Interest Expense

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

Provision (benefit) for Income Taxes

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

Loss in Equity Interest

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

Critical Accounting Policies

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 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.

Pursuant to the terms of our customer contracts, we recognize revenue in each period for our services once the contract has been signed, its terms reviewed and understood, the service, content or both have been made available to the customer and reliable active subscriber information is made available to us.

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.

Revenue Sharing

We pay our 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 start experiences. 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 customers in accordance with Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or 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 estimated common stock fair value as well as assumptions regarding a number of other complex and subjective variables. These variables include the fair value of 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:

Fair Value of Our Common Stock. Because our stock was not publicly traded prior to our initial public offering, the fair value of our common stock underlying our stock options was determined by our board of directors based on valuations prepared by an independent valuation specialist. The board of directors intended all options granted to be exercisable at a price per share not less than the per share fair value of our common stock underlying those options on the date of grant. Following the completion of our initial public offering in February 2012, our common stock has been valued by reference to its publicly traded price.

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. As we have not had sufficient trading history to reasonably estimate expected volatility, the expected stock price volatility for our common stock was estimated by taking the average historic price

volatility for 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 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, 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. 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.

We also provide reserves as necessary for 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,		
	2012	2013	2014
		(in thousands)	
Revenue	$ 121,981	$ 111,807	$ 106,579
Costs and operating expenses:			
Cost of revenue (1)	66,620	59,622	57,939
Technology and development (1)(2)	25,603	28,458	26,259
Sales and marketing (2)	9,120	8,124	10,807
General and administrative (1)(2)	11,011	11,663	14,249
Depreciation	3,779	4,650	5,126
Gain on sale of domain	—	—	(1,000)
Total costs and operating expenses	116,133	112,517	113,380
Income (loss) from operations	5,848	(710)	(6,801)
Other income (expense)	1	(37)	(28)
Interest expense	(270)	(193)	(218)
Income (loss) before income taxes	5,579	(940)	(7,047)
Provision (benefit) for income taxes	1,764	(134)	4,821
Loss in equity interest	—	(561)	(1,063)
Net income (loss)	$ 3,815	$ (1,367)	$ (12,931)

Notes:

(1) Exclusive of depreciation shown separately.

(2) Includes stock-based compensation as follows:

	Year Ended December 31,		
	2012	2013	2014
		(in thousands)	
Technology and development	$ 523	$ 1,184	$ 1,621
Sales and marketing	404	348	599
General and administrative	1,072	1,029	1,375
	$ 1,999	$ 2,561	$ 3,595

	Year Ended December 31,		
	2012	2013	2014
Revenue	100%	100%	100%
Costs and operating expenses:			
Cost of revenue (1)	55	53	54
Technology and development (1)	21	25	25
Sales and marketing	7	7	10
General and administrative (1)	9	10	13
Depreciation	3	4	5
Gain on sale of domain	—	—	(1)
Total costs and operating expenses	95	101	106
Income (loss) from operations	5	(1)	(6)
Other income (expense)	—	—	—
Interest expense	—	—	—
Income (loss) before income taxes	5	(1)	(7)
Provision (benefit) for income taxes	1	—	5
Loss in equity interest	—	(1)	(1)
Net income (loss)	3%	(1)%	(12)%

Note:
(1) Exclusive of depreciation shown separately.

Comparison of Years Ended December 31, 2012, 2013 and 2014

Revenue

	Year Ended December 31,			2012 to 2013 % Change	2013 to 2014 % Change
	2012	2013	2014		
		(in thousands)			
Revenue:					
Search and display advertising	$ 101,559	$ 90,447	$ 83,906	(11)%	(7)%
Subscriber-based	20,422	21,360	22,673	5%	6%
Total revenue	$ 121,981	$ 111,807	$ 106,579	(8)%	(5)%
Percentage of revenue:					
Search and display advertising	83%	81%	79%		
Subscriber-based	17	19	21		
Total revenue	100%	100%	100%		

In 2014, our revenue decreased by $5.2 million, or 5%, compared to 2013. Digital advertising revenue increased by $5.6 million, or 17%. The increase in digital advertising was driven by a combination of an increase in video advertising and higher contractual rates for such advertisements. Further, video advertising yields higher CPM than traditional image or text advertising. Search advertising revenue decreased by $12.1 million, or 21% compared to 2013. We believe the decrease was due to lower search activity associated with the increased usage of competitor search tools on other devices, such as tablets and smartphones, generally across the consumer base. In addition, a portion of the decrease was due to the residual effect of the placement of our start experiences on the second tab of the default Windows 8 Internet browser by our consumer electronics customers. Subscriber-based revenue increased $1.3 million, or 6% primarily due to increases in our email, Cloud ID and video solutions services to our customers.

In 2013, our revenue decreased by $10.2 million, or 8%, compared to 2012. Digital advertising revenue decreased slightly by $0.2 million. Search advertising revenue decreased by 10.9 million, or 16%. We believe a material portion of the decrease was due to the placement of our start experiences on the second tab of the default Windows 8 Internet browser by our consumer electronics customers. In addition, and to a lesser extent, we believe the decrease was due to lower search activity associated with the increased usage of other devices such as tablets and smartphones generally across the consumer base and due to a change in the way we monetize searches through our start experiences. Subscriber-based revenue increased $0.9 million, or 5% primarily due to increases in our email, Cloud ID and video solutions services to our customers.

Cost of Revenue

	Year Ended December 31,			2012 to 2013 % Change	2013 to 2014 % Change
	2012	2013	2014		
	(in thousands)				
Cost of revenue	$ 66,620	$ 59,622	$ 57,939	(11)%	(3)%
Percentage of revenue	55%	53%	54%		

Our cost of revenue decreased by $1.7 million, or 3%, in 2014 compared to 2013. The decrease in our cost of revenue was driven by a decrease in revenue-sharing costs from search due to declining search advertising revenue. The decrease was offset by an increase in revenue-sharing costs from digital advertising due to increase in video-based advertising and better monetization of digital advertising, as discussed above. Cost of revenue as a percentage of revenue increased slightly to 54% of revenue in 2014 from 53% due to shift in the mix of cost of revenue from search advertising to digital advertising, specifically, video-based advertising.

Our cost of revenue decreased by $7.0 million, or 11%, in 2013 compared to 2012. The decrease in our cost of revenue was driven by a decrease in revenue-sharing costs due to decreased search and digital advertising. Cost of revenue as a percentage of revenue decreased to 53% of revenue in 2013 from 55% of revenue in 2012 because of changes in digital advertising revenue attributable to the mix of customers and related revenue-sharing arrangements.

Technology and Development Expenses

	Year Ended December 31,			2012 to 2013 % Change	2013 to 2014 % Change
	2012	2013	2014		
	(in thousands)				
Technology and development	$ 25,603	$ 28,458	$ 26,259	11%	(8)%
Percentage of revenue	21%	25%	25%		

Technology and development expenses decreased by $2.2 million, or 8%, in 2014 compared to 2013. The decrease was primarily due to a shift in activities of certain personnel responsible for products to be marketed, from technology and development to sales and marketing. This change in activities occurred at the direction of our new chief executive officer and took effect on October 1, 2014, and the resulting decrease was $1.3 million. An additional decrease of $0.8 million is due to the reduced use of temporary labor in connection with our cost reduction plan. These decreases were offset by severance and related expenses associated with our cost reduction plan of $0.5 million and additional stock-based compensation expense associated with re-pricing of stock options of $0.2 million.

Technology and development expenses increased by $2.9 million, or 11%, in 2013 compared to 2012. The increase was primarily due to a $2.5 million increase in employee-related costs as a result of the increase in headcount to support new product initiatives and customer deployments.

Sales and Marketing Expenses

	Year Ended December 31,			2012 to 2013 % Change	2013 to 2014 % Change
	2012	2013	2014		
	(in thousands)				
Sales and marketing	$ 9,120	$ 8,124	$ 10,807	(11)%	33%
Percentage of revenue	7%	7%	10%		

Sales and marketing expenses increased by $2.7 million, or 33%, in 2014 compared to 2013. The increase was primarily due to a shift in activities of certain personnel from technology and development to sales and marketing, resulting in additional sales and marketing expense of $1.3 million, as discussed above. Additional increases include $0.5 million in fees paid to third-party consultants for market research, $0.2 million in severance and related expenses associated with our cost reduction plan, and $0.3 million in advertising sales bonus and commission related to the increase in digital advertising revenue.

Sales and marketing expenses decreased by $1.0 million, or 11%, in 2013 compared to 2012. The decrease was primarily due to a $1.0 million decrease in compensation-related expenses.

General and Administrative Expenses

	Year Ended December 31,			2012 to 2013 % Change	2013 to 2014 % Change
	2012	2013	2014		
	(in thousands)				
General and administrative	$ 11,011	$ 11,663	$ 14,249	6%	22%
Percentage of revenue	9%	10%	13%		

General and administrative expenses increased by $2.6 million, or 22%, in 2014 compared to 2013. The increase is due to several factors, including severance and related expenses associated with our cost reduction plan of $0.6 million, an increase in the provision for bad debt of $0.3 million, higher than typical professional fees of $0.6 million, office rent increase of $0.2 million, and $0.9 million costs associated with our transition to a new CEO.

General and administrative expenses increased by $0.7 million, or 6%, in 2013 compared to 2012. The increase was primarily due to a $0.3 million increase in legal fees in connection with the formation of the JV Company and $0.2 million increase in rent.

Depreciation

	Year Ended December 31,			2012 to 2013 % Change	2013 to 2014 % Change
	2012	2013	2014		
	(in thousands)				
Depreciation	$ 3,779	$ 4,650	$ 5,126	23%	10%
Percentage of revenue	3%	4%	5%		

Depreciation increased by $0.5 million or 10% in 2014 compared to 2013. This increase was due to placing certain software development projects into service during the fourth quarter, including our next generation portal, our new back-end Cloud ID technology and our new video solutions experience.

Depreciation increased by $0.9 million or 23% in 2013 compared to 2012. This increase was primarily driven by the purchase of assets such as computer equipment to support our investment in new projects.

Gain on Sale of Domain

	Year Ended December 31,			2012 to 2013 % Change	2013 to 2014 % Change
	2012	2013	2014		
	(in thousands)				
Gain on sale of domain	$ —	$ —	$ 1,000	— %	100%
Percentage of revenue	— %	— %	1%		

The gain on sale of a domain amounted to $1.0 million during 2014, which was equal to the sale price. The sale was unique to 2014 and no such transactions occurred in the comparative periods.

Other Income (Expense)

	Year Ended December 31,		
	2012	2013	2014
	(in thousands)		
Other income (expense)	$ 1	$ (37)	$ (28)

For each of 2012, 2013 and 2014, other income (expense) consisted primarily of interest income coupled with foreign currency transaction losses related to our Canadian operations.

Interest Expense

	Year Ended December 31,		
	2012	2013	2014
	(in thousands)		
Interest expense	$ (270)	$ (193)	$ (218)

Interest expense during 2012, 2013 and 2014 primarily relates to interest on capital lease financing.

Provision (benefit) for Income Taxes

	Year Ended December 31,		
	2012	2013	2014
	(in thousands)		
Provision (benefit) for income taxes	$ 1,764	$ (134)	$ 4,821

During 2014, we recognized additional income tax benefit related to our net operating loss, or NOL, of approximately $2.8 million. In the fourth quarter of 2014, as a result of weighing the positive and negative evidence and guidance for accounting for income taxes, which includes an evaluation of recent cumulative pre-tax results, we determined it was appropriate to record a valuation allowance against our net deferred income tax assets because it was determined that it was no longer "more likely than not" that such NOLs will be utilized. As a result, we recognized a $7.5 million income tax provision expense associated our deferred tax asset valuation allowance.

In 2013 our income tax provision included a $0.2 million deferred benefit for income taxes which resulted in a $0.1 million tax benefit for income taxes.

In 2012 our income tax provision included $2.9 million of deferred income tax expense, partially offset by a tax benefit of $1.1 million relating to a research and development credit.

Loss in Equity Interest

	Year Ended December 31,		
	2012	2013	2014
	(in thousands)		
Loss in equity interest	$ —	$ (561)	$ (1,063)

In 2013, we entered into a Joint Venture Agreement, pursuant to which we own 50% of the outstanding common stock and 100% of the preferred shares of the JV Company. In 2013 and 2014, we recorded our share of the losses of the JV Company of $0.6 million and $1.1 million. The investment in the JV Company is being accounted for using the equity method and is classified as an investment in equity interest. The Company provided nearly all of the capital to form the JV Company; accordingly, the Company has recorded 100% of the losses incurred by the JV Company in 2013 and 2014.

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, 2014. 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. You should read this table in conjunction with our 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, 2013	June 30, 2013	September 30, 2013	December 31, 2013	March 31, 2014	June 30, 2014	September 30, 2014	December 31, 2014
	(in thousands, except per-share data)							
Statements of Operations Data:								
Revenue	$ 29,143	$ 26,708	$ 26,551	$ 29,406	$ 25,248	$ 24,191	$ 26,231	$ 30,909
Costs and operating expenses:								
Cost of revenue (1)	15,764	14,017	14,083	15,757	13,876	13,146	14,386	16,535
Technology and development (1)	6,865	7,336	7,404	6,911	7,492	7,120	7,577	4,071
Sales and marketing	2,130	2,147	2,058	1,792	2,137	2,457	2,601	3,614
General and administrative (1)	3,144	2,957	2,805	2,891	3,099	3,499	4,090	3,560
Depreciation	1,130	1,138	1,119	1,262	1,058	1,117	1,133	1,818
Gain on sale of domain	—	—	—	—	—	(1,000)	—	—
Total costs and operating expenses	29,033	27,595	27,469	28,613	27,662	26,339	29,787	29,598
Income (loss) from operations	$ 110	$ (887)	$ (918)	$ 793	$ (2,414)	$ (2,148)	$ (3,556)	$ 1,311
Net income (loss)	$ 27	$ (637)	$ (832)	$ 173	$ (2,056)	$ (1,868)	$ (2,596)	$ (6,418)
Net income (loss) per share:								
Basic	$ 0.00	$ (0.02)	$ (0.03)	$ 0.01	$ (0.07)	$ (0.07)	$ (0.09)	$ (0.23)
Diluted	$ 0.00	$ (0.02)	$ (0.03)	$ 0.01	$ (0.07)	$ (0.07)	$ (0.09)	$ (0.23)

Note:
(1) Exclusive of depreciation 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. To the extent that existing cash and cash equivalents, cash from operations and cash from short-term borrowings are insufficient to fund our future activities, we may need to raise additional funds through public or private equity offerings or debt financings.

In connection with our initial public offering in February 2012, we received aggregate gross proceeds of $27.3 million. The net proceeds to Synacor from the offering were approximately $22.4 million after deducting underwriting discounts of $1.9 million and offering costs of $3.0 million.

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

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

Our obligations to the Lender are secured by a first priority security interest in all our assets, including our intellectual property. The Loan Agreement contains customary events of default, including non-payment of principal or interest, violations of covenants, material adverse changes, cross-default, bankruptcy and material judgments. Upon the occurrence of an event of default, the Lender may accelerate repayment of any outstanding balance. The Loan Agreement also contains certain financial covenants and other agreements that are customary in loan agreements of this type, including restrictions on paying dividends and making distributions to our stockholders. As of December 31, 2014, we were in compliance with the covenants and anticipate continuing to be so.

As of December 31, 2014, we had approximately $25.6 million of cash and cash equivalents and money market funds. We did not have any short-term or long-term investments. We believe that our existing cash and cash equivalents, along with cash flows from operations and availability under our revolving credit line, will be sufficient to meet our anticipated working capital, capital lease payment obligations and capital expenditure requirements for at least the next 12 months.

Cash Flows

	Year Ended December 31,		
	2012	2013	2014
		(in thousands)	
Statements of Cash Flows Data:			
Cash flows provided (used) by operating activities	$ 14,657	$ 5,228	$ (3,309)
Cash flows used by investing activities	$ (4,869)	$ (8,857)	$ (4,754)
Cash flows provided (used) by financing activities	$ 21,237	$ (1,926)	$ (2,752)

Cash Provided (Used) by Operating Activities

Operating activities used $3.3 million of cash in 2014. The cash flow from operating activities primarily resulted from our net loss, adjusted for non-cash items and changes in our operating assets and liabilities. The use of cash by operating activities primarily relates to the change in working capital assets and liabilities. Our net loss was $12.9 million, which included non-cash depreciation of $5.1 million, non-cash stock-based compensation of $3.6 million, non-cash change in the provision for income taxes of $4.8 and a loss in an equity interest of $1.0 million, offset by gain on the sale of domain of $1.0 million, resulting in cash provided by components of net loss of $0.6 million. Changes in our operating assets and liabilities used $3.9 million of cash, primarily due to an increase in accounts receivable of $5.9 million and offset by an increase in accrued expenses and other current liabilities of $2.7 million. The increase in accounts receivable is partially due to our improved

revenue performance late in the fourth quarter combined with a change in the mix of our receivables from Google search advertising receivable to digital advertising receivables, while the increase in accrued expenses and other current liabilities primarily relates to an increase in accrued compensation of $1.3 million associated with accrued severance, bonus and commissions and an increase in accrued content fees of $1.2 million due to timing of payments. Other working capital accounts had less significant fluctuations.

Operating activities provided $5.2 million of cash in 2013. 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 $1.4 million, which included a non-cash benefit from deferred income taxes of $0.2 million, non-cash depreciation of $4.7 million, non-cash stock-based compensation of $2.6 million, and $0.6 million loss in equity interest. Changes in our operating assets and liabilities used $1.0 million of cash, primarily due to a decrease in our accounts receivable of $1.1 million and a decrease in our accrued expenses and other current liabilities of $2.2 million. The decrease in our accounts receivable was primarily attributable to the decrease in revenue. The decrease in our accrued expenses and other liabilities of $2.2 million was primarily driven by a $1.7 million decrease in our bonus accrual.

Operating activities provided $14.7 million of cash in 2012. The cash flow from operating activities primarily resulted from our net income, adjusted for non-cash items, and changes in our operating assets and liabilities. We had net income of $3.8 million, which included a non-cash benefit from deferred income taxes of $1.6 million, non-cash depreciation of $3.8 million and non-cash stock-based compensation of $2.0 million. Changes in our operating assets and liabilities provided $3.5 million of cash, primarily due to an increase in our accounts payable of $2.3 million and an increase in our accrued expenses and other current liabilities of $1.7 million, partially offset by increases in our accounts receivable of $1.3 million. The increase in our accounts payable was attributable to a $1.4 million increase due to the timing of, and a change in payment terms with, a customer for their revenue share payment. The remaining increase of $0.9 million was primarily driven by increased spending due to the growth of our revenue-share payments associated with our revenue growth. The increase in our accrued expenses and other liabilities of $1.7 million was primarily driven by a $1.0 million increase for operating related expenses and components of our cost of revenue and a $0.5 million increase in our bonus accrual. The increase in our accounts receivable was primarily due to our revenue growth in 2012.

Cash Used by Investing Activities

Our primary investing activities have consisted of purchases of property and equipment, payments for the acquisitions and for investments made in the JV Company. Purchases of property and equipment may vary from period to period due to the timing of the expansion of our operations and internal-use software development. We expect to continue to invest in property and equipment and development of software for the remainder of 2015 and thereafter.

Cash used in investing activities in 2014 was $4.8 million, consisting of $5.0 million used for purchases of property and equipment, which primarily relates to software development of our product portfolio, including the payment of $0.7 million of software development costs recorded to accounts payable at December 31, 2013, and $0.8 million for an investment in an equity interest in the JV Company. These uses of cash were offset by $1.0 million proceeds from the sale of a domain.

Cash used in investing activities in 2013 was $8.9 million consisting of $5.9 million of purchases of property, equipment and software (specifically related to the build out of our data centers and internal-use software development and including $0.5 million used for payment for the acquisition of Carbyn), $0.9 million contributed to an equity method investment, $1.0 million paid for the acquisition of Teknision, Inc. (an Ontario-based company), and a $1.0 million purchase of a promissory note having to do with our investment in B&FF.

Cash used in investing activities in 2012 was $4.9 million consisting of $4.3 million of purchases of property, equipment and software to build out our data centers and $0.6 million paid for the acquisition of Carbyn.

Cash Provided (Used) by Financing Activities

For the year ended December 31, 2014, net cash used in financing activities was $2.8 million primarily for repayment of $2.3 million on our capital lease obligations and purchase of treasury stock in the amount of $0.6 million. We received $0.1 million from the exercise of common stock options.

For the year ended December 31, 2013, net cash used by financing activities was $2.0 million, consisting of $2.1 million of repayments for our capital lease obligations, offset by $0.2 million of proceeds from the exercise of common stock options.

For the year ended December 31, 2012, net cash provided by financing activities was $21.2 million, consisting of $25.4 million of proceeds from issuance of common stock in our public offering, partially offset by cash paid for issuance costs of $2.8 million, and $1.2 million of proceeds from the exercise of common stock options, partially offset by $2.6 million for repayments on our capital lease obligations and bank financing.

Off-Balance Sheet Arrangements

At December 31, 2014, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of Regulation S-K promulgated by the SEC, that have or are reasonably likely to have a current or future effect on our financial condition, changes in our financial condition, revenues, or expenses, results of operations, liquidity, capital expenditures, or capital resources that is material to investors.

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.

The following table sets forth our future contractual obligations as of December 31, 2014:

	Payments Due by Period					
	2015	2016	2017	2018	2019	Total
Operating lease obligations	$ 2,393	$ 1,411	$ 1,193	$ 1,029	$ 384	$ 6,410
Capital lease obligations	1,233	1,050	365	—	—	2,648
Contract commitments	1,905	1,080	360	—	—	3,345
Total	$ 5,531	$ 3,541	$ 1,918	$ 1,029	$ 384	$ 12,403

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 and inflation risk.

Interest Rate Risk

Our cash and cash equivalents primarily consist of cash and money market funds. Other than our $1.0 million investment in B&FF and the $0.1 million investment in equity interest in Synacor China, Ltd., we currently have no investments of any type. Our exposure to market risk for changes in interest rates is limited because nearly all of our cash and cash equivalents have a short-term maturity and are used primarily for working capital purposes.

Inflation Risk

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our financial statements are submitted on pages F-1 through F-27 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

Evaluation of Disclosure and Control 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, 2014. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Based upon the evaluation as of December 31, 2014, our Chief Executive Officer and Chief Financial Officer have concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

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 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 our internal control over financial reporting was effective as of December 31, 2014. This Annual Report on Form 10-K does not include an attestation report of the Company's registered public accounting firm due to a transition period established by the Jumpstart Our Business Startups Act, or JOBS Act, for emerging growth companies.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting identified in management's evaluation pursuant to Rules 13a-15(d) or 15d-15(d) of the Exchange Act during the quarter ended December 31, 2014 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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 2015 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2014.

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 Dr., 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 2015 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2014.

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 2015 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2014.

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 2015 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2014.

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 2015 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2014.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) Financial Statements: See Financial Statements and Supplementary Data, Part II, Item 8.

(b) 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.

(c) Exhibits: See the Exhibit Index immediately following the signature page of this Annual Report on Form 10-K.

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 12, 2015

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:

Signature	Title	Date
/s/ Himesh Bhise **Himesh Bhise**	President, Chief Executive Officer and Director (Principal Executive Officer)	March 12, 2015
/s/ William J. Stuart **William J. Stuart**	Chief Financial Officer (Principal Financial and Accounting Officer)	March 12, 2015
/s/ Marwan Fawaz **Marwan Fawaz**	Director	March 12, 2015
/s/ Gary L. Ginsberg **Gary L. Ginsberg**	Director	March 12, 2015
/s/ Andrew Kau **Andrew Kau**	Director	March 12, 2015
/s/ Jordan Levy **Jordan Levy**	Director	March 12, 2015
/s/ Michael J. Montgomery **Michael J. Montgomery**	Director	March 12, 2015
/s/ Scott Murphy **Scott Murphy**	Director	March 12, 2015

EXHIBITS

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

		Incorporated by Reference				
Exhibit No.	Description	Form	File No.	Date of Filing	Exhibit Number	Filed Herewith
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	
4.1	Rights Agreement between the Synacor, Inc. and American Stock Transfer & Trust Company, LLC dated July 14, 2014	8-K	001-33843	7/15/2014	4.1	
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*	2000 Stock Plan	S-1	333-178049	11/18/2011	10.2.1	
10.2.2*	Amendment to 2000 Stock Plan, adopted September 30, 2004	S-1	333-178049	11/18/2011	10.2.2	
10.2.3*	Amendment to 2000 Stock Plan, adopted June 9, 2006	S-1	333-178049	11/18/2011	10.2.3	
10.2.4*	Amendment to 2000 Stock Plan, adopted October 19, 2006	S-1	333-178049	11/18/2011	10.2.4	
10.2.5*	Amendment to 2000 Stock Plan, adopted July 31, 2008	S-1	333-178049	11/18/2011	10.2.5	
10.2.6*	Form of Stock Option Agreement under 2000 Stock Plan	S-1/A	333-178049	1/30/2012	10.2.6	
10.2.7*	Stock Option Agreement under 2000 Stock Plan with Ronald N. Frankel	S-1/A	333-178049	1/30/2012	10.2.7	
10.3.1*	2006 Stock Plan	S-1	333-178049	11/18/2011	10.3.1	
10.3.2*	Amendment No. 1 to 2006 Stock Plan	S-1	333-178049	11/18/2011	10.3.2	
10.3.3*	Amendment No. 2 to 2006 Stock Plan	S-1	333-178049	11/18/2011	10.3.3	
10.3.4*	Amendment No. 3 to 2006 Stock Plan	S-1	333-178049	11/18/2011	10.3.4	

Exhibit No.	Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Date of Filing	Exhibit Number	
10.3.5*	Amendment No. 4 to 2006 Stock Plan	S-1	333-178049	11/18/2011	10.3.5	
10.3.6*	Amendment No. 5 to 2006 Stock Plan	S-1	333-178049	11/18/2011	10.3.6	
10.3.7*	Amendment No. 6 to 2006 Stock Plan	S-1	333-178049	11/18/2011	10.3.7	
10.3.8*	Amendment No. 7 to 2006 Stock Plan	S-1/A	333-178049	1/18/2012	10.3.8	
10.3.9*	Form of Stock Option Agreement under 2006 Stock Plan with Jordan Levy	S-1/A	333-178049	1/30/2012	10.3.9	
10.3.10*	Stock Option Agreement under 2006 Stock Plan with Ronald N. Frankel	S-1/A	333-178049	1/30/2012	10.3.10	
10.3.11*	Form of Stock Option Agreement with Ronald N. Frankel under 2006 Stock Plan	S-1/A	333-178049	1/30/2012	10.3.11	
10.3.12*	Form of Stock Option Agreement with George G. Chamoun under 2006 Stock Plan	S-1/A	333-178049	1/30/2012	10.3.12	
10.3.13*	Form of Stock Option Agreement with Scott A. Bailey under 2006 Stock Plan	S-1/A	333-178049	1/30/2012	10.3.13	
10.3.14*	Form of Director Stock Option Agreement under 2006 Stock Plan	S-1/A	333-178049	1/30/2012	10.3.14	
10.3.15*	Form of Director Stock Option Agreement under 2006 Stock Plan	S-1/A	333-178049	1/30/2012	10.3.15	
10.4.1*	2012 Equity Incentive Plan	S-1/A	333-178049	1/18/2012	10.4	
10.4.2*	Form of Stock Option Agreement under 2012 Equity Incentive Plan	S-1/A	333-178049	1/30/2012	10.4.2	
10.4.3*	Form of Stock Unit Agreement under 2012 Equity Incentive Plan	S-1/A	333-178049	1/30/2012	10.4.3	
10.4.4*	Form of Stock Option Agreement with Ronald N. Frankel under 2012 Equity Incentive Plan	10-K	001-33843	3/26/2013	10.4.4	
10.4.5*	Form of Early Exercise Stock Option Agreement under 2012 Equity Incentive Plan	10-K	001-33843	3/26/2013	10.4.5	

Exhibit No.	Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Date of Filing	Exhibit Number	
10.4.6*	Form of Option Agreement with Scott A. Bailey and George G. Chamoun under 2012 Equity Incentive Plan	10-K	001-33843	3/26/2013	10.4.6	
10.4.7*	Form of Option Agreement with William J. Stuart under 2012 Equity Incentive Plan	10-K	001-33843	3/26/2013	10.4.7	
10.5.1*	Letter Agreement dated July 31, 2007 with Ronald N. Frankel	S-1	333-178049	11/18/2011	10.5.1	
10.5.2*	Severance Agreement with Ronald N. Frankel	S-1/A	333-178049	12/23/2011	10.5.2	
10.5.3*	Letter Agreement dated September 10, 2013 with Ronald N. Frankel	10-K	001-33843	3/26/2014	10.5.3	
10.5.4*	Amendment to Severance Agreement dated September 10, 2013 with Ronald N. Frankel	10-K	001-33843	3/26/2014	10.5.4	
10.5.5*	Employment Transition Agreement between Ronald N. Frankel and Synacor, Inc. dated March 5, 2014	10-Q	001-33843	5/15/2014	10.3	
10.6.1*	Letter Agreement dated October 15, 2010 with Scott A. Bailey	S-1	333-178049	11/18/2011	10.6	
10.6.2*	Letter agreement between Scott A. Bailey and Synacor, Inc. dated June 25, 2013	10-Q	001-33843	8/13/2013	10.6	
10.6.3*	Severance Agreement with Scott A. Bailey	10-K	001-33843	3/26/2014	10.6.3	
10.6.4*	Letter Agreement dated July 24, 2013 with Scott A. Bailey	10-K	001-33843	3/26/2014	10.6.4	
10.7.1*	Employment and Noncompetition Agreement dated December 22, 2000 between George G. Chamoun and CKMP, Inc.	S-1	333-178049	11/18/2011	10.7.1	
10.7.2*	Severance Agreement with George G. Chamoun	S-1/A	333-178049	12/23/2011	10.7.2	
10.7.3*	Letter Agreement dated March 26, 2014 with George G. Chamoun	10-K	001-33843	3/26/2014	10.7.3	
10.7.4*	Amendment to Severance Agreement dated March 26, 2014 with George G. Chamoun	10-K	001-33843	3/26/2014	10.7.4	

		Incorporated by Reference				
Exhibit No.	Description	Form	File No.	Date of Filing	Exhibit Number	Filed Herewith
10.8.1*	Letter Agreement dated August 3, 2011 with William J. Stuart	S-1	333-178049	11/18/2011	10.8	
10.8.2*	Severance Agreement with William J. Stuart	10-K	001-33843	3/26/2014	10.8.2	
10.8.3*	Letter Agreement dated August 26, 2013 with William J. Stuart	10-K	001-33843	3/26/2014	10.8.3	
10.9.1†	Amended and Restated Master Services Agreement between Charter Communications Operating, LLC and Synacor, Inc. dated April 1, 2010	S-1/A	333-178049	2/1/2012	10.9.1	
10.9.2†	Amendment #1 to Amended and Restated Master Services Agreement between Charter Communications Operating, LLC and Synacor, Inc. of October 1, 2010	S-1/A	333-178049	1/13/2012	10.9.2	
10.9.3†	Amendment #2 to Amended and Restated Master Services Agreement between Charter Communications Operating, LLC and Synacor, Inc. dated May 25, 2011	S-1/A	333-178049	1/13/2012	10.9.3	
10.9.4†	Amendment #3 to Amended and Restated Master Services Agreement between Charter Communications Operating, LLC and Synacor, Inc. dated December 9, 2011	S-1/A	333-178049	1/13/2012	10.9.4	
10.9.5	Letter agreement between Charter Communications Operating, LLC and Synacor, Inc. dated March 28, 2013	10-Q	001-33843	5/14/2013	10.1	
10.9.6†	Amendment #4 to Amended and Restated Master Services Agreement between Charter Communications Operating, LLC and Synacor, Inc. dated April 1, 2013	10-Q	001-33843	8/13/2013	10.2	

Exhibit No.	Description	Incorporated by Reference Form	File No.	Date of Filing	Exhibit Number	Filed Herewith
10.9.7†	Amendment #5 to Amended and Restated Master Services Agreement between Charter Communications Operating, LLC and Synacor, Inc. dated June 12, 2014	10-Q	001-33843	8/14/2014	10.2	
10.10.1†	Amended and Restated Master Services Agreement between Qwest Corporation and Synacor, Inc. dated January 1, 2012	10-Q	001-33843	11/14/2012	10.1.1	
10.10.2†	Amendment #1 to Amended and Restated Master Services Agreement between Qwest Corporation and Synacor, Inc. dated July 1, 2012	10-Q	001-33843	11/14/2012	10.1.2	
10.10.3†	Amendment #2 to Master Services Agreement between Qwest Corporation and Synacor, Inc.dated August 23, 2012	10-Q	001-33843	11/14/2012	10.1.3	
10.10.4†	Amendment #3 to Amended and Restated Master Services Agreement between Qwest Corporation and Synacor, Inc.dated December 7, 2012	10-Q	001-33843	5/15/2014	10.2.1	
10.10.5†	Fifth Amendment to Amended and Restated Master Services Agreement between Qwest Corporation and Synacor, Inc.dated January 29, 2013	10-Q	001-33843	5/15/2014	10.2.2	
10.10.6†	Sixth Amendment to Amended and Restated Master Services Agreement between Qwest Corporation and Synacor, Inc.dated November 1, 2013	10-Q	001-33843	5/15/2014	10.2.3	
10.10.7	Seventh Amendment to Amended and Restated Master Services Agreement between Qwest Corporation and Synacor, Inc.dated October 12, 2014					X
10.11*	2007 Management Cash Incentive Plan	10-Q	001-33843	5/15/2012	10.1	

Exhibit No.	Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Date of Filing	Exhibit Number	
10.12.1†	Master Services and Linking Agreement between Toshiba America Information Systems, Inc. and Synacor, Inc. dated July 1, 2010	S-1/A	333-178049	2/1/2012	10.12	
10.12.2†	Amendment #1 to Master Services and Linking Agreement between Toshiba America Information Systems, Inc. and Synacor, Inc. dated December 1, 2011	10-Q	001-33843	11/14/2013	10.2.1	
10.12.3†	Amendment #2 to Master Services and Linking Agreement between Toshiba America Information Systems, Inc. and Synacor, Inc. dated September 4, 2013	10-Q	001-33843	11/14/2013	10.2.2	
10.12.4†	Amendment #3 to Master Services and Linking Agreement between Toshiba America Information Systems, Inc and Synacor, Inc. dated September 4, 2013	10-Q	001-33843	11/14/2013	10.2.3	
10.12.5	Amendment #4 to Master Services and Linking Agreement between Toshiba America Information Systems, Inc. and Synacor, Inc. dated September 4, 2013	10-Q	001-33843	11/14/2013	10.2.4	
10.12.6†	Statement of Work #1 governed by Master Services and Linking Agreement between Toshiba America Information Systems, Inc. and Synacor, Inc. dated September 24, 2013	10-Q	001-33843	11/14/2013	10.2.5	
10.12.7	Amendment #5 to Master Services and Linking Agreement between Toshiba America Information Systems, Inc. and Synacor, Inc. dated September 25, 2014	10-Q	001-33843	11/14/2014	10.2	

Exhibit No.	Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Date of Filing	Exhibit Number	
10.12.8#	Amendment #6 to Master Services and Linking Agreement between Toshiba America Information System, Inc. and Synacor, Inc. dated August 5, 2014					X
10.12.9#	Marketing Services Statement of Work governed by Master Services and Linking Agreement between Toshiba America Information Systmets, Inc. and Synacor, Inc. dated December 22, 2014					X
10.13.1†	Google Services Agreement between Google Inc. and Synacor, Inc. dated March 1, 2011	S-1/A	333-178049	2/1/2012	10.13.1	
10.13.2†	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	
10.13.3†	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	
10.13.4†	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	
10.13.5†	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	
10.13.6#	Amendment Number Five to Google Services Agreement between Google Inc. and Synacor, Inc. dated August 1, 2014					X
10.14.1	Sublease dated March 3, 2006 between Ludlow Technical Products Corporation and Synacor, Inc.	S-1	333-178049	11/18/2011	10.14.1	
10.14.2	First Amendment to Sublease dated September 25, 2006	S-1	333-178049	11/18/2011	10.14.2	

		Incorporated by Reference				
Exhibit No.	Description	Form	File No.	Date of Filing	Exhibit Number	Filed Herewith
10.14.3	Second Amendment to Sublease dated February 27, 2007	S-1	333-178049	11/18/2011	10.14.3	
10.15.1*	Letter Agreement dated March 1, 2008 with Jordan Levy	S-1/A	333-178049	1/30/2012	10.15.1	
10.15.2*	Letter Agreement dated June 23, 2009 with Jordan Levy	S-1/A	333-178049	1/30/2012	10.15.2	
10.15.3*	Letter Agreement dated March 1, 2008 with Ronald N. Frankel	S-1/A	333-178049	1/30/2012	10.15.3	
10.15.4*	Letter Agreement dated June 23, 2009 with Ronald N. Frankel	S-1/A	333-178049	1/30/2012	10.15.4	
10.15.5*	Letter Agreement dated March 1, 2008 with George G. Chamoun	S-1/A	333-178049	1/30/2012	10.15.5	
10.15.6*	Letter Agreement dated June 23, 2009 with George G. Chamoun	S-1/A	333-178049	1/30/2012	10.15.6	
10.16*	Form of Common Stock Repurchase Agreement	S-1/A	333-178049	1/30/2012	10.16	
10.17.1†	Master Services Agreement between Verizon Corporate Services Group Inc. and Synacor, Inc. dated July 25, 2011	10-K	001-33843	3/26/2013	10.17.1	
10.17.2†	Amendment #1 to Master Services Agreement between Verizon Corporate Services Group Inc. and Synacor, Inc. dated December 20, 2012	10-K	001-33843	3/26/2013	10.17.2	
10.17.3†	Amendment #2 to Master Services Agreement between Verizon Corporate Services Group, Inc. and Synacor, Inc. dated April 1, 2013	10-Q	001-33843	8/13/2013	10.3	
10.17.4†	Amendment #3 to Master Services Agreement between Verizon Corporate Services Group, Inc. and Synacor, Inc. dated June 6, 2014	10-Q	001-33843	8/14/2014	10.1	
10.18.1†	Joint Venture Agreement between Maxit Technology Incorporate, Synacor China, Ltd. and Synacor, Inc. dated March 11, 2013	10-Q	001-33843	5/14/2013	10.2.1	

Exhibit No.	Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Date of Filing	Exhibit Number	
10.18.2†	Shareholders Agreement between Maxit Technology Incorporated, Synacor China, Ltd. and Synacor, Inc. dated March 11, 2013	10-Q	001-33843	5/14/2013	10.2.2	
10.18.3†	Amendment to the Joint Venture Agreement dated December 6, 2013	10-K	001-33843	3/26/2014	10.18.3	
10.19.1*	Special Purpose Recruitment Plan	Schedule 14A	001-33843	4/5/2013	App. A	
10.19.2*	Form of Stock Option Agreement (Early Exercise) under Special Purpose Recruitment Plan	10-Q	001-33843	8/13/2013	10.5	
10.20.1	Loan and Security Agreement between Silicon Valley Bank and Synacor, Inc. dated September 27, 2013	10-Q	001-33843	11/14/2013	10.1	
10.20.2	First Amendment to the Loan and Security Agreement between Silicon Valley Bank and Synacor, Inc. dated October 28, 2014					X
10.21.1*	Employment Letter Agreement with Himesh Bhise dated August 4, 2014	10-Q	001-33843	11/14/2014	10.1.1	
10.21.2*	Stock Option Agreement with Himesh Bhise granted on August 4, 2014	10-Q	001-33843	11/14/2014	10.1.2	
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

Exhibit No.	Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Date of Filing	Exhibit Number	
32.1‡	Certifications of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					
101.INS	XBRL Instance Document					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:

† Confidential treatment has been granted for portions of this document. The omitted portions have been filed with the Securities and Exchange Commission.

Confidential treatment has been requested for potions 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.

* Indicates management contract or compensatory plan or arrangement.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Synacor, Inc.
Buffalo, New York

We have audited the accompanying consolidated balance sheets of Synacor, Inc. and subsidiaries (the "Company") as of December 31, 2013 and 2014, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Synacor, Inc. and subsidiaries as of December 31, 2013 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche LLP

Williamsville, New York
March 12, 2015

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

	2013	2014
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 36,397	$ 25,600
Accounts receivable—net of allowance of $76 and $388	14,569	20,479
Prepaid expenses and other current assets	1,691	2,292
Deferred income taxes	314	—
Total current assets	52,971	48,371
PROPERTY AND EQUIPMENT—Net	14,085	15,128
DEFERRED INCOME TAXES, NON-CURRENT	4,455	—
OTHER LONG-TERM ASSETS	348	101
GOODWILL	1,565	1,565
CONVERTIBLE PROMISSORY NOTE	1,000	1,000
INVESTMENT IN EQUITY INTEREST	365	73
TOTAL ASSETS	$ 74,789	$ 66,238
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 13,573	$ 12,545
Accrued expenses and other current liabilities	5,177	8,403
Current portion of capital lease obligations	1,946	1,150
Total current liabilities	20,696	22,098
LONG-TERM PORTION OF CAPITAL LEASE OBLIGATIONS	885	1,383
OTHER LONG-TERM LIABILITIES	977	275
Total liabilities	22,558	23,756
COMMITMENTS AND CONTINGENCIES (Note 7)		
STOCKHOLDERS' EQUITY:		
Common stock, $0.01 par value—100,000,000 authorized, 27,684,598 issued and 27,365,098 shares outstanding at December 31, 2013 and 27,944,853 issued and 27,391,709 shares outstanding at December 31, 2014	277	279
Preferred stock, $0.01 par value—10,000,000 shares authorized, no shares issued and outstanding at December 31, 2013 and 2014	—	—
Treasury stock—at cost, 319,500 shares at December 31, 2013 and 553,144 shares at December 31, 2014	(569)	(1,142)
Additional paid-in capital	102,226	105,961
Accumulated deficit	(49,705)	(62,636)
Accumulated other comprehensive income	2	20
Total stockholders' equity	52,231	42,482
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 74,789	$ 66,238

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

SYNACOR, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2012, 2013 AND 2014
(In thousands except for share and per share data)

	2012	2013	2014
REVENUE	$ 121,981	$ 111,807	$ 106,579
COSTS AND OPERATING EXPENSES:			
Cost of revenue (exclusive of depreciation shown separately below)	66,620	59,622	57,939
Technology and development (exclusive of depreciation shown separately below)	25,603	28,458	26,259
Sales and marketing	9,120	8,124	10,807
General and administrative (exclusive of depreciation shown separately below)	11,011	11,663	14,249
Depreciation	3,779	4,650	5,126
Gain on sale of domain	—	—	(1,000)
Total costs and operating expenses	116,133	112,517	113,380
INCOME (LOSS) FROM OPERATIONS	5,848	(710)	(6,801)
OTHER INCOME (EXPENSE)	1	(37)	(28)
INTEREST EXPENSE	(270)	(193)	(218)
INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY INTEREST	5,579	(940)	(7,047)
PROVISION (BENEFIT) FOR INCOME TAXES	1,764	(134)	4,821
LOSS IN EQUITY INTEREST	—	(561)	(1,063)
NET INCOME (LOSS)	$ 3,815	$ (1,367)	$ (12,931)
NET INCOME (LOSS) PER SHARE:			
Basic	$ 0.16	$ (0.05)	$ (0.47)
Diluted	$ 0.14	$ (0.05)	$ (0.47)
WEIGHTED AVERAGE SHARES USED TO COMPUTE NET INCOME (LOSS) PER SHARE:			
Basic	24,411,194	27,306,882	27,389,793
Diluted	28,097,313	27,306,882	27,389,793

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

SYNACOR, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2012, 2013 AND 2014
(In thousands)

	2012	2013	2014
Net income (loss)	$ 3,815	$ (1,367)	$ (12,931)
Other comprehensive income (loss):			
Change in foreign currency translation adjustment, net of tax	(6)	8	18
Comprehensive income (loss)	$ 3,809	$ (1,359)	$ (12,913)

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, 2012, 2013 AND 2014
(In thousands except for share data)

	Common Stock		Treasury Stock (Common)		Series A Preferred Stock		Series A-1 Preferred Stock		Series B Preferred Stock		Series C Preferred Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount				
BALANCE—January 1, 2012	3,052,856	$ 31	(319,500)	$ (569)	5,548,508	$ 5,077	570,344	$ 730	2,737,500	$ 5,401	2,740,407	$ 17,224	$ 45,639	$ (52,153)	$ —	$ 21,380
Issuance of common stock upon initial public offering, net of offering costs	5,454,545	54	—	—	—	—	—	—	—	—	—	—	22,293	—	—	22,347
Conversion of preferred stock to common stock upon initial public offering	17,395,136	174	—	—	(5,548,508)	(5,077)	(570,344)	(730)	(2,737,500)	(5,401)	(2,740,407)	(17,224)	28,258	—	—	—
Exercise of common stock options	1,615,128	16	—	—	—	—	—	—	—	—	—	—	1,196	—	—	1,212
Stock-based compensation expense	—	—	—	—	—	—	—	—	—	—	—	—	2,063	—	—	2,063
Net income	—	—	—	—	—	—	—	—	—	—	—	—	—	3,815	—	3,815
Other comprehensive loss	—	—	—	—	—	—	—	—	—	—	—	—	—	—	(6)	(6)
BALANCE—December 31, 2012	27,517,665	275	(319,500)	(569)	—	—	—	—	—	—	—	—	99,449	(48,338)	(6)	50,811
Exercise of common stock options	166,933	2	—	—	—	—	—	—	—	—	—	—	193	—	—	195
Stock-based compensation expense	—	—	—	—	—	—	—	—	—	—	—	—	2,584	—	—	2,584
Net loss	—	—	—	—	—	—	—	—	—	—	—	—	—	(1,367)	—	(1,367)
Other comprehensive income	—	—	—	—	—	—	—	—	—	—	—	—	—	—	8	8
BALANCE—December 31, 2013	27,684,598	277	(319,500)	(569)	—	—	—	—	—	—	—	—	102,226	(49,705)	2	52,231
Exercise of common stock options	246,880	2	—	—	—	—	—	—	—	—	—	—	66	—	—	68
Stock-based compensation expense	—	—	—	—	—	—	—	—	—	—	—	—	3,669	—	—	3,669
Vesting of restricted stock units	13,375	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Treasury stock withheld to cover tax liability	—	—	(4,594)	(11)	—	—	—	—	—	—	—	—	—	—	—	(11)
Purchase of treasury stock	—	—	(229,050)	(562)	—	—	—	—	—	—	—	—	—	—	—	(562)
Net loss	—	—	—	—	—	—	—	—	—	—	—	—	—	(12,931)	—	(12,931)
Other comprehensive income	—	—	—	—	—	—	—	—	—	—	—	—	—	—	18	18
BALANCE—December 31, 2014	27,944,853	$ 279	(553,144)	$ (1,142)	—	$ —	—	$ —	—	$ —	—	$ —	$ 105,961	$ (62,636)	$ 20	$ 42,482

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, 2012, 2013 AND 2014
(In thousands)

	2012	2013	2014
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	$ 3,815	$ (1,367)	$(12,931)
Adjustments to reconcile net income (loss) to net cash and cash equivalents provided (used) by operating activities:			
Depreciation	3,779	4,650	5,126
Stock-based compensation expense	1,999	2,561	3,595
Gain on sale of domain	—	—	(1,000)
Loss on disposal of property and equipment	35	—	—
Change in provision for deferred income taxes	1,557	(243)	4,769
Loss in equity interest	—	561	1,063
Change in assets and liabilities:			
Accounts receivable, net	(1,288)	1,055	(5,910)
Prepaid expenses and other current assets	253	189	(367)
Other long-term assets	380	220	247
Accounts payable	2,335	(527)	(359)
Accrued expenses and other current liabilities	1,715	(2,205)	2,665
Other long-term liabilities	77	334	(207)
Net cash provided (used) by operating activities	14,657	5,228	(3,309)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property and equipment	(4,269)	(5,920)	(4,982)
Investment in equity interest	—	(926)	(772)
Proceeds from sale of domain	—	—	1,000
Cash paid for business acquisition	(600)	(1,011)	—
Purchase of convertible promissory note	—	(1,000)	—
Net cash used by investing activities	(4,869)	(8,857)	(4,754)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayments on capital lease obligations	(2,336)	(2,121)	(2,258)
Proceeds from exercise of common stock options	1,212	195	68
Purchase of treasury stock	—	—	(562)
Proceeds from initial public offering	25,364	—	—
Initial public offering costs	(2,753)	—	—
Repayment on bank financing	(250)	—	—
Net cash provided (used) by financing activities	21,237	(1,926)	(2,752)
Effect of exchange rate changes on cash and cash equivalents	(6)	8	18
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	31,019	(5,547)	(10,797)
CASH AND CASH EQUIVALENTS—Beginning of year	10,925	41,944	36,397
CASH AND CASH EQUIVALENTS—End of year	$41,944	$36,397	$ 25,600
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid for interest	$ 259	$ 165	$ 219
Cash paid for income taxes	$ 134	$ 140	$ 112
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING TRANSACTIONS:			
Property, equipment and service contracts financed under capital lease obligations	$ 2,484	$ 1,039	$ 1,961
Accrued property and equipment expenditures	$ 269	$ 719	$ 117
Stock-based compensation capitalized to property and equipment	$ —	$ —	$ 74
Treasury stock received to satisfy minimum tax withholding liabilities	$ —	$ —	$ 11
Accrual for business acquisition	$ 500	$ 495	$ —

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

SYNACOR, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2013 AND 2014, AND
FOR THE YEARS ENDED DECEMBER 31, 2012, 2013 AND 2014

1. THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Initial Public Offering—In February 2012, the Company completed its initial public offering whereby 6,818,170 shares of common stock were sold to the public at a price of $5.00 per share. The Company sold 5,454,545 common shares and selling stockholders sold 1,363,625 common shares. The Company received aggregate proceeds of $25.4 million from the initial public offering, net of underwriters' discounts and commissions, but before deducting offering expenses of approximately $3.0 million.

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

Basis of Presentation—The 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

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 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 to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds the fair value of the assets. There has been no material impairments to long-lived assets in any of the years presented.

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, the second step of the goodwill impairment test is performed by comparing the carrying value of the goodwill in the reporting unit to its implied fair value. An impairment charge would then be recognized for the excess of the carrying value of goodwill over its implied estimated fair value. The Company conducts its annual goodwill impairment test as of October 1st. For the years ended December 31, 2012, 2013 and 2014, the Company determined goodwill was not impaired.

Revenue Recognition—The Company derives revenue from two categories: revenue generated from advertising activities and subscriber-based revenue, each of which is described below. The following table shows the revenue in each category for the years ended December 31, 2012, 2013 and 2014 (in thousands):

	Year Ended December 31,		
	2012	2013	2014
Search and digital advertising	$ 101,559	$ 90,447	$ 83,906
Subscriber-based	20,422	21,360	22,673
Total revenue	$ 121,981	$ 111,807	$ 106,579

The Company uses Internet advertising to generate revenue from the traffic on its start experiences 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 start experiences. 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. The net payment received from Google is recognized as revenue.
- Digital advertising includes video, image and text advertisements delivered on one of the Company's start experiences. 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 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 contractual rates.

Subscriber-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, e-mail, video solutions, Cloud ID, security, games and other premium services and paid content. Monthly subscriber levels typically form the basis for calculating and generating subscriber-based revenue. They are generally determined by multiplying a per-subscriber per-month fee by the number of subscribers using the particular services being offered or consumed. In other cases, the fee is fixed. Revenue is recognized from customers as the service is delivered.

Advertising and subscriber-based revenue are 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 Company evaluates its relationship between search and digital advertising revenue and its start experience 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 start experiences 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.

Cost of Revenue—Cost of revenue consists of revenue sharing, content acquisition costs and co-location facility costs. Revenue sharing consists of amounts accrued and paid to customers for the Internet traffic on start experiences 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.

Concentrations of Risk—As of December 31, 2013 and 2014, and for the years ended December 31, 2012, 2013 and 2014 the Company had concentrations equal to or exceeding 10% of the Company's accounts receivable and revenue as follows:

	Accounts Receivable	
	2013	2014
Google	47%	23%
Portal Customer	11%	12%
Advertising Customer (1)	N/A	11%

Note:

(1) As of December 31, 2013, the accounts receivable of the Advertising Customer was less than 10%.

	Revenue		
	2012	2013	2014
Google	56%	51%	42%

For the years ended December 31, 2012, 2013 and 2014, the following customers received revenue-share payments equal to or exceeding 10% of the Company's cost of revenue.

	Cost of Revenue		
	2012	2013	2014
Customer A	20%	22%	22%
Customer B	13%	13%	12%
Customer C	17%	12%	10%
Customer D	12%	11%	12%

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—Costs incurred during the preliminary project stage for software programs are expensed as incurred. External and internal costs incurred during the application development stage of new software development as well as for upgrades and enhancements for software programs that result in additional functionality are capitalized. In 2012, 2013 and 2014, the Company incurred $0.8 million, $3.0 million and $3.4 million of combined internal and external costs related to the application development stage. 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 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.

Sale of Domain—In June 2014, the Company executed a transaction to sell a domain name of its legacy business. The sale amounted to $1.0 million and the entire amount was recorded as a gain on the sale in the accompanying consolidated statement of operations for the year ended December 31, 2014.

Earnings (Loss) Per Share—Basic earnings (loss) per share ("EPS") is calculated in accordance with FASB ASC 260, *Earnings per Share*, and is calculated using the weighted average number of common shares outstanding during each period. Contingently issuable or repurchasable shares are not used in the calculation of basic earnings (loss) per share until the contingency is resolved.

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, convertible preferred stock and options 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.

The shares used to compute basic and diluted net income (loss) per share represent the weighted-average common shares outstanding. The Company's preferred stockholders had the right to participate with common stockholders in dividends and unallocated income. Net losses were not allocated to the preferred stockholders. Therefore, when applicable basic and diluted EPS were computed using the two-class method, under which the Company's undistributed earnings are allocated amongst the common and preferred stockholders.

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 prevesting 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.

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

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

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

Income Taxes—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, 2014, there was no accrued interest or penalties related to uncertain tax positions.

Reduction In Workforce—On September 28, 2014, the Company's board of directors approved a cost reduction plan. The plan involves a reduction in the Company's workforce by approximately 70 employees. The pretax severance charge and outplacement services resulting from the reduction in workforce, combined with the Company's separation from its former Chief Operating Officer, amounted to $1.3 million. Of the $1.3 million in costs, $0.5 million was recorded to technology and development, $0.2 million was recorded to sales and marketing and $0.6 million was recorded to general and administrative in the accompanying statement of operations for the year ended December 31, 2014. As of December 31, 2014, $0.3 million of the reduction in workforce costs remain in accrued expenses and other current liabilities on the accompanying consolidated balance sheet.

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

Fair Value of Financial Instruments—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 Company's financial assets and liabilities include its capital lease obligations, accrued contingent consideration to Teknision, Inc. and its convertible promissory note. The Company does not have any nonfinancial assets or liabilities that are measured at fair value on a recurring basis. 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, 2013 and 2014. 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 in the next 12 months.

Investments and Fair Value Measurements—In July 2013, the Company made a $1.0 million investment (in the form of a convertible promissory note) in a privately held Delaware corporation called Blazer and Flip Flops, Inc. ("B&FF" doing business as The Experience Engine). B&FF is a professional services company whose principals have experience integrating its customers' systems with their customers' devices, including smartphones and tablets.

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

The provisions of 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.

The Company classifies its investment in B&FF within Level 3 because it is valued using unobservable inputs. As of December 31, 2013 and 2014 the estimated fair value is equal to the purchase price of $1.0 million.

Recent Accounting Pronouncements—In May 2014, the FASB issued Accounting Standards Update No. 2014-09 (ASU 2014-09) "Revenue from Contracts with Customers." ASU 2014-09 supersedes the revenue recognition requirements in "Revenue Recognition (Topic 605)" and requires entities to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is not permitted. The Company is currently in the process of evaluating the impact the adoption of ASU 2014-09 will have on its consolidated financial statements.

2. PROPERTY AND EQUIPMENT—NET

As of December 31, 2013 and 2014 property and equipment, net consisted of the following (in thousands):

	2013	2014
Computer equipment	$ 19,361	$ 21,194
Computer software	4,625	10,741
Furniture and fixtures	1,634	1,847
Leasehold improvements	1,044	1,389
Work in process (primarily software development costs)	3,893	1,203
Other	173	173
	30,730	36,547
Less accumulated depreciation	(16,645)	(21,419)
Total property and equipment—net	$ 14,085	$ 15,128

Property and equipment includes computer equipment and software held under capital leases of approximately $5.3 million and $4.8 million as of December 31, 2013 and 2014, respectively. Accumulated depreciation of computer equipment and software held under capital leases amounted to $2.1 million and $2.7 million as of December 31, 2013 and 2014, respectively.

3. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

As of December 31, 2013 and 2014, accrued expenses and other current liabilities consisted of the following (in thousands):

	2013	2014
Accrued compensation	$ 2,787	$ 4,066
Accrued content fees	580	1,745
Accrued business acquisition consideration	—	495
Unearned revenue on contracts	247	642
Other	1,563	1,455
Total	$ 5,177	$ 8,403

4. BANK FINANCING

In September 2013, the Company entered into a Loan and Security Agreement, with Silicon Valley Bank ("SVB"), which was amended in October 2014 (as amended, the "Loan Agreement"). The Loan Agreement provides for a $10.0 million secured revolving line of credit with a stated maturity of September 27, 2015. The

credit facility is available for cash borrowings, subject to a formula based upon eligible accounts receivable. As of December 31, 2014, $10.0 million was available under the revolving credit line. As of December 31, 2013 and 2014, there were no outstanding borrowings.

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

The Company's 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, 2014, the Company was in compliance with the covenants.

5. INCOME TAXES

Income (loss) from continuing operations before income taxes included income from domestic operations of $5.5 million, $(1.1) million and $(7.1) million for the years ended December 31, 2012, 2013 and 2014, and income from foreign operations of $0.1 million, $0.2 million and $0.1 million for the years ended December 31, 2012, 2013 and 2014.

The provision (benefit) for income taxes for the years ended December 31, 2012, 2013 and 2014, comprised the following (in thousands):

	2012	2013	2014
Current:			
United States Federal	$ 151	$ 16	$ 21
State	20	22	24
Foreign	36	71	7
Total current provision for income taxes	207	109	52
Deferred:			
United States Federal	1,022	(119)	4,135
State	535	(97)	634
Foreign	—	(27)	—
Net deferred provision (benefit) for income taxes	1,557	(243)	4,769
Total provision (benefit) for income taxes	$ 1,764	$ (134)	$ 4,821

The income tax effects of significant temporary differences and carryforwards that give rise to deferred income tax assets and liabilities as of December 31, 2013 and 2014 are as follows (in thousands):

	2013	2014
Deferred income tax assets:		
Stock and other compensation expense	$ 1,516	$ 2,838
Net operating losses	2,255	3,533
Research and development credits	1,676	1,676
Other federal and state carryforwards	414	304
Other	15	294
Gross deferred tax assets	5,876	8,645
Valuation allowances	—	(7,504)
	5,876	1,141
Deferred income tax liabilities:		
Fixed assets	(469)	(457)
Other	(11)	(57)
Gross deferred tax liabilities	(480)	(514)
Subtotal	5,396	627
Less unrecognized tax benefit liability related to deferred items	(627)	(627)
Net deferred tax assets	$ 4,769	$ —
Recorded as:		
Current deferred tax assets	$ 314	$ —
Non-current deferred tax assets	4,455	—
Net deferred tax assets	$ 4,769	$ —

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

	2012	2013	2014
Balance—beginning of year	$ 26	$ 627	$ 627
Additions for tax positions of prior years	601	—	—
Reductions for tax positions of prior years	—	—	—
Balance—end of year	$ 627	$ 627	$ 627

The tax positions at the end of 2012, 2013 and 2014 were primarily related to research and development carryforwards.

If the $0.6 million of unrecognized tax benefits as of December 31, 2014 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, 2013 and 2014, penalties and interest were immaterial.

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 2003 to 2013 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 is currently not under examination in any major taxing jurisdictions.

The Company does not provide for federal income taxes on the undistributed earnings of its foreign subsidiaries, as such earnings are to be reinvested offshore indefinitely. The income tax liability would be insignificant if these earnings were to be repatriated.

Income tax (benefit) expense for the years ended December 31, 2012, 2013 and 2014, differs from the expected income tax (benefit) expense calculated using the statutory U.S. Federal income tax rate as follows (dollars in thousands):

	2012		2013		2014	
Federal income tax (benefit) expense at statutory rate	$ 1,895	34%	$(320)	(34)%	$(2,390)	(34)%
State and local taxes—net of federal benefit	310	6	(75)	(8)	(410)	(6)
Foreign taxes	14	—	(3)	—	(1)	—
Expiration of or changes to federal and state NOLs	446	8	—	—	—	—
Federal research and development credit	(1,676)	(30)	—	—	—	—
Valuation allowance	—	—	—	—	7,504	107
Permanent differences	291	5	264	28	262	4
Uncertain tax position current activity	586	11	—	—	—	—
Other	(102)	(2)	—	—	(144)	(2)
Total	$ 1,764	32%	$(134)	(14)%	$ 4,821	69%

The Company had federal and state NOL carryforwards of approximately $6.0 million and $5.8 million, respectively, at December 31, 2014. In addition, the Company has approximately $1.9 million of NOL carryforwards created by windfall tax benefits relating to stock compensation for which no deferred income tax assets have been recorded in accordance with the rules under FASB ASC 718. The NOLs will begin to expire in 2027. The Company has weighed the positive and negative evidence, including cumulative recent 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, 2014.

6. 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):

	Years Ended December 31,		
	2012	2013	2014
Revenue:			
United States	$ 121,306	$ 111,122	$ 105,872
International	675	685	707
Total revenue	$ 121,981	$ 111,807	$ 106,579

	As of December 31,	
	2013	2014
Long-lived tangible assets:		
United States	$ 13,825	$ 14,573
Canada	—	502
International	260	53
Total long-lived tangible assets	$ 14,085	$ 15,128

7. 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 $1.5 million, $1.7 million and $2.5 million for 2012, 2013 and 2014, respectively.

Lease commitments as of December 31, 2014 can be summarized as follows (in thousands):

Years Ending December 31,	Operating Lease Commitments
2015	$ 2,393
2016	1,411
2017	1,193
2018	1,029
2019	384
Total lease commitments	$ 6,410

Years Ending December 31,	Capital Lease Commitments
2015	$ 1,233
2016	1,050
2017	365
Total minimum capital lease commitments	2,648
Less amount representing interest	115
	2,533
Current portion of capital lease obligations	1,150
Long-term portion of capital lease obligations	$ 1,383

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, 2014 can be summarized as follows (in thousands):

Years Ending December 31,	Contract Commitments
2015	$ 1,905
2016	1,080
2017	360
Total contract commitments	$ 3,345

Teknision Acquisition—The balance of the approximately $1.0 million purchase price to acquire the assets of Teknision, Inc. (“Teknision”) is due in May 2015 unless such amount is offset in satisfaction of certain indemnification obligations of Teknision. The remaining payment of $0.5 million is recorded in accrued expenses and other current liabilities on the consolidated balance sheet as of December 31, 2014.

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

8. EQUITY

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

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

Conversion—Prior to the Company’s initial public offering, each share of Series A, A-1, B, and C preferred stock was convertible at the option of the holder at any time into common stock. The conversion rate was the quotient obtained by dividing the original issue price of the Series A, A-1, B, or C by the conversion price. Subsequent to the Second Certificate of Amendment to the Fourth Amended and Restated Certificate of Incorporation, the conversion price was adjusted to effect a conversion of one preferred share into one and one-half common shares, as explained in Note 1, *The Company and Summary of Significant Accounting Policies*. The conversion price was subject to adjustment as set forth in the restated certificate of incorporation for certain dilutive issuances, splits, and combinations, as therein defined. Conversion was automatic upon either the consent of the holders of 66% of the outstanding shares of preferred stock or the effective date of a firm commitment underwritten public offering of the Company’s common stock in which the post-offering valuation on a fully diluted basis was at least $150.0 million and the proceeds were not less than $25.0 million. All shares of the Company’s outstanding preferred stock were converted into common stock in February 2012 in connection with the Company’s initial public offering.

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

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

	Years Ended December 31,		
	2012	2013	2014
Shares of common stock repurchased	—	—	229,050
Value of common stock repurchased (in thousands)	$ —	$ —	$ 562

Withhold to Cover—During the year ended December 31, 2014, certain employees, in lieu of paying withholding taxes on the vesting of certain shares of restricted stock awards, authorized the withholding of 4,594 shares of the Company’s common stock to satisfy their minimum statutory tax withholding requirements related to such vesting. These shares were recorded as treasury stock using the cost method at the per share closing price on the date of vesting. No shares of the Company’s common stock were withheld to cover minimum statutory tax withholding requirements during the years ended December 31, 2012 and 2013.

9. 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 an average of the historical volatilities of the common stock of several entities with characteristics similar to those of the Company. 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,		
	2012	2013	2014
Volatility	58%	59%	58%
Expected dividend yield	— %	— %	— %
Risk-free rate	1.4%	1.4%	1.9%
Expected term (in years)	6.25	6.25	6.25

The Company recorded $2.0 million, $2.6 million and $3.6 million of stock-based compensation expense for the years ended December 31, 2012, 2013 and 2014, respectively. No income tax deduction is allowed for incentive stock options ("ISOs"). Accordingly, no deferred income tax asset is recorded for the potential tax deduction related to these options. Expense related to stock option grants of non-qualified stock options ("NSOs") result in a temporary difference, which gives rise to a deferred tax asset.

Total stock-based compensation expense included in the accompanying consolidated statements of operations for the years ended December 31, 2012, 2013 and 2014, is as follows (in thousands):

	Years Ended December 31,		
	2012	2013	2014
Technology and development	$ 523	$ 1,184	$ 1,621
Sales and marketing	404	348	599
General and administrative	1,072	1,029	1,375
Total stock-based compensation expense	$ 1,999	$ 2,561	$ 3,595

Equity Incentive Plans—The Company has four stock option plans (the 2000 Stock Plan, the 2006 Stock Plan, the 2012 Equity Incentive Plan and the Special Purpose Recruitment Plan), which authorize the Company to grant up to 9,210,020 stock options (ISOs and NSOs), stock appreciation rights, restricted stock, restricted stock units ("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. The Company began granting RSUs in December 2012, which 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 are reserved for issuance under this plan.

Stock Option Activity—A summary of stock option activity for the year ended December 31, 2014 is as follows:

	Number of Stock Options	Weighted Average Exercise Price	Aggregate Intrinsic Value (in thousands)	Weighted Average Remaining Contractual Term (in years)
Outstanding—January 1, 2014	5,770,168	$ 3.85		
Granted	5,056,895	$ 2.54		
Exercised	(246,880)	$ 0.28		
Forfeited	(3,824,393)	$ 4.10		
Outstanding—December 31, 2014	6,755,790	$ 2.86	$ 322	7.32
Expected to vest—December 31, 2014	6,350,929	$ 2.85	$ 318	7.19
Vested and exercisable—December 31, 2014	2,996,632	$ 3.17	$ 293	5.05

Aggregate intrinsic value represents the difference between the Company's closing stock price of its common stock and the exercise price of outstanding, in-the-money options. The Company's closing stock price as reported on the NASDAQ as of December 31, 2014 was $2.00. The total intrinsic value of options exercised was approximately $7.6 million, $0.2 million and $0.5 million for the years ended December 31, 2012, 2013 and 2014, respectively. The weighted-average grant date fair value of options granted was $3.97 per share, $1.86 per share and $1.31 per share for the years ended December 31, 2012, 2013 and 2014, respectively.

As of December 31, 2014, total unrecognized compensation cost, adjusted for estimated forfeitures, related to nonvested stock options was approximately $5.8 million, which is expected to be recognized over a weighted-average period of 2.79 years.

Option Modifications—Pursuant to the transition agreement the Company entered into in March 2014 with Ronald Frankel, its former President and CEO, 752,725 of Mr. Frankel's options to purchase common stock of the Company were modified to accelerate vesting for options that would have otherwise been forfeited during the transition period to the beginning of the transition period ("Transition Date"), and the period options are exercisable is now the earlier of the third anniversary of the Transition Date or the original 10 year contractual term of each option. The total incremental expense resulting from Mr. Frankel's modification was $0.2 million.

Effective August 4, 2014, the compensation committee of the Company's board of directors agreed to modify all outstanding employee options with an exercise price of $3.00 per share or greater, other than options held by directors and executive officers, by resetting the exercise price per share to the closing price of the Company's common stock on August 4, 2014. As a result of the modification, 203 employees had a total of 1,547,382 options reset to an exercise price of $2.38 per share. The total incremental compensation expense resulting from the August 2014 modification is $0.6 million. During the year ended December 31, 2014, the Company recorded $0.4 million expense related to the modification. The remaining expense will be recorded over the remaining requisite service period.

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

RSU Activity—A summary of RSU activity for the year ended December 31, 2014 is as follows:

	Number of Stock Options	Weighted Average Exercise Price
Unvested—January 1, 2014	45,000	$ 5.46
Granted	913,638	$ 2.22
Released	(13,375)	$ 5.68
Forfeited	(111,475)	$ 2.48
Unvested—December 31, 2014	833,788	$ 2.31
Expected to vest —December 31, 2014	775,981	$ 2.43

As of December 31, 2014, total unrecognized compensation cost, adjusted for estimated forfeitures, related to RSUs was approximately $1.7 million, which is expected to be recognized over the next 2.59 years.

10. INVESTMENT IN EQUITY INTEREST

In March 2013, the Company entered into a Joint Venture Agreement, pursuant to which it owns 50% of the outstanding common stock and 100% of the preferred shares of Synacor China, Ltd., or the JV Company. The Company provided $0.9 million of funding to the JV Company during the year ended December 31, 2013, and $0.8 million of funding during the year ended December 31, 2014. The JV Company will, through its wholly foreign-owned subsidiary in the People's Republic of China (the "PRC"), supply authentication and aggregation solutions for the delivery of online content and services to customers in the PRC.

The investment in the JV Company is being accounted for using the equity method and is classified as an investment in equity interest on the Company's consolidated balance sheets. The Company records its share of the results of the JV Company within earnings in equity interest. Because the Company provided nearly all of the capital to form the JV Company, the Company has recorded 100% of the losses incurred by the JV Company within earnings in equity interest in its 2013 and 2014 consolidated statements of operations. Since acquiring its interest in the JV Company during 2013, the Company has recorded, in accumulated deficit, cumulative losses in equity interest of $1.6 million.

The following tables present summarized financial information for the JV Company (in thousands):

	Years Ended December 31,	
	2013	2014
Revenue	$ —	$ —
Loss from operations	(561)	(1,063)
Net loss	$ (561)	$ (1,063)

	As of December 31,	
	2013	2014
Total assets	$ 442	$ 78
Total liabilities	$ 77	$ 5

11. NET INCOME (LOSS) PER COMMON SHARE DATA

Basic net income (loss) per share is computed using the weighted-average number of common shares outstanding during the period. Diluted net income (loss) per share is computed using the weighted-average number of common shares and, if dilutive, potential common shares outstanding during the period. The Company's potential common shares consist of the incremental common shares issuable upon the exercise of

stock options, and to a lesser extent, shares issuable upon the release of RSUs. In addition, for the year ended December 31, 2012, the potential common shares included the conversion of preferred stock on an as if converted basis prior to the Company's initial public offering in February 2012. The dilutive effect of these potential common shares is reflected in diluted earnings per share by application of the treasury stock method. The Company considered its preferred stock to be participating securities and, in accordance with the two-class method, earnings allocated to preferred stock and the related number of outstanding shares of preferred stock were excluded from the computation of basic and diluted net income (loss) per common share.

The following table presents the calculation of basic and diluted net income (loss) per share for the years ended December 31, 2012, 2013 and 2014 (in thousands, except share and per share amounts):

	Year Ended December 31,		
	2012	2013	2014
Basic net income (loss) per share:			
Numerator:			
Net income (loss)	$ 3,815	$ (1,367)	$ (12,931)
Denominator:			
Weighted-average common shares outstanding	24,411,194	27,306,882	27,389,793
Basic net income (loss) per share	$ 0.16	$ (0.05)	$ (0.47)
Diluted net income (loss) per share:			
Numerator:			
Net income (loss)	$ 3,815	$ (1,367)	$ (12,931)
Denominator:			
Number of shares used in the basic computation	24,411,194	27,306,882	27,389,793
Add weighted-average effect of dilutive securities:			
Conversion of preferred stock (as if converted basis)	1,948,635	—	—
Stock options and RSUs	1,737,484	—	—
Number of shares used in diluted calculation	28,097,313	27,306,882	27,389,793
Dilutive net income (loss) per share	$ 0.14	$ (0.05)	$ (0.47)

Stock options and RSUs are not included in the calculation of diluted net loss per share for the years ended December 31, 2013 and 2014 because the Company had a net loss for those years. Accordingly, the inclusion of these equity awards would have had an antidilutive effect on the calculation of diluted loss per share.

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

	Year Ended December 31,		
	2012	2013	2014
Antidilutive Equity Awards:			
Stock options and RSUs	137,850	3,356,358	7,589,578

12. 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; however, no matching contributions were made during the years ended December 31, 2012, 2013 or 2014.

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Non-GAAP Reconciliations (in thousands)

The following table presents a reconciliation of net loss to Adjusted EBITDA for each of the periods indicated:

	For the Three Months Ended			
	March 31, 2014	**June 30, 2014**	**September 30, 2014**	**December 31, 2014**
Reconciliation of Adjusted EBITDA:				
Net loss	(2,056)	(1,868)	(2,596)	(6,418)
Provision (benefit) for income taxes	(684)	(641)	(1,288)	7,434
Interest expense	88	23	75	32
Other (income) expense	(8)	(6)	14	29
Depreciation	1,058	1,117	1,133	1,818
Loss on equity interest	246	344	239	234
Stock-based compensation	681	847	1,226	842
Gain on sale of domain	—	(1,000)	—	—
Reduction in workforce severance and related costs	—	—	1,260	—
Adjusted EBITDA	**$ (675)**	**$ (1,184)**	**$ 63**	**$ 3,971**

For a description of Adjusted EBITDA and how it is used by our management and board of directors, please see page 37 of this Annual Report.

CORPORATE INFORMATION AND SAFE HARBOR STATEMENT

EXECUTIVE OFFICERS

HIMESH BHISE
President and Chief Executive Officer

GEORGE CHAMOUN
President, Sales and Marketing

WILLIAM STUART
Chief Financial Officer

BOARD OF DIRECTORS

HIMESH BHISE
President and Chief Executive Officer

JORDAN LEVY
Chairman of the Board

MARWAN FAWAZ

GARY GINSBERG

ANDREW KAU

MICHAEL MONTGOMERY

SCOTT MURPHY

CORPORATE INFORMATION

TRANSFER AGENT
American Stock Transfer & Trust Company, LLC, 6201 15th Avenue, Brooklyn, NY 11219
www.amstock.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, 20th 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

COMPANY OFFICES

BUFFALO | NEW YORK | BOSTON | TORONTO | OTTAWA

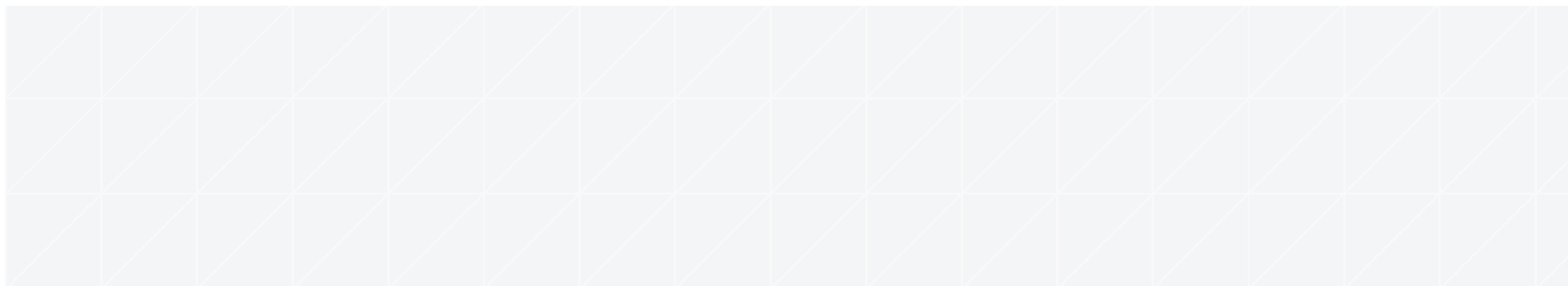
SAFE HARBOR STATEMENT

"Safe Harbor" statement under the Private Securities Litigation Reform Act of 1995: This document contains forward-looking statements concerning Synacor's expected financial performance (including, without limitation, the quotations from management and directors), 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; the loss of a significant customer; our ability to obtain new customers; expectations regarding consumer taste and user adoption of applications and solutions; developments in Internet browser software and search advertising technologies; developments in digital advertising technologies and practices; 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; and the price volatility of our common stock.

Further information on these and other factors that could affect the company'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 the company's most recent Form 10-K filed with the SEC on March 12, 2015, a copy of which is included herein. These documents are available on the SEC Filings section of the Investor Information section of the company's website at http://investor.synacor.com. All information provided in this annual report is available as of the date of its mailing, and Synacor undertakes no duty to update this information.

SYNACOR, INC / ANNUAL REPORT 2014



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