received \$1.6 million from the exercise of stock options, and we repaid \$1.7 million of our capital lease obligations. In addition, we paid \$0.9 million of contingent consideration relating to our 2015 acquisition of Zimbra.

In 2015, net cash provided by financing activities was \$2.9 million consisting primarily of \$5.0 million drawn under our credit facility with Silicon Valley Bank. This was offset by repayment of \$1.4 million on our capital lease obligations, and \$0.5 million for a deferred acquisition payment.

Off-Balance Sheet Arrangements

At December 31, 2017, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of Regulation S-K promulgated by the SEC, that have or are reasonably likely to have a current or future effect on our financial condition, changes in our financial condition, revenue, or expenses, results of operations, liquidity, capital expenditures, or capital resources that is material to investors.

Contractual Obligations

We lease office space and data center space under operating lease agreements and certain equipment under capital lease agreements. We are also obligated to make fixed payments under various contracts with vendors and customers, principally for revenue-sharing and content arrangements. These fixed payments are reflected in the table below as “contract commitments.”

The following table sets forth our future contractual obligations as of December 31, 2017:

	Payments Due by Period					Total
	2018	2019	2020	2021	2022	
Operating lease obligations	\$ 5,643	\$ 4,380	\$ 2,761	\$ 1,368	\$ 715	\$ 14,867
Capital lease obligations	2,712	2,350	1,152	—	—	6,214
Contract commitments	2,672	2,553	603	—	—	5,828
Total	<u>\$ 11,027</u>	<u>\$ 9,283</u>	<u>\$ 4,516</u>	<u>\$ 1,368</u>	<u>\$ 715</u>	<u>\$ 26,909</u>

Impact of Applicable Recent Accounting Pronouncements

In the normal course of business, we evaluate pronouncements issued by the Financial Accounting Standards Board (“FASB”), Securities and Exchange Commission (“SEC”), or other authoritative bodies to determine the potential impact they may have on our consolidated financial statements. Refer to Note 1, *The Company and Summary of Significant Accounting Policies*, of the Notes to the Consolidated Financial Statements in Item 8 of this report for additional information about these recently issued accounting standards and their potential impact on our consolidated results of operations.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Interest Rate Risk

Our cash and cash equivalents primarily consist of cash and money market funds. We currently have no investments of any type. Our exposure to market risk for changes in interest rates is limited because nearly all of our cash and cash equivalents have a short-term maturity and are used primarily for working capital purposes.

We have a bank line of credit for \$12 million with no outstanding borrowings at December 31, 2017. Any borrowings under the line of credit bear interest at a variable annual rate, at our election, based on either the “prime rate” as published in The Wall Street Journal or LIBOR for the relevant period. If our liquidity coverage ratio (the ratio of cash plus eligible accounts receivable to bank borrowings under the related loan agreement) exceeds 2.75 to 1, LIBOR-based advances bear interest at LIBOR plus 3.5% and prime rate advances bear interest at the prime rate plus 1.0%. If our liquidity coverage ratio falls below 2.75 to 1, LIBOR-based advances bear interest at LIBOR plus 4.0% and prime rate advances bear interest at the prime rate plus 1.5%. This arrangement, if we were to have borrowings under the line of credit, would subject us to interest rate risk. Refer to Note 5, *Long-Term Debt* of the Notes to the Consolidated Financial Statements in Item 8 of this report for additional information about our outstanding debt.

Inflation Risk

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

Foreign Currency Exchange Risk

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our financial statements are submitted on pages F-1 through F-26 of this Annual Report on Form 10-K.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. 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 December 31, 2017. 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 (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.

During our evaluation of our disclosure controls and procedures as of December 31, 2017, we identified three material weaknesses in our internal control over financial reporting, as further described below. As a result, we concluded that, as of such date, our disclosure controls and procedures are not effective. Notwithstanding these material weaknesses, we have concluded that the Consolidated Financial Statements included in this Annual Report on Form 10-K present fairly, in all material respects, the financial position of the Company at December 31, 2017 and December 31, 2016 and the consolidated results of operations and cash flows for each of the three fiscal years in the period ended December 31, 2017 in conformity with U.S. generally accepted accounting principles.

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.

Management’s Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) of the Exchange Act. Under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, our management conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2017 based upon the framework in “Internal Control—Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). Based on that evaluation, management concluded that, while there are no misstatements identified in the consolidated financial statements included in this Annual Report on Form 10-K, our internal control over financial reporting was not effective as of December 31, 2017 as a result of the material weaknesses described below.

A material weakness is defined as a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our financial statements will not be prevented or detected on a timely basis.

We have identified three material weaknesses: (i) an ineffective control environment due to a lack of sufficient qualified accounting personnel with an appropriate level of knowledge and experience with generally accepted accounting principles, (ii) ineffective control activities due to the lack of timeliness in executing business process controls, and (iii) ineffective monitoring controls to ascertain whether the components of internal control were present and functioning.

The effectiveness of our internal control over financial reporting as of December 31, 2017 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report included in this Annual Report on Form 10-K. This report, which appears in Part II, Item 8 of this Annual Report on Form 10-K, contains an adverse opinion on the effectiveness of our internal control over financial reporting.

Remediation Efforts to Address the Material Weaknesses

We take these material weaknesses seriously. We have already taken steps to remediate them and will continue to take further steps until their remediation is complete. For example, we have assigned additional personnel within our finance department to the implementation, administration and evaluation of our internal control over financial reporting. These additional personnel include certified public accountants and persons with experience in financial and accounting project management, to augment the experience

and expertise of our accounting team. In addition, we hired a finance manager in 2018, who is a certified public accountant. We have also engaged an outside public accounting firm to provide us with the services of accounting support personnel and will continue to use their services on an as-needed basis.

Additionally, with the assistance of the outside public accounting firm, we are expanding and enhancing the written documentation of our internal controls, including assigning more specific responsibilities to particular personnel and imposing shorter timelines for executing their control-related tasks. The senior members of our finance department will be responsible for holding other members of the department accountable for meeting such timelines. We believe that this additional oversight, coupled with the additional personnel devoted to internal control over financial reporting, will allow us to execute business process controls more quickly and ensure a greater level of monitoring whether controls are present and functioning.

Changes in Internal Control over Financial Reporting

There were no other 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 December 31, 2017 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of Synacor, Inc.

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Synacor, Inc. and subsidiaries (the "Company") as of December 31, 2017, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, because of the effect of the material weaknesses identified below on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2017 of the Company and our report dated March 16, 2018 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Material Weaknesses

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weaknesses have been identified and included in management's assessment: (i) ineffective control environment due to a lack of sufficient qualified personnel with an appropriate level of knowledge and experience with generally accepted accounting principles, (ii) ineffective control activities due to the lack of timeliness in executing business process controls, and (iii) ineffective monitoring controls to ascertain whether the components of internal control were present and functioning. These material weaknesses were considered in determining the nature, timing, and extent of audit tests applied in our audit of the consolidated financial statements as of and for the year ended December 31, 2017, of the Company, and this report does not affect our report on such financial statements.

/s/ Deloitte & Touche LLP

Williamsville, New York
March 16, 2018

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item is incorporated by reference to the information in our proxy statement for our 2018 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2017.

Our board of directors has adopted a Code of Business Conduct and a Code of Ethics applicable to all officers, directors and employees, which is available on our website (<http://www.synacor.com>) under “Investors—Corporate Governance.” We will provide a copy of these documents to any person, without charge, upon request, by writing to us at Synacor, Inc., Investor Relations Department, 40 La Riviere Drive, Suite 300, Buffalo, New York 14202. We intend to satisfy the disclosure requirement under Item 5.05 of Form 8-K regarding an amendment to, or waiver from, a provision of our Code of Business Conduct or Code of Ethics by posting such information on our website at the address and the location specified above.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated by reference to the information in our proxy statement for our 2018 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2017.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item is incorporated by reference to the information in our proxy statement for our 2018 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2017.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item is incorporated by reference to the information in our proxy statement for our 2018 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2017.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item is incorporated by reference to the information in our proxy statement for our 2018 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2017.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as a part of this report:

1. *Financial Statements*: See Financial Statements and Supplementary Data, Part II, Item 8.

2. *Financial Statement Schedules*: Financial Statement Schedules have been omitted either because they are not required or because the information required is included in the notes to the financial statements.

3. *Exhibits*: See the Exhibit Index immediately preceding the signature page of this Annual Report on Form 10-K.

ITEM 16. FORM 10-K SUMMARY

Not applicable.

EXHIBITS

The following exhibits are incorporated by reference herein or filed here within:

Exhibit No.	Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Date of Filing	Exhibit Number	
3.1	Fifth Amended and Restated Certificate of Incorporation	S-1/A	333-178049	1/30/2012	3.2	
3.2	Amended and Restated Bylaws	S-1/A	333-178049	1/30/2012	3.4	
3.3	Certificate of Designations of Series A Junior Participating Preferred Stock	8-K	001-33843	7/15/2014	3.1	
10.1	Form of Indemnification Agreement between Synacor, Inc. and each of its directors and executive officers and certain key employees	S-1	333-178049	11/18/2011	10.1	
10.2.1*	2006 Stock Plan	S-1	333-178049	11/18/2011	10.3.1	
10.2.2*	Amendment No. 1 to 2006 Stock Plan	S-1	333-178049	11/18/2011	10.3.2	
10.2.3*	Amendment No. 2 to 2006 Stock Plan	S-1	333-178049	11/18/2011	10.3.3	
10.2.4*	Amendment No. 3 to 2006 Stock Plan	S-1	333-178049	11/18/2011	10.3.4	
10.2.5*	Amendment No. 4 to 2006 Stock Plan	S-1	333-178049	11/18/2011	10.3.5	
10.2.6*	Amendment No. 5 to 2006 Stock Plan	S-1	333-178049	11/18/2011	10.3.6	
10.2.7*	Amendment No. 6 to 2006 Stock Plan	S-1	333-178049	11/18/2011	10.3.7	
10.2.8*	Amendment No. 7 to 2006 Stock Plan	S-1/A	333-178049	1/18/2012	10.3.8	
10.2.9*	Form of Stock Option Agreement under 2006 Stock Plan with Jordan Levy	S-1/A	333-178049	1/30/2012	10.3.9	
10.2.10*	Form of Director Stock Option Agreement under 2006 Stock Plan	S-1/A	333-178049	1/30/2012	10.3.14	
10.2.11*	Form of Director Stock Option Agreement under 2006 Stock Plan	S-1/A	333-178049	1/30/2012	10.3.15	
10.2.12 *	Form of Stock Option Agreement with Himesh Bhise under 2006 Stock Plan	10-K	001-33843	3/22/2017	10.2.13	
10.3.1*	Amended and Restated 2012 Equity Incentive Plan	Schedule 14A	001-33843	4/7/2017	App A	

Exhibit No.	Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Date of Filing	Exhibit Number	
10.3.2*	Form of Stock Option Agreement under 2012 Equity Incentive Plan	S-1/A	333-178049	1/30/2012	10.4.2	
10.3.3*	Form of Stock Unit Agreement under 2012 Equity Incentive Plan	S-1/A	333-178049	1/30/2012	10.4.3	
10.3.4*	Form of Early Exercise Stock Option Agreement under 2012 Equity Incentive Plan	10-K	001-33843	3/26/2013	10.4.5	
10.3.5*	Form of Stock Option Agreement with William J. Stuart under 2012 Equity Incentive Plan	10-K	001-33843	3/26/2013	10.4.7	
10.3.6*	Form of Stock Option Agreement with Himesh Bhise under 2012 Equity Incentive Plan	10-K	001-33843	3/22/2017	10.3.7	
10.3.7*	Form of Stock Option Agreement with William J. Stuart under 2012 Equity Incentive Plan	10-K	001-33843	3/22/2017	10.3.8	
10.4.1*	Letter Agreement dated August 3, 2011 with William J. Stuart	S-1	333-178049	11/18/2011	10.8	
10.4.2*	Severance Agreement with William J. Stuart	10-K	001-33843	3/26/2014	10.8.2	
10.4.3*	Letter Agreement dated August 26, 2013 with William J. Stuart	10-K	001-33843	3/26/2014	10.8.3	
10.5*	2007 Management Cash Incentive Plan	10-Q	001-33843	5/15/2012	10.1	
10.6†	Second Amended and Restated Master Services Agreement between Qwest Corporation and Synacor, Inc. dated June 1, 2017	10-Q	001-33843	5/15/2017	10.3	
10.7.1 †	Google Services Agreement between Google Inc. and Synacor, Inc. dated March 1, 2011	S-1/A	333-178049	2/1/2012	10.13.1	
10.7.2 †	Amendment Number One to Google Services Agreement between Google Inc. and Synacor, Inc. dated July 1, 2011	S-1/A	333-178049	12/29/2011	10.13.2	
10.7.3 †	Amendment Number Two to Google Services Agreement between Google Inc. and Synacor, Inc. dated May 1, 2012	10-Q	001-33843	8/13/2013	10.1.1	
10.7.4 †	Amendment Number Three to Google Services Agreement between Google Inc. and Synacor, Inc. dated May 1, 2013	10-Q	001-33843	8/13/2013	10.1.2	
10.7.5 †	Amendment Number Four to Google Services Agreement between Google Inc. and Synacor, Inc. dated March 1, 2014	10-Q	001-33843	5/15/2014	10.1	
10.7.6 †	Amendment Number Five to Google Services Agreement between Google Inc. and Synacor, Inc. dated August 1, 2014	10-K/A	001-33843	3/13/2015	10.13.6	
10.7.7 †	Amendment Number Six to Google Services Agreement between Google Inc. and Synacor, Inc. dated January 1, 2015	10-Q	001-33843	5/14/2015	10.1	
10.7.8 †	Amendment Number Seven to Google Services Agreement between Google Inc. and Synacor, Inc. dated March 1, 2016	10-Q	001-33843	5/16/2016	10.3	

Exhibit No.	Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Date of Filing	Exhibit Number	
10.7.9	Extension Notice Letter from Google Inc. dated December 16, 2016	10-K	001-33843	3/22/2017	10.9.9	
10.7.10 †	Amendment Number Eight to Google Services Agreement between Google Inc. and Synacor, Inc. effective as of January 1, 2017	10-Q	001-33843	5/15/2017	10.1	
10.7.11 †	Amendment Number Nine to Google Services Agreement between Google Inc. and Synacor, Inc. effective as of May 1, 2017	10-Q	001-33843	8/14/2017	10.1	
10.8.1	Sublease dated March 3, 2006 between Ludlow Technical Products Corporation and Synacor, Inc.	S-1	333-178049	11/18/2011	10.14.1	
10.8.2	First Amendment to Sublease dated September 25, 2006	S-1	333-178049	11/18/2011	10.14.2	
10.8.3	Second Amendment to Sublease dated February 27, 2007	S-1	333-178049	11/18/2011	10.14.3	
10.8.4	Third Amendment to Sublease dated June 30, 2010	10-K	001-33843	3/22/2016	10.11.4	
10.8.5	Fourth Amendment to Sublease dated May 21, 2013	10-K	001-33843	3/22/2016	10.11.5	
10.8.6	Fifth Amendment to Sublease dated July 10, 2013	10-K	001-33843	3/22/2016	10.11.6	
10.8.7	Sixth Amendment to Sublease dated February 8, 2016	10-K	001-33843	3/22/2016	10.11.7	
10.8.8	Seventh Amendment to Sublease dated February 17, 2017					X
10.8.9	Eighth Amendment to Sublease dated August 29, 2017					X
10.8.10	Ninth Amendment to Sublease dated October 3, 2017					X
10.9.1*	Letter Agreement dated March 1, 2008 with Jordan Levy	S-1/A	333-178049	1/30/2012	10.15.1	
10.9.2*	Letter Agreement dated June 23, 2009 with Jordan Levy	S-1/A	333-178049	1/30/2012	10.15.2	
10.10*	Form of Common Stock Repurchase Agreement	S-1/A	333-178049	1/30/2012	10.16	
10.11.1*	Special Purpose Recruitment Plan	Schedule 14A	001-33843	4/5/2013	App. A	
10.11.2*	Form of Stock Option Agreement (Early Exercise) under Special Purpose Recruitment Plan	10-Q	001-33843	8/13/2013	10.5	
10.12.1	Loan and Security Agreement between Silicon Valley Bank and Synacor, Inc. dated September 27, 2013	10-Q	001-33843	11/14/2013	10.1	
10.12.2	First Amendment to the Loan and Security Agreement between Silicon Valley Bank and Synacor, Inc. dated October 28, 2014	10-K	001-33843	3/12/2015	10.20.2	

Exhibit No.	Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Date of Filing	Exhibit Number	
10.12.3	Joinder to Loan and Security Agreement among Silicon Valley Bank, Synacor, Inc., and NTV Internet Holdings, LLC dated April 13, 2015	10-K	001-33843	3/22/2016	10.16.3	
10.12.4	Second Amendment to Loan and Security Agreement among Silicon Valley Bank, Synacor, Inc., NTV Internet Holdings, LLC and SYNC Holdings, LLC dated September 25, 2015	10-Q	001-33843	11/17/2015	10.3	
10.12.5	Joinder to Loan and Security Agreement among Silicon Valley Bank, Synacor, Inc., NTV Internet Holdings, LLC and SYNC Holdings, LLC dated September 25, 2015	10-K	001-33843	3/22/2016	10.16.5	
10.12.6	Third Amendment to Loan and Security Agreement among Silicon Valley Bank, Synacor, Inc., NTV Internet Holdings, LLC and SYNC Holdings, LLC dated October 28, 2015	10-K	001-33843	3/22/2016	10.16.6	
10.12.7	Consent and Fourth Amendment to Loan and Security Agreement among Silicon Valley Bank, Synacor, Inc., NTV Internet Holdings, LLC and SYNC Holdings, LLC dated February 25, 2016	10-Q	001-33843	5/16/2016	10.2	
10.12.8	Consent and Fifth Amendment to Loan and Security Agreement among Silicon Valley Bank, Synacor, Inc., NTV Internet Holdings, LLC and SYNC Holdings, LLC dated November 8, 2016	10-Q	001-33843	11/14/2016	10.2	
10.12.9	Consent and Sixth Amendment to Loan and Security Agreement among Silicon Valley Bank, Synacor, Inc., NTV Internet Holdings, LLC and SYNC Holdings, LLC dated March 30, 2017	10-Q	001-33843	5/15/2017	10.4	
10.12.10	Seventh Amendment to Loan and Security Agreement among Silicon Valley Bank, Synacor, Inc., NTV Internet Holdings, LLC and SYNC Holdings, LLC dated June 30, 2017	10-Q	001-33843	8/14/2017	10.2	
10.13.1*	Employment Letter Agreement with Himesh Bhise dated July 31, 2014	10-Q	001-33843	11/14/2014	10.1.1	
10.13.2*	Stock Option Agreement with Himesh Bhise granted on August 4, 2014	10-Q	001-33843	11/14/2014	10.1.2	
10.14.1†	Portal and Advertising Services Agreement between Synacor, Inc. and AT&T Services, Inc. made as of April 1, 2016	10-Q	001-33843	8/15/2016	10.1	
10.14.2†	First Amendment to Portal and Advertising Services Agreement between Synacor, Inc. and AT&T Services, Inc. effective as of May 4, 2016.	10-Q	001-33843	8/15/2016	10.2	
10.14.3†	Second Amendment to Portal and Advertising Services Agreement between Synacor, Inc. and AT&T Services, Inc. effective as of December 7, 2016.	10-K/A	001-33843	6/5/2017	10.16.3	

Exhibit No.	Description	Incorporated by Reference			Filed Herewith
		Form	File No.	Date of Filing	
10.14.4 [†]	Third Amendment to Portal and Advertising Services Agreement between Synacor, Inc. and AT&T Services, Inc. effective as of March 10, 2017	10-Q	001-33843	5/15/2017	10.2
10.14.5	Fourth Amendment to Portal and Advertising Services Agreement between Synacor, Inc. and AT&T Services, Inc. effective as of July 10, 2017	10-Q	001-33843	11/14/2017	10.1
10.14.6 [†]	Statement of Work #1 to Portal and Advertising Services Agreement between Synacor, Inc. and AT&T Services, Inc. effective as of July 10, 2017	10-Q	001-33843	11/14/2017	10.2
10.14.7 [#]	Fifth Amendment to Portal and Advertising Services Agreement between Synacor, Inc. and AT&T Services, Inc. effective as of November 20, 2017				X
10.14.8 [#]	Sixth Amendment to Portal and Advertising Services Agreement between Synacor, Inc. and AT&T Services, Inc. effective as of December 8, 2017				X
10.15	Lease dated August 31, 2017 between D&S Capital Real Estate III, LLC and Synacor, Inc.				X
21.1	List of subsidiaries				X
23.1	Consent of Deloitte & Touche LLP				X
24.1	Power of Attorney (contained in the signature page of this Annual Report on Form 10-K)				X
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				X
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				X
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				X
101.INS	XBRL Instance Document				X
101.SCH	XBRL Taxonomy Extension Schema				X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase				X
101.LAB	XBRL Taxonomy Extension Label Linkbase				X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase				X
101.DEF	XBRL Taxonomy Extension Definition Linkbase				X

Notes:

* Indicates management contract or compensatory plan or arrangement.

- # Confidential treatment has been requested for portions of this document. The omitted portions have been filed with the Securities and Exchange Commission
- † Confidential treatment has been granted for portions of this document. The omitted portions have been filed with the Securities and Exchange Commission.
- ‡ This certification is not deemed “filed” for purposes of Section 18 of the Securities Exchange Act, or otherwise subject to the liability of that section. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that Synacor, Inc. specifically incorporates it by reference.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

SYNACOR, INC.

/s/ HIMESH BHISE

Himesh Bhise
President and Chief Executive Officer
(Principal Executive Officer)

Date: March 16, 2018

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Himesh Bhise and William J. Stuart, and each of them, his true and lawful attorneys-in-fact, each with full power of substitution, for him in any and all capacities, to sign any amendments to this Annual Report on Form 10-K and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact or their substitute or substitutes may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ HIMESH BHISE</u> Himesh Bhise	President, Chief Executive Officer and Director (Principal Executive Officer)	March 16, 2018
<u>/s/ WILLIAM J. STUART</u> William J. Stuart	Chief Financial Officer (Principal Financial and Accounting Officer)	March 16, 2018
<u>/s/ ELISABETH B. DONOHUE</u> Elisabeth B. Donohue	Director	March 16, 2018
<u>/s/ MARWAN FAWAZ</u> Marwan Fawaz	Director	March 16, 2018
<u>/s/ GARY L. GINSBERG</u> Gary L. Ginsberg	Director	March 16, 2018
<u>/s/ ANDREW KAU</u> Andrew Kau	Director	March 16, 2018
<u>/s/ JORDAN LEVY</u> Jordan Levy	Director	March 16, 2018
<u>/s/ MICHAEL J. MONTGOMERY</u> Michael J. Montgomery	Director	March 16, 2018
<u>Scott Murphy</u>	Director	

INDEX TO THE FINANCIAL STATEMENTS

	<u>Page</u>
Financial Statements	
Report of Independent Registered Public Accounting Firm	F-2
Consolidated Balance Sheets as of December 31, 2017 and 2016	F-3
Consolidated Statements of Operations for the years ended December 31, 2017, 2016 and 2015	F-4
Consolidated Statements of Comprehensive Loss for the years ended December 31, 2017, 2016 and 2015	F-5
Consolidated Statements of Stockholders' Equity for the years ended December 31, 2017, 2016 and 2015	F-6
Consolidated Statements of Cash Flows for the years ended December 31, 2017, 2016 and 2015	F-7
Notes to the Consolidated Financial Statements	F-9

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of Synacor, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Synacor, Inc. and subsidiaries (the "Company") as of December 31, 2017 and 2016, the related consolidated statements of operations, comprehensive loss, stockholders' equity, and cash flows, for each of the three years in the period ended December 31, 2017, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 16, 2018, expressed an adverse opinion on the Company's internal control over financial reporting because of material weaknesses.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Deloitte & Touche LLP

Williamsville, New York
March 16, 2018

We have served as the Company's auditor since 2006.

SYNACOR, INC.
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2017 AND 2016
(In thousands except for share and per share data)

	2017	2016
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 22,476	\$ 14,315
Accounts receivable—net of allowance of \$99 and \$263	31,696	27,386
Prepaid expenses and other current assets	4,516	4,862
Total current assets	58,688	46,563
PROPERTY AND EQUIPMENT—Net	20,505	14,406
GOODWILL	15,955	15,943
INTANGIBLE ASSETS	12,695	14,837
OTHER ASSETS	937	1,650
TOTAL ASSETS	\$ 108,780	\$ 93,399
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 25,931	\$ 18,769
Accrued expenses and other current liabilities	7,075	11,684
Current portion of deferred revenue	11,605	12,149
Current portion of capital lease obligations	2,444	982
Total current liabilities	47,055	43,584
LONG-TERM PORTION OF CAPITAL LEASE OBLIGATIONS	3,371	1,014
DEFERRED REVENUE	3,682	3,917
DEFERRED INCOME TAXES	264	127
OTHER LONG-TERM LIABILITIES	63	108
LONG-TERM DEBT	—	5,000
Total liabilities	54,435	53,750
COMMITMENTS AND CONTINGENCIES (Note 8)		
STOCKHOLDERS' EQUITY:		
Preferred stock, \$0.01 par value—10,000,000 shares authorized, no shares issued and outstanding at December 31, 2017 and 2016	—	—
Common stock, \$0.01 par value—100,000,000 shares authorized; 39,625,980 shares issued and 38,783,760 shares outstanding at December 31, 2017; 31,626,635 shares issued and 30,881,148 shares outstanding at December 31, 2016	396	316
Treasury stock—at cost, 842,220 shares at December 31, 2017 and 745,487 shares at December 31, 2016	(1,881)	(1,547)
Additional paid-in capital	142,486	117,747
Accumulated deficit	(86,627)	(76,850)
Accumulated other comprehensive loss	(29)	(17)
Total stockholders' equity	54,345	39,649
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 108,780	\$ 93,399

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

SYNACOR, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(In thousands except for share and per share data)

	<u>2017</u>	<u>2016</u>	<u>2015</u>
REVENUE	\$ 140,027	\$ 127,373	\$ 110,245
COSTS AND OPERATING EXPENSES:			
Cost of revenue (exclusive of depreciation and amortization shown separately below)	70,053	59,146	54,423
Technology and development (exclusive of depreciation and amortization shown separately below)	27,642	25,612	20,007
Sales and marketing	24,941	22,846	16,272
General and administrative (exclusive of depreciation and amortization shown separately below)	17,800	19,695	15,543
Depreciation and amortization	9,820	9,235	6,901
Total costs and operating expenses	<u>150,256</u>	<u>136,534</u>	<u>113,146</u>
LOSS FROM OPERATIONS	<u>(10,229)</u>	<u>(9,161)</u>	<u>(2,901)</u>
GAIN ON SALE OF INVESTMENT	1,987	—	—
INTEREST EXPENSE	(433)	(318)	(245)
OTHER EXPENSE, net	(2)	(42)	(16)
LOSS BEFORE INCOME TAXES AND EQUITY INTEREST	<u>(8,677)</u>	<u>(9,521)</u>	<u>(3,162)</u>
PROVISION FOR INCOME TAXES	1,100	1,219	239
LOSS IN EQUITY INTEREST	—	—	(73)
NET LOSS	<u>\$ (9,777)</u>	<u>\$ (10,740)</u>	<u>\$ (3,474)</u>
NET LOSS PER SHARE:			
Basic	<u>\$ (0.27)</u>	<u>\$ (0.36)</u>	<u>\$ (0.12)</u>
Diluted	<u>\$ (0.27)</u>	<u>\$ (0.36)</u>	<u>\$ (0.12)</u>
WEIGHTED AVERAGE SHARES USED TO COMPUTE NET LOSS PER SHARE:			
Basic	<u>36,381,299</u>	<u>30,251,685</u>	<u>28,213,838</u>
Diluted	<u>36,381,299</u>	<u>30,251,685</u>	<u>28,213,838</u>

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

SYNACOR, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(In thousands)

	2017	2016	2015
Net loss	\$ (9,777)	\$ (10,740)	\$ (3,474)
Other comprehensive loss:			
Change in foreign currency translation adjustment, net of tax	(12)	(19)	(18)
Comprehensive loss	<u>\$ (9,789)</u>	<u>\$ (10,759)</u>	<u>\$ (3,492)</u>

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

SYNACOR, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(In thousands except for share data)

	Common Stock		Treasury Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount	Shares	Amount				
BALANCE—January 1, 2015	27,944,853	\$ 279	(553,144)	\$ (1,142)	\$ 105,961	\$ (62,636)	\$ 20	\$ 42,482
Exercise of common stock options	36,135	—	—	—	70	—	—	70
Stock and warrants issued in acquisition	2,400,000	24	—	—	3,936	—	—	3,960
Stock-based compensation cost	—	—	—	—	3,271	—	—	3,271
Vesting of restricted stock units	255,339	3	—	—	—	—	—	3
Treasury stock withheld to cover tax liability	—	—	(99,904)	(190)	—	—	—	(190)
Net loss	—	—	—	—	—	(3,474)	—	(3,474)
Other comprehensive loss	—	—	—	—	—	—	(18)	(18)
BALANCE—December 31, 2015	30,636,327	306	(653,048)	(1,332)	113,238	(66,110)	2	46,104
Exercise of common stock options	751,481	8	—	—	1,552	—	—	1,560
Stock-based compensation cost	—	—	—	—	2,957	—	—	2,957
Vesting of restricted stock units	238,827	2	—	—	—	—	—	2
Treasury stock withheld to cover tax liability	—	—	(92,439)	(215)	—	—	—	(215)
Net loss	—	—	—	—	—	(10,740)	—	(10,740)
Other comprehensive loss	—	—	—	—	—	—	(19)	(19)
BALANCE—December 31, 2016	31,626,635	316	(745,487)	(1,547)	117,747	(76,850)	(17)	39,649
Issuance of common stock upon stock offering, net of offering costs	6,187,846	62	—	—	19,984	—	—	20,046
Exercise of common stock options	969,223	9	—	—	2,140	—	—	2,149
Stock-based compensation cost	—	—	—	—	2,624	—	—	2,624
Vesting of restricted stock units	242,276	3	—	—	(3)	—	—	—
Release of stock holdback (Note 2)	600,000	6	—	—	(6)	—	—	—
Treasury stock withheld to cover tax liability	—	—	(96,733)	(334)	—	—	—	(334)
Net loss	—	—	—	—	—	(9,777)	—	(9,777)
Other comprehensive loss	—	—	—	—	—	—	(12)	(12)
BALANCE—December 31, 2017	<u>39,625,980</u>	<u>\$ 396</u>	<u>(842,220)</u>	<u>\$ (1,881)</u>	<u>\$ 142,486</u>	<u>\$ (86,627)</u>	<u>\$ (29)</u>	<u>\$ 54,345</u>

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

SYNACOR, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(In thousands)

	<u>2017</u>	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	\$ (9,777)	\$ (10,740)	\$ (3,474)
Adjustments to reconcile net loss to net cash and cash equivalents (used in) provided by operating activities:			
Depreciation and amortization	9,820	9,235	6,901
Loss on disposal of property and equipment	203	—	—
Capitalized software impairment	256	334	—
Stock-based compensation expense	2,490	2,771	3,115
Gain on sale of investment	(1,987)	—	—
Provision for deferred income taxes	137	143	—
Change in allowance for doubtful accounts	(164)	—	—
Increase in estimated value of contingent consideration	107	—	—
Loss in equity interest	—	—	73
Change in operating assets and liabilities, net of effects of acquisitions:			
Accounts receivable, net	(4,146)	(2,080)	(362)
Prepaid expenses and other current assets	346	(1,572)	(547)
Other long-term assets	15	(314)	(167)
Accounts payable, accrued expenses and other current liabilities	3,261	9,286	(1,489)
Deferred revenue	(779)	1,546	3,478
Other long-term liabilities	(45)	(360)	122
Net cash (used in) provided by operating activities	<u>(263)</u>	<u>8,249</u>	<u>7,650</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceed from the sale of investment	2,645	—	—
Purchases of property and equipment	(7,876)	(5,939)	(3,236)
Acquisition net of cash acquired	—	(2,500)	(17,260)
Net cash used in investing activities	<u>(5,231)</u>	<u>(8,439)</u>	<u>(20,496)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from offering of common stock, net of underwriting costs	20,258	—	—
Payments of public offering issuance costs	(212)	—	—
(Repayments of) proceeds from bank financing	(5,000)	—	5,000
Repayments on capital lease obligations	(1,866)	(1,672)	(1,442)
Proceeds from exercise of common stock options	2,149	1,560	70
Purchase of treasury stock and shares received to satisfy minimum tax withholdings	(334)	(215)	(190)
Deferred acquisition payments	(1,300)	(860)	(495)
Net cash provided by (used in) financing activities	<u>13,695</u>	<u>(1,187)</u>	<u>2,943</u>
Effect of exchange rate changes on cash and cash equivalents	(40)	(5)	—

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	8,161	(1,382)	(9,903)
CASH AND CASH EQUIVALENTS—Beginning of year	<u>14,315</u>	<u>15,697</u>	<u>25,600</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 22,476</u>	<u>\$ 14,315</u>	<u>\$ 15,697</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid for interest	<u>\$ 416</u>	<u>\$ 318</u>	<u>\$ 212</u>
Cash paid for income taxes	<u>\$ 908</u>	<u>\$ 737</u>	<u>\$ 210</u>
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING TRANSACTIONS:			
Property, equipment and service contracts financed under capital lease obligations	<u>\$ 5,832</u>	<u>\$ 982</u>	<u>\$ 1,173</u>
Liability for estimated additional contingent consideration	<u>\$ —</u>	<u>\$ 567</u>	<u>\$ 1,600</u>
Fair value of common stock and warrants in acquisition	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 3,960</u>
Accrued property and equipment expenditures	<u>\$ 529</u>	<u>\$ 227</u>	<u>\$ 21</u>
Stock-based compensation capitalized to property and equipment	<u>\$ 134</u>	<u>\$ 186</u>	<u>\$ 159</u>

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

SYNACOR, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2017 AND 2016, AND
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015

1. THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Presentation —The consolidated financial statements and accompanying notes have been prepared in accordance with United States generally accepted accounting principles (“U.S. GAAP”) and include the accounts of the Company and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Accounts Receivable —The Company records accounts receivable at the invoiced amount and does not charge interest on past due invoices. An allowance for doubtful accounts is maintained to reserve for potentially uncollectible accounts receivable. The Company reviews its accounts receivable from customers that are past due to identify specific accounts with known disputes or collectability issues. In determining the amount of the reserve, the Company makes judgments about the creditworthiness of customers based on ongoing credit evaluations.

Property and Equipment —Property and equipment are stated at cost, less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Leasehold improvements	3–10 years
Computer hardware	5 years
Computer software	3 years
Furniture and fixtures	7 years
Other	3–5 years

Computer hardware and software under capital leases and leasehold improvements are amortized over the shorter of the lease term or the estimated useful life of the assets.

Long-Lived Assets —The Company reviews the carrying value of its long-lived assets, exclusive of goodwill, for impairment whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. For purposes of evaluating and measuring impairment, the Company groups a long-lived asset or assets with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to future undiscounted net cash flows expected to be generated by the assets. If such assets are considered impaired, the impairment is measured and recognized as the amount by which the carrying amount of the assets exceeds the fair value of the assets. There have been no material impairments to long-lived assets in any of the years presented.

The components and original estimated economic lives of our amortizable intangible assets were as follows as of December 31, 2017 and 2016:

	Original Estimated Economic Life	2017	2016
		(Dollars in thousands)	
Gross amortizable intangible assets:			
Customer relationships	10 years	\$ 14,780	\$ 14,780
Trademark	5 years	300	300
Developed technology	5 years	<u>2,330</u>	<u>2,330</u>
Total gross amortizable intangible assets		17,410	17,410
Accumulated amortization:			
Customer relationships		(3,577)	(1,961)
Trademark		(137)	(78)
Developed technology		<u>(1,001)</u>	<u>(534)</u>
Total accumulated amortization		<u>(4,715)</u>	<u>(2,573)</u>
Amortizable intangible assets, net		<u>\$ 12,695</u>	<u>\$ 14,837</u>

Future amortization expense of amortizable intangible assets will be as follows (in thousands): \$2,142 in each of years ending December 31, 2018 and 2019, \$2,031 in the year ending December 31, 2020, \$1,411 in the year ending December 31, 2021, and \$4,969 thereafter.

Goodwill — Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired in a business combination. Goodwill is not amortized, but is tested for impairment on an annual basis and more frequently if impairment indicators are present. Goodwill is considered impaired if the carrying value of the reporting unit exceeds its estimated fair value. The Company has determined it is a single reporting unit, and estimates its fair value using a market approach. If the carrying value of the reporting unit were to exceed its estimated fair value, a goodwill impairment charge is required. This charge would be recognized in the amount by which the carrying value of the reporting unit exceeds the estimated fair value of the reporting unit. The Company conducts its annual goodwill impairment test as of October 1st. For the years ended December 31, 2017, 2016 and 2015, the Company determined goodwill was not impaired.

The change in goodwill is as follows for the years ended December 31, 2017 and 2016 (in thousands):

	Years Ended December 31,	
	2017	2016
Balance, beginning of year	\$ 15,943	\$ 15,187
Technorati acquisition related goodwill (Note 2)	-	751
Foreign currency revaluation	12	5
Balance, end of year	<u>\$ 15,955</u>	<u>\$ 15,943</u>

Revenue Recognition — The Company derives revenue from two categories: 1) Managed Portals and Advertising activities, and 2) Recurring and Fee-Based. Revenue is recognized when the following criteria are met: persuasive evidence of an arrangement exists; delivery has occurred; the selling price is fixed or determinable; and collectability is reasonably assured. The following table shows the revenue in each category for the years ended December 31, 2017, 2016 and 2015 (in thousands):

	Year Ended December 31,		
	2017	2016	2015
Search and digital advertising	\$ 83,556	\$ 74,889	\$ 78,316
Recurring and fee-based	56,471	52,484	31,929
Total revenue	<u>\$ 140,027</u>	<u>\$ 127,373</u>	<u>\$ 110,245</u>

The Company uses internet advertising to generate revenue from the traffic on its Managed Portals categorized as search advertising and digital advertising.

- In the case of search advertising, the Company has a revenue-sharing relationship with Google, pursuant to which it includes a Google-branded search tool on its Managed Portals. When a consumer makes a search query using this tool, the Company delivers 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 the Company, which is recognized as revenue.
- Digital advertising includes video, image and text advertisements delivered on one of the Company's Managed Portals, or through its advertising network. Advertising inventory is filled with advertisements sourced by the Company's direct sales force, independent advertising sales representatives, and also advertising network partners. Revenue is generated for the Company when an advertisement displays, otherwise known as an impression, or when consumers view or click an advertisement, otherwise known as an action. Digital advertising revenue is calculated on a per-impression or per-action basis. Revenue is recognized as the impressions are delivered or the actions occur, according to contractual rates.

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

The Company evaluates its relationship between search and digital advertising revenue and its Managed Portal customers in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 605-45, *Principal Agent Considerations*. The Company has determined that the search and digital advertising revenue derived from the internet traffic on Managed Portals is reported on a gross basis because the Company is the primary obligor (Synacor is responsible to its customers for fulfilling search and digital advertising services and premium and other services), is involved in the service specifications, performs part of the service, has discretion in supplier selection, has latitude in establishing price and bears credit risk.

Certain Recurring and Fee-Based revenue is derived from the sale of software licenses on a perpetual or subscription basis, for which revenue is recognized upon receipt of an external agreement and delivery of the software, provided the fees are fixed and determinable, and collection is probable. For agreements that include one or more elements to be delivered at a future date, revenue is recognized using the residual method, under which the vendor-specific objective evidence ("VSOE") of fair value of the undelivered elements is deferred, and the remaining portion of the agreement fee is recognized as license revenue. If VSOE of fair value has not been established for certain undelivered elements, revenue is deferred until those elements have been delivered or their fair values have been determined.

Effective January 1, 2018, the Company has adopted FASB ASC 606, *Revenue from Contracts with Customers (ASC 606)*. See Applicable Recent Accounting Pronouncements below.

Cost of Revenue—Cost of revenue consists primarily of revenue sharing, content acquisition costs, co-location facility costs, royalty costs and product support costs. Revenue sharing consists of amounts accrued and paid to customers for the internet traffic on Managed Portals where the Company is the primary obligor, resulting in the generation of search and digital advertising revenue. The revenue-sharing agreements with customers are primarily variable payments based on a percentage of the search and digital advertising revenue.

Content-acquisition agreements may be based on a fixed payment schedule, on the number of subscribers per month, or a combination of both. Fixed-payment agreements are expensed on a straight-line basis over the term defined in the agreement. Agreements based on the number of subscribers are expensed on a monthly basis. Co-location facility costs consist of rent and operating costs for the Company's data center facilities. Royalty costs consist of amounts due to third parties for the license of their applications or technology sold with or embedded in our email software. Product support costs consist of employee and operating costs directly related to the Company's maintenance and professional services support.

Concentrations of Risk — As of December 31, 2017 and 2016, the Company had concentrations equal to or exceeding 10% of the Company’s accounts receivable as follows:

	<u>Accounts Receivable</u>	
	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Google advertising affiliate	16%	*
Google search	7%	*
Advertising customer	12%	*
* - Less than 10%		

For the years ended December 31, 2017, 2016 and 2015 the Company had concentrations equal to or exceeding 10% of the Company’s revenue as follows:

	<u>Revenue</u>		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Google advertising affiliate	21%	12%	*
Google search	15%	12%	28%
* - Less than 10%			

For the years ended December 31, 2017, 2016 and 2015, the following customers received revenue-share payments equal to or exceeding 10% of the Company’s cost of revenue.

	<u>Cost of Revenue</u>		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Customer A	20%	*	*
Customer B	12%	22%	26%
Customer C	*	*	10%
* - Less than 10%			

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and cash equivalents. The Company places its cash primarily in checking and money market accounts with high credit quality financial institutions, which, at times, have exceeded federally insured limits of \$0.25 million. Although the Company maintains balances that exceed the federally insured limit, it has not experienced any losses related to these balances and believes credit risk to be minimal.

Software Development Costs —The Company capitalizes certain costs incurred for the development of internal use software, as well as the costs of developing software for sale or license to customers. Internal use software includes the Company’s proprietary portal software and related applications, CloudID authentication software, and various applications used in the management of the Company’s portals. Software for sale or license to customers includes the Company’s proprietary Email/Collaboration offerings. Costs incurred during the preliminary project stage for internal software programs are expensed as incurred. External and internal costs incurred during the application development stage (subsequent to the achievement of technological feasibility on software to be sold or licensed) of new software development as well as for upgrades and enhancements for software programs that result in additional functionality are capitalized. Software development costs capitalized for sale or license to customers are amortized over the estimated useful life of the applicable software and such amortization is included in cost of revenue. In 2017, 2016 and 2015, the Company incurred a total of \$6.5 million, \$4.5 million and \$2.8 million of combined internal and external costs related to the application development stage. Of this amount, \$2.8 million, \$0.8 million and \$0 were incurred for the development of software for sale or license in 2017, 2016 and 2015, respectively. Internal and external training and maintenance costs are expensed as incurred.

Technology and Development —Technology and development expenses consist primarily of compensation-related expenses incurred for the research and development of, enhancements to, and maintenance and operation of the Company’s products, equipment and related infrastructure.

Sales and Marketing —Sales and marketing expenses consist primarily of compensation-related expenses to the Company’s direct sales and marketing personnel, as well as costs related to advertising, industry conferences, promotional materials, and other sales and marketing programs. Advertising costs are expensed as incurred. Advertising costs totaled \$0.4 million, \$0.4 million and \$0.1 million in 2017, 2016 and 2015, respectively.

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

Earnings (Loss) Per Share—Basic earnings (loss) per share (“EPS”) is calculated in accordance with FASB ASC 260, *Earnings per Share*, using the weighted average number of common shares outstanding during each period. Diluted EPS assumes the conversion, exercise or issuance of all potential common stock equivalents unless the effect is to reduce a loss or increase the income per share. For purposes of this calculation, stock options, warrants and restricted stock units (“RSUs”) are considered to be potential common shares and are only included in the calculation of diluted earnings (loss) per share when their effect is dilutive.

Stock-Based Compensation—The Company records compensation costs related to stock-based awards in accordance with FASB ASC 718, *Compensation—Stock Compensation*. Under the fair value recognition provisions of ASC 718, the Company measures stock-based compensation cost at the grant date based on the estimated fair value of the award. Compensation cost is recognized ratably over the requisite service period of the award. The Company utilizes the Black-Scholes option-pricing model to estimate the fair value of stock options granted. The amount of stock-based compensation expense recognized during a period is based on the portion of the awards that are ultimately expected to vest. The Company estimates pre-vesting forfeitures at the time of grant by analyzing historical data and revises those estimates in subsequent periods if actual forfeitures differ from those estimates. The total expense recognized over the vesting period will only be for those awards that ultimately vest.

Business Combinations—The Company records its business combinations under the acquisition method of accounting. Under this method, the Company allocates the purchase price of each acquisition to the tangible and identifiable intangible assets acquired and liabilities assumed based on their respective fair values at the date of acquisition. The fair value of identifiable intangible assets is based upon detailed valuations that use various assumptions made by management. Any excess of the purchase price over the fair value of net tangible and identifiable intangible assets acquired is allocated to goodwill. All direct acquisition-related costs are expensed as incurred.

The following methodology and assumptions are considered relevant to the fair value judgments related to acquired intangible assets and assumed liabilities:

- Technology and Trademark intangible assets—valued based on discounted cash flows using the relief from royalty method (a form of an income approach)
- Customer Relationship—valued based on a multi-period excess earnings method (a form of an income approach)
- Deferred Revenue—valued based on a cost approach using estimated costs to be incurred in connection with the continuing legal obligation associated with acquired contracts plus a reasonable profit margin.

Business assumptions, such as projections of revenue, costs to fulfill acquired contracts, applicable royalty rates, and future profitability are key assumptions included in the methods described above.

In circumstances where an acquisition involves a contingent consideration arrangement, the Company recognizes a liability equal to the fair value of the contingent payments it expects to make as of the acquisition date. The Company remeasures this liability each reporting period and records changes in the fair value through other expense in the consolidated statement of operations. Increases or decreases in the fair value of the contingent consideration liability can result from changes in discount periods and rates, as well as changes in the timing, amount of, or the likelihood of achieving the applicable contingent consideration.

Income Taxes—On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the “Tax Act”). The Tax Act makes broad and complex changes to the U.S. tax code which may impact the Company, positively or negatively, for taxable years ended December 31, 2017 and thereafter. The impact of many provisions of the Tax Act are unclear and subject to interpretation pending further guidance from the Internal Revenue Service. The ultimate impact of the Tax Act on the Company is dependent on ongoing review and analysis.

Among other important changes in the Tax Act, the tax rate on corporations was reduced from 35% to 21%; a limitation on the deduction of interest expense was enacted; certain tangible property acquired after September 27, 2017 will qualify for 100% expensing; gain from the sale of a partnership interest by a foreign person will be subject to U.S. tax to the extent that the partnership is engaged in a trade or business; a special deduction for qualified business income from pass-through entities was added; U.S. federal income taxes on foreign earnings was eliminated (subject to several important exceptions), and new provisions designed to tax currently global intangible low-taxed income and a new base erosion anti-abuse tax were added.

The Company has made a reasonable estimate of the effects of the Tax Act on its existing deferred tax balances and the one-time transition tax. The Company has substantially completed its accounting for the revaluation of its net U.S. federal deferred tax

liabilities and has recorded a tax benefit of approximately \$0.2 million in the fourth quarter of 2017. The one-time transition tax under the Tax Act is based on earnings and profits ("E&P") of the Company's foreign subsidiaries that were previously deferred from U.S. income taxes. For the year ended December 31, 2017, the provision for income taxes includes provisional tax expense of \$0.1 million related to the one-time transition tax liability of our foreign subsidiaries, and this amount is fully offset by a usage of our net operating loss.

On December 22, 2017, the SEC issued SAB 118, which expresses views of the SEC regarding ASC 740 in the reporting period that includes the enactment date of the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the accounting under ASC 740. In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the Tax Act for which the accounting under ASC 740 is complete. To the extent that a company's accounting for certain income tax effects of the Tax Act is incomplete but it is able to determine a reasonable estimate, it must record and provisional estimate in the financial statements. The Company has not completed the calculation of the total E&P for these foreign subsidiaries and expects to refine its calculations as additional analysis is completed. In addition, the Company's estimates may be affected as additional regulatory guidance is issued with respect to the Tax Act. The Company is currently analyzing its global working capital and cash requirements and the potential tax liabilities attributable to a repatriation, including calculating any excess of the amount for financial reporting over the tax basis in our foreign subsidiaries, but has yet to determine whether it plans to change its prior assertion and repatriate. Accordingly, the Company has not recorded any deferred taxes attributable to its investments in its foreign subsidiaries. The Company will record the tax effects of any change in its prior assertion in the period that it completes its analysis and is able to make a reasonable estimate, and disclose any unrecognized deferred tax liability for temporary differences related to its foreign investments, if practicable, in the period that it is first able to make a reasonable estimate, no later than December 2018.

While the Tax Reform Act provides for a territorial tax system, beginning in 2018, it also includes two new U.S. tax base erosion provisions - the global intangible low-taxed income ("GILTI") provisions and the base-erosion and anti-abuse tax ("BEAT") provisions.

The GILTI provisions require the Company to include in its U.S. income tax return foreign subsidiary earnings in excess of an allowable return on the foreign subsidiary's tangible assets. The Company expects that it will be subject to incremental U.S. tax on GILTI income beginning in 2018. Because of the complexity of the new GILTI tax rules, the Company continues to evaluate this provision of the Tax Reform Act and the application of ASC 740, *Income Taxes*. Under GAAP, the Company is allowed to make an accounting policy choice of either (1) treating taxes due on future U.S. inclusions in taxable income related to GILTI as a current-period expense when incurred (the "period cost method") or (2) factoring such amounts into the Company's measurement of its deferred taxes (the "deferred method"). The Company's selection of an accounting policy with respect to the new GILTI tax rules will depend, in part, on analyzing its global income to determine whether it expects to have future U.S. inclusions in taxable income related to GILTI and, if so, what the impact is expected to be. The Company is currently in the process of analyzing its structure and, as a result, is not yet able to reasonably estimate the effect of this provision of the Tax Reform Act. Therefore, the Company has not made any adjustments related to potential GILTI tax in its consolidated financial statements and has not made a policy decision regarding whether to record deferred tax on GILTI.

The BEAT provisions in the Tax Reform Act eliminates the deduction of certain base-erosion payments made to related foreign corporations, and impose a minimum tax if greater than regular tax. The Company does not expect to be materially impacted by this tax, however, it is still in the process of analyzing the effect of this provision of the Tax Reform Act. The Company has not included any tax impact of BEAT in its consolidated financial statements for the year ended December 31, 2017.

Deferred income tax assets and liabilities are determined based on temporary differences between the financial statement and income tax bases of assets and liabilities and net operating loss ("NOL") and credit carryforwards using enacted income tax rates in effect for the year in which the differences are expected to reverse. A valuation allowance is established to the extent necessary to reduce deferred income tax assets to amounts that more likely than not will be realized.

The Company accounts for uncertain tax positions using a more-likely-than-not recognition threshold based on the technical merits of the tax position taken. Tax benefits that meet the more-likely-than-not recognition threshold should be measured as the largest amount of tax benefits, determined on a cumulative probability basis, which is more likely than not to be realized upon ultimate settlement in the financial statements. It is the Company's policy to recognize interest and penalties related to income tax matters in income tax expense. As of December 31, 2017 and 2016, accrued interest or penalties related to uncertain tax positions was insignificant.

Accounting Estimates —The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates, judgments and assumptions that affect the amounts reported and disclosed in the financial statements and the accompanying notes. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable,

the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from estimated amounts.

Investment — In July 2013, the Company made a \$1.0 million investment (in the form of a convertible promissory note) in a privately held Delaware corporation called Blazer and Flip Flops, Inc. (“B&FF”). In March 2015, the note was converted into preferred stock of B&FF and was accounted for as a cost method investment. This investment was sold during 2017 (See Note 12).

Fair Value Measurements —Fair value measurement standards apply to certain financial assets and liabilities that are measured at fair value on a recurring basis at each reporting period. The fair value of cash and cash equivalents, accounts receivable, accounts payable, accrued expenses and other current liabilities approximates their carrying value due to their short-term nature. The carrying amounts of the Company’s capital leases approximate fair value of these obligations based upon management’s best estimates of interest rates that would be available for similar debt obligations at December 31, 2017 and 2016. The carrying value of our long-term debt approximates its fair value due to its variable interest rate. The fair value of accrued contingent consideration recorded by the Company represents the estimated fair value of the contingent consideration the Company expects to pay.

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

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

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

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

Applicable Recent Accounting Pronouncements — In May 2014, the FASB issued Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers (ASC 606)*, which was subsequently updated by ASU 2015-14, 2016-08, 2016-10 and 2016-12, and requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. Companies are permitted to adopt ASC 606 using a full retrospective or modified retrospective method. The Company adopted the standard on January 1, 2018 using a modified retrospective method.

While the Company continues to assess all potential impacts of the standard, it is currently anticipated that the standard will not have a material impact on its consolidated statements of operations and consolidated statements of cash flows. However, the Company anticipates that the standard will have a material impact on the consolidated balance sheets with the primary impact being a reduction in deferred revenue relating to subscription licenses from its Email/Collaboration contracts. The Company currently recognizes subscription license revenue from these contracts over the subscription term of the contracts (which are typically six months or longer). The Company has concluded that, because its performance obligations have been satisfied in full upon delivery of the license, that revenue allocated to the license performance obligation in such contracts will be recognized upon delivery rather than ratably over the term of the subscription. The Company projects that approximately \$2.5 million of deferred revenue from subscription license contracts will be recorded as a reduction of the Company’s accumulated deficit as of January 1, 2018, and following that date, revenue for such performance obligations will be recognized upon delivery of the license.

Although it is expected that the annual revenue impacts on the consolidated statements of operations will not be material, the timing of a portion of revenue may shift between periods due primarily to the accounting for software term licenses, which will be recognized predominantly at the time of delivery rather than ratably over the contract period. Accounting for the majority of the Company’s revenue, which is related to search and advertising, software perpetual licenses, hosted email, CloudID, professional services and maintenance and support activities, will remain substantially unchanged. Additionally, incremental costs to obtain customer contracts will be capitalized and amortized over a benefit period, which is the shorter of customer or product life. The Company will elect a practical expedient to exclude contracts with a benefit period of a year or less from this deferral requirement. The annual cost impact of the deferral and amortization on the consolidated statements of operations is not expected to be material.

As ASC 606 is principle-based, interpretation of those principles may vary from company to company based upon their unique circumstances. New information may arise that could change the Company’s current understanding and interpretation of the standard

and its impact on the Company. The Company will continue to monitor industry activities and additional guidance provided by regulators and standard setters and will recognize the implementation of such guidance accordingly, if applicable.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which amends lease accounting by lessors and lessees. This new standard will require, among other things, that lessees recognize a right-to-use asset and related lease liability for all significant financing and operating leases, and specifies where in the statement of cash flows the related lease payments are to be presented. The standard is effective for years beginning after December 15, 2018, including interim periods within those years (beginning in calendar year 2019 for the Company), and early adoption is permitted. Adoption of ASU 2016-02 is required to be applied on a modified retrospective basis. The Company is currently in the process of evaluating the impact the adoption of ASU 2016-02 will have on its consolidated financial statements, but currently expects that most of its operating lease commitments will be subject to the new standard and recognized as operating lease liabilities and right-of-use assets upon the adoption of ASU 2016-02, which will increase the total assets and total liabilities that it reports as compared to amounts reported prior to adoption. The Company will adopt the standard on the required effective date, which for the Company will be January 1, 2019.

In August 2016, the FASB ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, which provides guidance related to cash flows presentation and is effective for annual reporting periods beginning after December 15, 2017, subject to early adoption, which is permitted using a retrospective transition approach. ASU 2016-15 is intended to standardize the classification of certain cash receipts and cash payments in the Statement of Cash Flows, and is effective for the Company in its first quarter of fiscal 2018. The Company will adopt ASU 2016-15 in the first quarter of fiscal 2018 and is currently completing its evaluation of the impact of the pending adoption on its consolidated financial statements.

Recently Adopted

In March 2016, the FASB issued ASU 2016-09, *Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, which changes how companies account for certain aspects of stock-based awards to employees, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as the classification in the statement of cash flows. Effective January 1, 2017, the Company adopted ASU 2016-09. The standard eliminated the requirement to defer recognition of excess tax benefits related to employee share-based awards until they are realized through a reduction to income taxes payable. The Company applied the modified retrospective method, and there was no net cumulative-effect adjustment to retained earnings on January 1, 2017 as the increase of \$0.7 million in deferred income tax assets for previously unrecognized excess tax benefits was fully offset by a valuation allowance. As permitted by the ASU, the Company will continue to use an estimated forfeiture rate in determining stock-based compensation expense.

In January 2017, the FASB issued ASU 2017-04, *Simplifying the Test for Goodwill Impairment (Topic 350)*, to simplify the accounting for goodwill impairment. The guidance removes Step 2 of the goodwill impairment test. A goodwill impairment is now measured as the amount by which a reporting unit's carrying value exceeds its fair value, limited to the amount of goodwill allocated to that reporting unit. ASU 2017-04 is effective for interim and annual periods beginning after December 15, 2019, with early adoption permitted for any impairment tests performed after January 1, 2017. The Company adopted the new guidance on a prospective basis during the first quarter of 2017. The adoption of this ASU did not have a significant impact on the Company's consolidated financial statements.

2. ACQUISITIONS

Technorati –

On February 19, 2016, the Company entered into an Asset Purchase Agreement to acquire substantially all of the assets of Technorati, Inc. (“Technorati”), an advertising technology company, for \$3.0 million in cash (the “Purchase Price”). The Company completed the acquisition on February 26, 2016 (the “Closing”).

The Company's motivations for completing the acquisition included the expectation that the acquisition would drive additional advertising demand, accelerate its content and advertising syndication strategy by giving the Company access to over 1,000 new publishers, and adding new tools for publishers to its existing platform. The Company also anticipated synergies and economies of scale by combining Technorati's publisher network, proprietary SmartWrapper solution and other advertising technology with its existing network of Managed Portals and Advertising solutions.

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

The Company paid \$2.5 million of the Purchase Price at the Closing and withheld \$0.5 million of the Purchase Price to secure Technorati's indemnification obligations under the Asset Purchase Agreement. As of December 31, 2016, the Company owed Technorati approximately \$0.1 million in post-closing working capital adjustments. Pursuant to the terms of the Asset Purchase Agreement, Technorati was obligated to indemnify the Company for breaches of its representations and warranties, breaches of covenants and certain other matters. The representations and warranties set forth in the Asset Purchase Agreement generally survived for 12 months following the Closing, with longer survival periods for certain fundamental representations and warranties. There were no claims for such breaches.

Consideration and Allocation of Purchase Price –

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

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

Consideration (in thousands):

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

Purchase price allocation (in thousands):

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

It is expected that acquired goodwill will be deductible for United States tax purposes. The Company is amortizing technology and customer and publisher relationships over estimated useful lives of five years.

The indemnification holdback and post-closing working capital adjustments totaled \$0.6 million, were accrued in accrued expenses and other current liabilities at December 31, 2016, and were paid to the seller in 2017.

The Company is not able to determine the amount of revenue and earnings recognized in the post-acquisition period as a result of integration activities.

Zimbra –

On August 18, 2015 the Company and Sync Holdings, LLC, its wholly-owned subsidiary, entered into an Asset Purchase Agreement (the "Asset Purchase Agreement") with Zimbra, Inc. (now known as TZ Holdings) to acquire certain assets related to TZ Holdings' email/collaboration products and services business, including certain of its wholly-owned foreign subsidiaries. The business acquired by the Company pursuant to the Asset Purchase Agreement is referred to herein as "Zimbra" or the "Purchased Business."

The Purchased Business includes software for email/collaboration, calendaring, file sharing, activity streams and social networks, among other things. The Zimbra software is used globally by service providers, governments and companies. The Company completed the acquisition (the “Acquisition”) on September 14, 2015 (the “Closing”).

Purchase Price —The total purchase price paid (including the fair value of the contingent consideration described below) for the Purchased Business was approximately \$22.9 million. At the Closing, in consideration for the Purchased Business, the Company paid TZ Holdings \$17.3 million in cash and issued to TZ Holdings 2.4 million shares of its common stock (such shares, the “Closing Stock Consideration”), valued at \$3.1 million, and warrants to purchase 480,000 shares of common stock (the “Closing Warrants”). Additionally, TZ Holdings was eligible to receive additional consideration, estimated at \$2.5 million, consisting of contingent cash consideration, warrants and additional shares of common stock, as described below.

Contingent Consideration — TZ Holdings was eligible to receive up to an additional \$2.0 million (the “Earn Out Consideration”) in cash upon the satisfaction of certain business performance milestones related to Zimbra after the Closing, subject to and contingent upon any reduction to satisfy indemnification claims (including pending claims), as further described in the Asset Purchase Agreement. The fair value of this contingent consideration was determined to be \$1.6 million and was included in consideration paid as of the acquisition date. Of this amount, \$0.9 million was paid in 2016, and the remaining \$0.7 million was paid in 2017. This Company’s liability for estimated unpaid Earn Out Consideration was included in accrued expenses and other current liabilities at December 31, 2016.

Holdback —In addition to the Earn Out Consideration, the Company held back an additional 600,000 shares of common stock (the “Holdback Stock” and together with the Closing Stock Consideration, the “Stock Consideration”) and warrants to purchase an additional 120,000 shares of common stock (the “Holdback Warrants” and together with the Closing Warrants, the “Warrants”) to secure TZ Holdings’ indemnification obligations under the Asset Purchase Agreement. Any Holdback Shares and Holdback Warrants not used to satisfy indemnification claims (including pending claims) were to be released to TZ Holdings eighteen months following the Closing. The Company recorded the Holdback Stock and the Holdback Warrants based on its estimated fair value at the Closing. Both the Holdback Stock and the Warrants were released to TZ Holdings in 2017.

Additionally, the Company assumed certain obligations of TZ Holdings, including the performance of TZ Holdings’ post-closing obligations under contracts assigned to the Company.

Consideration:

Cash consideration	\$ 17,310
Fair value of 2,400,000 shares of common stock issued on September 14, 2015	3,132
Fair value of Closing and Holdback Warrants (warrants to purchase an aggregate of 600,000 shares of common stock)	45
Fair value of the Holdback Stock (600,000 shares of common stock) on September 14, 2015	783
Fair value of contingent consideration	1,600
Total purchase price	<u>\$ 22,870</u>

In connection with the Acquisition, TZ Holdings agreed not to sell, transfer or otherwise dispose of any portion of the Stock Consideration until the first anniversary of the Closing. Upon the first anniversary of the Closing, the restrictions were to begin to lapse with respect to 1/6th of the Stock Consideration, and upon the completion of each of the five months thereafter, the restrictions were to lapse with respect to an additional 1/6th of the Stock Consideration. Following the lapse of such restrictions, TZ Holdings may transfer the Stock Consideration solely to its stockholders.

Allocation of Purchase Price —The purchase price allocation was determined in accordance with the accounting treatment of a business combination in accordance with the FASB ASC Topic 805, *Business Combinations*. Under the guidance, the fair value of the consideration was determined and the assets acquired and liabilities assumed have been recorded at their fair values at the date of acquisition. The excess of the purchase price over the estimated fair values has been recorded as goodwill.

The allocation of purchase price to the assets acquired and liabilities assumed as the date of the acquisition is presented in the table below. Management is responsible for determining the fair value of the tangible and identifiable intangible assets acquired and liabilities assumed as of the Closing. Management considered a number of factors, including reference to an analysis under FASB ASC Topic 805 solely for the purpose of allocating the purchase price to the assets acquired and liabilities assumed. The Company's estimates are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable. These valuations require the use of management's assumptions, which would not reflect unanticipated events and circumstances that occur.

Assets acquired:	
Cash and cash equivalents	\$ 50
Accounts receivable	3,500
Prepaid expenses and other current assets	451
Property and equipment	1,194
Other long-term assets	68
Goodwill	13,622
Intangible assets	<u>15,300</u>
Total assets acquired	<u>34,185</u>
Liabilities assumed:	
Accounts payable	134
Accrued expenses and other current liabilities	409
Deferred revenue	10,400
Capital lease obligations	317
Other long-term liabilities	<u>55</u>
Total liabilities assumed	<u>11,315</u>
Net assets acquired	<u>\$ 22,870</u>

During the fiscal year 2015, acquisition costs of \$0.5 million were recorded in general and administrative expenses in the consolidated statement of operations.

Pro Forma Results —The following unaudited pro forma information presents the combined results of operations as if the acquisition of Zimbra had been completed on January 1, 2014, the beginning of the comparable prior annual reporting periods. The unaudited pro forma results include adjustments to reflect: (i) the carve-out of revenue and expenses relating to the portion of the Zimbra business not acquired; (ii) the elimination of depreciation and amortization from Zimbra's historical financial statements and the inclusion of depreciation and amortization based on the fair values of acquired property, plant and equipment and intangible assets; (iii) the fair value of deferred revenue liabilities assumed; (iv) recognition of the post-acquisition share-based compensation expense related to stock options that were granted to Zimbra employees who accepted employment with Synacor; (v) the elimination of intercompany revenue and expenses between Zimbra and Synacor; and (iv) the elimination of acquisition-related expenses.

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

Set forth below are the unaudited pro forma consolidated results of operations of the Company and Zimbra for the year ended December 31, 2015, presented as if the Acquisition had occurred as of January 1, 2015, the beginning of the earliest year presented (in thousands, except per share amounts):

Revenue	\$ 130,077
Operating loss	\$ (2,944)
Net loss	\$ (4,608)
Net loss per share:	
Basic	\$ (0.16)
Diluted	\$ (0.16)

3. PROPERTY AND EQUIPMENT—NET

As of December 31, 2017 and 2016, property and equipment-net consisted of the following (in thousands):

	<u>2017</u>	<u>2016</u>
Computer equipment	\$ 28,845	\$ 23,438
Computer software	23,690	15,198
Furniture and fixtures	1,497	2,062
Leasehold improvements	1,215	1,463
Work in process	3,758	4,572
Other	159	249
	<u>59,164</u>	<u>46,982</u>
Less accumulated depreciation	<u>(38,659)</u>	<u>(32,576)</u>
Total property and equipment—net	<u>\$ 20,505</u>	<u>\$ 14,406</u>

Property and equipment includes computer equipment and software held under capital leases of \$11.1 million and \$5.2 million as of December 31, 2017 and 2016, respectively. Accumulated depreciation of computer equipment and software held under capital leases amounted to \$5.4 million and \$3.4 million as of December 31, 2017 and 2016, respectively.

Depreciation expense was \$7.6 million, \$7.2 million, and \$6.4 million for the years ended December 31, 2017, 2016, and 2015, respectively. Impairments of internally-developed software totaling \$0.3 million were recorded in each of 2017 and 2016 and charged to general and administrative expense.

4. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

As of December 31, 2017 and 2016, accrued expenses and other current liabilities consisted of the following (in thousands):

	<u>2017</u>	<u>2016</u>
Accrued compensation	\$ 4,361	\$ 6,860
Accrued content fees and other cost of revenue	655	1,788
Accrued taxes	426	—
Accrued business acquisition consideration	—	1,193
Other	1,633	1,843
Total	<u>\$ 7,075</u>	<u>\$ 11,684</u>

5. LONG-TERM DEBT

In September 2013, the Company entered into a Loan and Security Agreement, with Silicon Valley Bank (“SVB”), which was most recently amended in June 2017 (as amended, the “Loan Agreement”). The Loan Agreement provides for a \$12.0 million secured revolving line of credit with a stated maturity of September 2018. The credit facility is available for cash borrowings, subject to a formula based upon eligible accounts receivable. As of December 31, 2017, there were no borrowings outstanding under the Loan Agreement, and subject to the operation of the borrowing formula, \$12.0 million was available for draw under the Loan Agreement.

Borrowings under the Loan Agreement bear interest, at the Company’s election, at an annual rate based on either the “prime rate” as published in The Wall Street Journal or LIBOR for the relevant period. If the Company’s liquidity coverage ratio (the ratio of cash plus eligible accounts receivable to borrowings under the Agreement) exceeds 2.75 to 1, LIBOR-based advances bear interest at LIBOR plus 3.5% and prime rate advances bear interest at the prime rate plus 1.0%. If the Company’s liquidity coverage ratio falls below 2.75 to 1, LIBOR-based advances bear interest at LIBOR plus 4.0% and prime rate advances bear interest at the prime rate plus 1.5%. 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.

The Company’s obligations to SVB 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, SVB 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 December 31, 2017, the Company was in compliance with the financial covenants.

6. INCOME TAXES

Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse. As a result of the reduction in the U.S. corporate income rate from 35% to 21% under the Tax Act, the Company revalued its deferred income tax assets and liabilities at December 31, 2017, recording a net reduction of both the Company's deferred income tax liability at December 31, 2017 and income tax provision for the year ended December 31, 2017 in the amount of \$0.2 million. The one-time transition tax liability of foreign subsidiaries, calculated based on earning and profits ("E&P") that were previously deferred from U. S. income taxes, was \$0. The Company has not fully completed the calculation of the E&P and expects it may refine its calculations as additional analysis is completed.

Loss from continuing operations before income taxes included loss from domestic operations of \$(9.6) million, \$(10.2) million and \$(2.9) million for the years ended December 31, 2017, 2016 and 2015, and income (loss) from foreign operations of \$0.9 million, \$0.7 million \$(0.3) million for the same years.

The provision for income taxes for the years ended December 31, 2017, 2016 and 2015, was comprised of the following (in thousands):

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Current:			
United States Federal	\$ —	\$ —	\$ (1)
State	30	40	45
Foreign	933	1,036	195
Total current provision for income taxes	<u>963</u>	<u>1,076</u>	<u>239</u>
Deferred:			
United States Federal	74	95	—
State	63	48	—
Net deferred provision for income taxes	<u>137</u>	<u>143</u>	<u>—</u>
Total provision for income taxes	<u>\$ 1,100</u>	<u>\$ 1,219</u>	<u>\$ 239</u>

The income tax effects of significant temporary differences and carryforwards that give rise to deferred income tax assets and liabilities as of December 31, 2017 and 2016 are as follows (in thousands):

	<u>2017</u>	<u>2016</u>
Deferred income tax assets:		
Stock and other compensation expense	\$ 3,345	\$ 4,576
Net operating losses	7,059	5,907
Research and development credits	1,676	1,676
Other federal, state and foreign carryforwards	1,151	1,151
Fixed assets	—	246
Intangible assets	570	557
Other	408	838
Gross deferred tax assets	<u>14,209</u>	<u>14,951</u>
Valuation allowances	<u>(13,301)</u>	<u>(14,030)</u>
	908	921
Deferred income tax liabilities:		
Fixed assets	(16)	(29)
Intangible assets and other	<u>(529)</u>	<u>(392)</u>
Gross deferred tax liabilities	<u>(545)</u>	<u>(421)</u>
Subtotal	<u>363</u>	<u>500</u>
Less unrecognized tax benefit liability related to deferred items	<u>(627)</u>	<u>(627)</u>
Net deferred tax liabilities	<u>\$ (264)</u>	<u>\$ (127)</u>

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Balance—beginning of year	\$ 627	\$ 627	\$ 627
Additions for tax positions of prior years	—	—	—
Reductions for tax positions of prior years	—	—	—
Balance—end of year	<u>\$ 627</u>	<u>\$ 627</u>	<u>\$ 627</u>

The unrecognized tax benefits at the end of 2017, 2016 and 2015 were primarily related to research and development carryforwards.

If the \$0.6 million of unrecognized tax benefits as of December 31, 2017 were recognized, approximately \$0.6 million would decrease the effective tax rate in the period in which each of the benefits is recognized. The remaining amount would be offset by the reversal of related deferred income tax assets on which an unrecognized tax benefit liability is placed. The Company does not expect any material changes to its unrecognized tax benefits within the next twelve months.

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. As of December 31, 2017 and 2016, penalties and interest were insignificant.

The Company files income tax returns in the U.S. federal jurisdiction as well as many U.S. states and foreign jurisdictions. The tax years 2004 to 2017 remain open to examination by the major jurisdictions in which the Company is subject to tax. Fiscal years outside the normal statute of limitation remain open to audit by tax authorities due to tax attributes generated in those early years which have been carried forward and may be audited in subsequent years when utilized. The Company's 2016 U.S. Federal income tax return is currently under examination; the Company is not currently under examination in any other major taxing jurisdictions.

Income tax expense for the years ended December 31, 2017, 2016 and 2015 differs from the expected income tax benefit calculated using the statutory U.S. Federal income tax rate as follows (dollars in thousands):

	<u>2017</u>		<u>2016</u>		<u>2015</u>	
Federal income tax (benefit) expense at statutory rate	\$ (2,950)	34%	\$ (3,237)	34%	\$ (1,075)	34%
State and local taxes—net of federal benefit	64	(1)	75	(1)	30	(1)
Foreign taxes	466	(6)	1,036	(11)	195	(6)
Impact of United States federal tax rate change	4,965	(57)	—	—	—	—
Impact of United States federal tax rate change - valuation allowance	(5,205)	60	—	—	—	—
Valuation allowance	3,596	(41)	3,299	(34)	928	(29)
Permanent differences	(103)	1	3	—	144	(5)
Other	267	(3)	43	(1)	17	(1)
Total	<u>\$ 1,100</u>	<u>(13)%</u>	<u>\$ 1,219</u>	<u>(13)%</u>	<u>\$ 239</u>	<u>(8)%</u>

At December 31, 2017, the Company has federal and state NOL carryforwards of approximately \$26.8 million and \$25.1 million, respectively, including approximately \$2.2 million of NOL carryforwards created by windfall tax benefits relating to stock compensation expense. The NOLs will begin to expire in 2027. The Company has weighed the positive and negative evidence, including cumulative pre-tax losses, and determined that it is more likely than not that the deferred income tax assets, primarily related to the NOLs, will not be realized and, therefore, a full valuation allowance has been recorded against the net deferred income tax assets as of December 31, 2017 and 2016.

7. INFORMATION ABOUT SEGMENT AND GEOGRAPHIC AREAS

Operating segments are components of the Company in which separate financial information is available that is evaluated regularly by the Company's chief operating decision maker in deciding how to allocate resources and in assessing performance. The chief operating decision maker for the Company is the Chief Executive Officer. The Chief Executive Officer reviews operating results and 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. 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):

	<u>Years Ended December 31,</u>		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Revenue:			
United States	\$ 118,764	\$ 110,071	\$ 105,228
International	21,263	17,302	5,017
Total revenue	<u>\$ 140,027</u>	<u>\$ 127,373</u>	<u>\$ 110,245</u>
	<u>As of December 31,</u>		
	<u>2017</u>	<u>2016</u>	
Long-lived tangible assets:			
United States	\$ 19,775	\$ 13,519	
International	730	887	
Total long-lived tangible assets	<u>\$ 20,505</u>	<u>\$ 14,406</u>	

8. COMMITMENTS AND CONTINGENCIES

Lease Commitments —The Company leases office space and data center space under operating lease agreements and certain equipment under capital lease agreements with interest rates ranging from 3% to 7%.

Rent expense for operating leases was approximately \$3.5 million, \$3.1 million and \$2.6 million for 2017, 2016 and 2015, respectively.

Lease commitments over the next five years as of December 31, 2017 can be summarized as follows (in thousands):

<u>Years Ending December 31,</u>	<u>Operating Lease Commitments</u>
2018	\$ 5,643
2019	4,380
2020	2,761
2021	1,368
2022	715
2023 and thereafter	195
Total lease commitments	<u>\$ 15,062</u>
<u>Years Ending December 31,</u>	<u>Capital Lease Commitments</u>
2018	\$ 2,712
2019	2,350
2020	1,152
Total minimum capital lease commitments	6,214
Less-amount representing interest	399
Total capital lease obligations	5,815
Less-current portion of capital lease obligations	2,444
Long-term portion of capital lease obligations	<u>\$ 3,371</u>

Contract Commitments —The Company is obligated to make payments under various contracts with vendors and other business partners, principally for revenue-share arrangements. Contract commitments as of December 31, 2017 can be summarized as follows (in thousands):

<u>Years Ending December 31,</u>	<u>Contract Commitments</u>
2018	\$ 2,672
2019	2,553
2020	603
Total contract commitments	<u>\$ 5,828</u>

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

9. EQUITY

Stock Offering — In April 2017, the Company completed an underwritten public offering (the “Offering”) of its common stock in which it sold 5,715,000 shares at a price of \$3.50 per share. Subsequently, in May 2017, and as part of the Offering, the Company completed the sale of 472,846 additional shares of its common stock at the same price upon the exercise of the underwriters’ over-allotment option, for a total of 6,187,846 shares. The Offering resulted in total net proceeds of \$20.0 million, after deducting underwriting discounts and commissions totaling \$1.4 million and other offering expenses totaling \$0.2 million.

Stock Repurchases —In February 2014, the board of directors approved a Stock Repurchase Program, which authorizes a repurchase of up to \$5.0 million worth of the Company’s outstanding common stock. The Stock Repurchase Program has no expiration date, and may be suspended or discontinued at any time without notice. There were no repurchases under this program in 2017, 2016 or 2015. The Company repurchased \$0.6 million of its outstanding stock under this authorization.

Withhold to Cover —During the years ended December 31, 2017, 2016 and 2015, certain employees, in lieu of paying withholding taxes on the vesting of certain shares of restricted stock awards, authorized the withholding of 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. Shares and cost of the Company’s common stock withheld to cover minimum statutory tax withholding requirements during the years ended December 31, 2017, 2016 and 2015 were as follows:

	Years Ended December 31,		
	2017	2016	2015
Shares withheld	96,733	92,439	99,904
Cost (in thousands)	\$ 334	\$ 215	\$ 190

Warrants —Warrants to purchase 600,000 shares of common stock were issued as a component of the consideration transferred for the acquisition of the Zimbra assets (see Note 2). These warrants are exercisable at \$3.00 per share, have a three-year life, and expire in August 2018.

10. STOCK-BASED COMPENSATION

The fair value of options granted to employees is estimated on the grant date using the Black-Scholes option valuation model. This valuation model for stock-based compensation expense requires the Company to make assumptions and judgments about the variables used in the calculation, including the fair value of the Company’s common stock, the expected term (the period of time that the options granted are expected to be outstanding), the volatility of the Company’s common stock, a risk-free interest rate and expected dividends. The Company also estimates forfeitures of unvested stock options. To the extent actual forfeitures differ from the estimates, the difference will be recorded as a cumulative adjustment in the period estimates are revised. No compensation cost is recorded for options that do not vest. The Company uses the simplified calculation of expected life described in the SEC’s Staff Accounting Bulletin No. 107, *Share-Based Payment*, and volatility is based on the blended average historic price volatility for Synacor Inc. and its industry peers based on daily price observations over a period equivalent to the expected term of the stock option grants. Industry peers consist of several public companies in the technology industry, some larger and some similar in size, at a similar stage of life cycle and having similar financial leverage. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant for periods corresponding with the expected life of the option. The Company uses an expected dividend yield of zero, as it does not anticipate paying any dividends in the foreseeable future. Expected forfeitures are based on the Company’s historical experience.

The following table presents the weighted-average assumptions used to estimate the fair value of options granted (excluding replacement options in conjunction with modifications described below) during the periods presented:

	Years Ended December 31,		
	2017	2016	2015
Volatility	49%	49%	52%
Expected dividend yield	—%	—%	—%
Risk-free rate	2.0%	1.4%	1.7%
Expected term (in years)	6.25	6.25	6.25

The Company recorded \$2.5 million, \$2.8 million, and \$3.1 million of stock-based compensation expense for the years ended December 31, 2017, 2016, and 2015, respectively. No income tax deduction is allowed for incentive stock options (“ISOs”). Accordingly, no deferred income tax asset is recorded for the potential tax deduction related to these options. Expense related to stock option grants of non-qualified stock options (“NSOs”) results in a temporary difference, which gives rise to a deferred income tax asset.

Total stock-based compensation expense included in the accompanying consolidated statements of operations for the years ended December 31, 2017, 2016 and 2015, is as follows (in thousands):

	<u>Years Ended December 31,</u>		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Technology and development	\$ 744	921	\$ 936
Sales and marketing	636	784	942
General and administrative	1,110	1,066	1,237
Total stock-based compensation expense	<u>\$ 2,490</u>	<u>\$ 2,771</u>	<u>\$ 3,115</u>

Equity Incentive Plans —The Company has two stock option plans (the 2006 Stock Plan and the Amended and Restated 2012 Equity Incentive Plan), which, as of December 31, 2017, authorize the Company to grant up to 10,615,572 stock options (ISOs and NSOs), stock appreciation rights, restricted stock, RSUs and performance cash awards. The ISOs and NSOs will be granted at a price per share not less than the fair value of the Company’s common stock at the date of grant. Options granted to date generally vest over a four-year period with 25% vesting at the end of one year and the remaining 75% vesting monthly thereafter. Options granted generally are exercisable up to 10 years. RSUs generally vest over a three year period with one-sixth vesting at the end of each six-month period.

Special Purpose Recruitment Plan —During 2013, our shareholders approved the Special Purpose Recruitment Plan from which equity compensation awards are granted to newly-hired employees. One million shares of common stock were reserved for issuance and have all been granted under this plan.

Stock Option Activity —A summary of stock option activity for the year ended December 31, 2017 is as follows:

	<u>Number of Stock Options</u>	<u>Weighted Average Exercise Price</u>	<u>Aggregate Intrinsic Value (in thousands)</u>	<u>Weighted Average Remaining Contractual Term (in years)</u>
Outstanding—January 1, 2017	8,756,174	\$ 2.53		
Granted	1,559,000	3.17		
Exercised	(969,223)	2.22		
Forfeited	(464,815)	2.31		
Expired	(402,923)	4.64		
Outstanding—December 31, 2017	<u>8,478,213</u>	\$ 2.60	\$ 1,222	6.99
Expected to vest—December 31, 2017	<u>8,211,433</u>	\$ 2.59	\$ 1,181	6.93
Vested and exercisable—December 31, 2017	<u>5,165,238</u>	\$ 2.59	\$ 636	6.09

Aggregate intrinsic value represents the difference between the closing stock price of the Company’s 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 December 31, 2017 was \$2.30. The total intrinsic value of options exercised was \$1.1 million, \$0.7 million, and less than \$0.1 million for the years ended December 31, 2017, 2016 and 2015, respectively. The weighted-average grant date fair value of options granted was \$1.56 per share, \$1.13 per share, and \$0.95 per share for the years ended December 31, 2017, 2016 and 2015, respectively.

As of December 31, 2017, total unrecognized compensation cost, adjusted for estimated forfeitures, related to nonvested stock options was approximately \$3.9 million, which is expected to be recognized over a weighted-average period of 2.5 years.

RSU Activity—A summary of RSU activity for the year ended December 31, 2017 is as follows:

	<u>Number of RSUs</u>	<u>Weighted Average Fair Value</u>
Unvested—January 1, 2017	319,889	\$ 2.71
Granted	—	—
Released	(242,276)	\$ 2.47
Forfeited	(25,930)	\$ 3.15
Unvested—December 31, 2017	<u>51,683</u>	\$ 3.62
Unvested expected to vest —December 31, 2017	<u>51,683</u>	\$ 3.62

As of December 31, 2017, total unrecognized compensation cost, adjusted for estimated forfeitures, related to RSUs was \$0.2 million, which is expected to be recognized over the next 1.35 years.

11. NET LOSS PER COMMON SHARE DATA

Basic net loss per share is computed using the weighted-average number of common shares outstanding during the period. Diluted net 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, warrants, 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 years ended December 31, 2017, 2016 and 2015 (in thousands, except share and per share amounts):

	<u>Year Ended December 31,</u>		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Basic net loss per share:			
Numerator:			
Net loss	\$ (9,777)	\$ (10,740)	\$ (3,474)
Denominator:			
Weighted-average common shares outstanding	36,381,299	30,251,685	28,213,838
Basic net loss per share	<u>\$ (0.27)</u>	<u>\$ (0.36)</u>	<u>\$ (0.12)</u>
Diluted net loss per share:			
Numerator:			
Net loss	\$ (9,777)	\$ (10,740)	\$ (3,474)
Denominator:			
Number of shares used in the basic computation	36,381,299	30,251,685	28,213,838
Add weighted-average effect of dilutive securities:			
Stock options, RSUs and warrants	—	—	—
Number of shares used in diluted calculation	<u>36,381,299</u>	<u>30,251,685</u>	<u>28,213,838</u>
Dilutive net loss per share	<u>\$ (0.27)</u>	<u>\$ (0.36)</u>	<u>\$ (0.12)</u>

Stock options, warrants and RSUs are not included in the calculation of diluted net loss per share for the years ended December 31, 2017, 2016 and 2015 because the Company had a net loss for those years. The inclusion of these equity awards would have had an antidilutive effect on the calculation of diluted net loss per share.

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

	<u>Year Ended December 31,</u>		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Antidilutive Equity Awards:			
Stock options and RSUs	8,529,896	9,076,063	9,133,513
Warrants	480,000	480,000	480,000

12. SALE OF INVESTMENT

In July 2013, the Company made a \$1.0 million strategic investment in the form of a convertible promissory note (the “note”) in Blazer and Flip Flops, Inc. (“B&FF”), doing business as “The Experience Engine”, a privately-held Delaware corporation. The Company desired to gain access to the expertise of B&FF’s principals in integrating its customers’ systems with their customers’ devices, including smartphones and tablets. In March 2015, the note was converted into preferred stock of B&FF and was subsequently accounted for as a cost method investment.

In August 2017, B&FF was acquired by accesso Technology Group, plc, a U.K. public company, and the Company received, in connection with the sale of its investment in B&FF, cash consideration of \$2.2 million and stock in the acquiring company valued at approximately \$0.4 million. This stock was sold in September 2017 for \$0.5 million. In addition, the Company stands to receive contingent consideration of cash and stock totaling \$0.5 million, which was held back to secure B&FF’s indemnification obligations under the purchase and sale agreement. These amounts have been valued at \$0.3 million, and may be received after the 18-month indemnification period expires. The Company recorded a gain on sale of investment of \$2.0 million in the year ended December 31, 2017.

13. EMPLOYEE BENEFIT PLAN

The Company sponsors a 401(k) profit sharing plan that covers substantially all employees. Under the plan, eligible employees are permitted to contribute a portion of gross compensation not to exceed standard limitations provided by the Internal Revenue Service. The Company maintains the right to match employee contributions, and contributed \$0.3 million in matching funds during the year ended December 31, 2017. No matching contributions were made during the years ended December 31, 2016 or 2015.

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CORPORATE INFORMATION AND SAFE HARBOR STATEMENT

BOARD OF DIRECTORS

JORDAN LEVY
Chairman of the Board

HIMESH BHISE
Chief Executive Officer

LISA DONOHUE
MARWAN FAWAZ

GARY GINSBERG

ANDREW KAU
MICHAEL MONTGOMERY
SCOTT MURPHY

CORPORATE INFORMATION

TRANSFER AGENT
American Stock Transfer
& Trust Company
6201 15th Avenue
Brooklyn, NY 11219
www.astfinancial.com

STOCK LISTING
The Company's Common Stock is traded on the Nasdaq Global Market under the symbol "SYNC"

CORPORATE COUNSEL
Gunderson Dettmer Stough
Villeneuve Franklin &
Hachigian, LLP
220 West 42nd Street, 17th Floor
New York, NY 10036

**REGISTERED PUBLIC
ACCOUNTING FIRM**
Deloitte & Touche, LLP
Williamsville, NY

INVESTOR RELATIONS
For further information on the Company, please visit investor.synacor.com

SAFE HARBOR STATEMENT

"Safe Harbor" statement under the Private Securities Litigation Reform Act of 1995: This annual report contains forward-looking statements concerning Synacor's expected financial performance, as well as Synacor's strategic and operational plans. The achievement or success of the matters covered by such forward-looking statements involves risks, uncertainties and assumptions. If any such risks or uncertainties materialize or if any of the assumptions prove incorrect, the company's results could differ materially from the results expressed or implied by the forward-looking statements the company makes.

The risks and uncertainties referred to above include - but are not limited to - risks associated with: execution of our plans and strategies, including execution against our agreement with AT&T; the pace and degree to which the AT&T portal can be monetized; the loss of a significant customer; our ability to obtain new customers; our ability to integrate the assets and personnel from acquisitions; expectations regarding consumer taste and user adoption of applications and solutions;

developments in internet browser software and search advertising technologies; general economic conditions; expectations regarding the Company's ability to timely expand the breadth of services and products or introduction of new services and products; consolidation within the cable and telecommunications industries; changes in the competitive dynamics in the market for online search and digital advertising; the risk that security measures could be breached and unauthorized access to subscriber data could be obtained; potential third party intellectual property infringement claims or other legal claims against Synacor; and the price volatility of our common stock.

Further information on these and other factors that could affect Synacor's financial results is included in filings it makes with the Securities and Exchange Commission from time to time, including the section entitled "Risk Factors" in this annual report. Synacor's SEC filings are available on the SEC Filings section of the Investor Information section of Synacor's website at <http://investor.synacor.com/>.

