

Synacor, Inc.
Form 10-K
March 30, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2011

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File Number 001-33843

Synacor, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction)

of incorporation or organization)

16-1542712
(I.R.S. Employer

Identification No.)

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40 La Riviere Drive, Suite 300

Buffalo, New York
(Address of principal executive offices)

(716) 853-1362

14202
(Zip Code)

(Registrant's telephone number, including area code)

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

(Title of each class)	(Name of each exchange on which registered)
Common Stock, \$0.01 par value	The NASDAQ Global Market

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

None.

(Title of Class)

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

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

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

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

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

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

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

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

As of February 10, 2012, the aggregate market value of shares of common stock held by non-affiliates of the registrant was approximately \$87.7 million based on the number of shares held by non-affiliates as of February 10, 2012 and based on the last reported sale price of the registrant's common stock on The NASDAQ Global Market on such date. The registrant has elected to use February 10, 2012 as the calculation date because it was the initial trading date of the registrant's common stock on The NASDAQ Global Market. For purposes of this disclosure, shares of common stock held by persons who held more than 10% of the outstanding shares of common stock at such time and shares held by executive officers and directors of the registrant have been excluded because such persons may be deemed to be affiliates. This determination of executive officer or affiliate status is not necessarily a conclusive determination for other purposes.

As of March 21, 2012, there were 26,743,242 shares of the registrant's common stock issued and outstanding. All share and per share amounts in this Annual Report on Form 10-K reflect the 1-for-2 reverse stock split of the registrant's common stock which took effect immediately prior to the effectiveness of the registration statement for the registrant's initial public offering.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the definitive Proxy Statement to be used in connection with the registrant's 2012 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K to the extent stated. That Proxy Statement will be filed within 120 days of registrant's fiscal year ended December 31, 2011.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

our expected future financial performance;

our expectations regarding our operating expenses;

our ability to maintain or broaden relationships with existing customers and develop relationships with new customers;

our success in anticipating market needs or developing new or enhanced services and products to meet those needs;

our expectations regarding market acceptance of our services and products;

our ability to recruit and retain qualified technical and other key personnel;

our competitive position in our industry, as well as innovations by our competitors;

our success in managing growth;

our plans to expand into international markets;

our success in identifying and managing potential acquisitions;

our capacity to protect our confidential information and intellectual property rights;

our need to obtain additional funding and our ability to obtain funding in the future on acceptable terms; and

anticipated trends and challenges in our business and the markets in which we operate.

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

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

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

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PART I

ITEM 1. BUSINESS

Our Business

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

Our platform provides single sign-on capability, enabling consumers to seamlessly sign in and consume packaged online content and services from numerous programmers and content providers. These services include e-mail, security, online games, music and authentication of TV Everywhere, a technology enabling consumers with applicable rights to access on-demand television online via multiple devices including PCs, tablets, smartphones and connected TVs. We offer consumers access to these services on demand through a user-friendly, customer-branded online solution and, increasingly, across multiple devices. We enable our customers to up-sell a menu of content and services to their consumers either on a pay-per-view basis or as a new service tier added to their existing subscription relationship.

Our platform offers our customers a comprehensive solution by providing consumers access to a broad range of online products and services. Following initial integration with our platform, our customers gain access to a wide range of programmers and content and service providers with whom we have licensing and distribution agreements. In addition, we may integrate into our platform content and services that form part of our customers' existing offerings. Our platform's flexible architecture integrates with our customers' billing and subscriber management systems, as well as with third-party content and services.

Our customers direct consumers to their branded websites, which comprise the consumer-facing components of our platform, where consumers have access to the online content and services available to them at their respective subscription levels. This enhanced Internet experience helps connect us and our customers to their large and engaged consumer base. We monetize the online traffic generated by these consumers through search and display advertising. We also charge fees for value added services delivered through our platform. Search queries, advertising impressions and use of our services have grown as we have added new customers and as our existing customers continue to further adopt our service offerings. Our business model creates deep customer relationships: as we monetize our customers' online traffic, we share a portion of this revenue with our customers, resulting in a mutually beneficial partnership.

Our Strategy

We intend to:

Increase penetration and monetization of existing customers.

Acquire new customers.

Continue to invest in platform enhancements and technology solutions.

Expand internationally.

Services and Products

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We provide a proprietary technology platform that enables our customers to drive consumer engagement and generate new revenue streams through an array of online content and services such as video, search,

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advertising and value added services. Our customers use our platform to develop personalized websites that serve as their consumers' respective online hubs for communication services, entertainment offerings and support services.

Our platform enables our customers to combine entertainment, such as television shows, multi-player games and streaming music based on a subscriber's access rights and preferences with communications offerings such as voicemail, e-mail, and third party messaging services like Yahoo Mail, Google Gmail, AOL Mail, Facebook, and Twitter. Our platform further allows our customers to deliver appropriate account tools, support, bill pay services and up-sell promotions to their consumers, all without leaving the applicable customer's website.

We generate revenue from consumer traffic on our platform through search and display advertising revenue, which we collect from our search partner, Google, our advertising network providers and directly from advertisers. We typically share a portion of this search and display advertising revenue with our customers. We also generate recurring revenues in the form of subscriber-based fees for the use of our platform, value added services and paid content, which we collect from our customers.

Our Platform

The key features of our platform include the following:

Website Design and Development. Using our technology platform, we create, design and develop branded websites for our customers. Our websites are designed to be the initial online destination for our customers' consumers and typically aggregate a broad array of resources, including free-to-subscriber content and service offerings, value added services, online content and search, all in one location.

Unified Registration and Login (Single Sign-On). Our platform gives subscribers access to all of the value added services and paid content, including subscription television programming they have the right to consume, using a single user ID and password, which are typically the same credentials that they use for e-mail. Single sign-on for subscribers is accomplished by integrating with both our customers and our content and value added service partners. Because our single sign-on technology was built to accommodate many authentication mechanisms, we are able to integrate with a wide range of partners.

Billing Integration. Our platform allows our customers to integrate billing for value added services and paid content purchases with other services and products provided to their subscribers, including television and telephony service. A customer may collect transaction fees via credit card or on the subscriber's service provider bill, and it may bill transactions each time they occur or on a monthly basis using monthly summary totals. Our system enables online bill review, providing subscribers with access to a detailed transaction account.

Personalization. Our platform enables the consumer to personalize his or her online experience through customization and localization. Consumers may add, delete, move, and otherwise customize the content displayed on our customers' branded websites, such as by setting preferred television stations in our TV-at-a-glance module. Localization allows consumers to set a website to a favorite zip code to gain access to radio stations, weather, movies, and events, all in the local area. Among other things, our platform allows consumers to comment on online articles and to create shortcuts to their favorite content using an online personal assistant on the personalized website. Consumers are able to manage access to services and products available to each member of the household, define a budget limit for purchases for each member of the household and set the payment method (service provider bill vs. credit card) for access to paid offerings.

Video Delivery Capability. Our video delivery capability includes two primary components: a video player and a video discovery and delivery system. The video player contains video controls such as play, pause, fast forward and rewind and full-screen viewing and can be configured to play within or on

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top of a page. Our video discovery and delivery system is database-driven, supports multiple video hosting methods and enables transcoding from a number of video formats to formats that are playable on a variety of devices. The system contains a number of access control mechanisms, including the ability to restrict access based on IP address, location, consumer type or household management settings. The system also permits consumers to search videos and browse by channel, genre or content type.

Content Management System. Our proprietary content management system enables our customers and us to create dynamic, customizable online experiences containing content from various sources. Content is distributed via web services in an architecture that is easily portable to multiple devices and platforms. Our system is comprised of administrative interfaces, a scalable content storage system and a system to distribute content to the platform. The interface is easy to use and displays a preview of page or component designs prior to approval and publishing. Our system can also automatically publish content from outside sources or assign publishing rights, by site section, to outside vendors.

Household Management. Our household management system puts parents in control of the content their children are allowed to purchase or consume through our platform. Among other things, this system allows the head of household to specify the range of products their child accounts may access and utilize and to establish preset spending limits for content purchases such as music.

Toolbar. We offer our customers the ability to create branded toolbars that can be personalized by their consumers. The toolbar can be updated automatically as new features become available and may be configured with search, weather, television and movie listings as well as value added services and paid content packages, enabling consumers to access their favorite features on our platform even when they leave our customers' websites. The toolbars can also integrate internal services such as instant messaging, customer support and e-mail.

Television Listings. Our platform provides television listings and corresponding television channels, which enables consumers to search and browse local television programming.

Search and Display Advertising

We use search and display advertising to generate revenue from consumer online traffic generated on our platform.

Search Advertising. We have a revenue-sharing relationship with Google, pursuant to which we include a Google-branded search tool on our customers' websites. When a consumer makes a search query using this tool, we deliver it to Google, and Google returns search results that include advertiser-sponsored links to us, which we pass on to the consumer. If the consumer clicks on a sponsored link, Google receives payment from the sponsor of that link and shares a portion of that payment with us, which we in turn share with the applicable customer. We receive a monthly payment from Google within 30 days following the end of the month in which the revenue from the Google search advertising was earned; in turn we make revenue-share payments to our customers, subject to varying payment terms requiring payment from 30 days to 45 days following either the end of the month or quarter in which the revenue share was generated.

Display Advertising. We generate advertising revenue when consumers view or click on a text, graphic or video advertisement that is delivered on a Synacor-operated website. We sell some of our advertising inventory directly to advertisers using our team of direct advertising sales employees and independent advertising sales representatives. Our advertisers pay us a fee when a subscriber views or clicks the advertisement we place on their behalf on our customer's website. We sell the rest of our advertising inventory through arrangements we have entered into with several advertising networks, including DoubleClick (a division of Google) and advertising.com (a division of AOL), among others. Advertisers pay these networks a fee to place their advertisements on various websites. When the networks place an advertisement on one of our customers' websites, the network will pay us a portion of that fee. We typically share a portion of the payments from

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advertisers or advertising networks with the applicable customer. We have varying payment terms from advertisers and advertising networks ranging from 30 days to 65 days following the end of the month in which the revenue from the advertiser was earned; in turn we make revenue-share payments to our customers, subject to varying payment terms requiring payment from 30 days to 45 days following either the end of the month or quarter in which the revenue share was generated.

As we hire additional advertising salespeople and retain additional independent advertising sales representatives, we will target more advertisers directly as opposed to through advertising networks to fill our advertising inventory, which we expect will result in higher cost-per-thousand impressions (referred to as cost per mille, or CPMs) and, consequently, higher revenue.

Subscriber-Based Services

Using our proprietary technology platform, we provide our customers a flexible solution, enabling them to deliver a wide range of online content and value added services from multiple sources in a single, customizable online location. Our customers use our platform to provide their subscribers with access to free-to-subscriber content and service offerings, including television programming, news, sports, entertainment and weather, as well as paid content and other value added services, all from one location and with one login. Our platform employs a scalable and flexible architecture that allows us, and our customers, to add or change features and applications regularly, enabling subscribers to access them across a wide range of Internet-enabled devices, such as PCs, tablets, smartphones and connected TVs.

We offer both free-to-subscriber content and service offerings and paid content and value added services, which are paid for by our customers or their subscribers, individually or in bundled packages. The packages are accessed via our single sign-on capability according to access rules established by our customers and the content or service providers. These are available at our customers' websites as well as the websites of the content and service providers. The following are illustrative examples of some of these packages, which we allow our customers to modify if they desire:

E-mail and Calendar. We provide e-mail and calendar solutions to our customers using a suite of messaging products provided by a third party. We integrate these products into our technology platform to deliver e-mail and family calendars to subscribers from their websites. The system enables us to highlight customer-related and community events on subscribers' calendars and insert advertising into e-mail interfaces. Additionally, we have developed voicemail and VOIP functionality for e-mail that allows subscribers to access voicemail from their e-mail.

Security. Our security offering typically includes anti-virus, firewall and intrusion detection, pop-up blocker, parental controls and automatic updates all powered by security suites, such as F-Secure.

TV Everywhere. Our platform enables subscribers to watch free television online or utilize our authentication functionality to authorize them to watch premium television online, on-demand using an approved Internet-connected device. We have developed a combined television/video solution with an information architecture that improves usability and serves as a destination point for all platforms, including linear, video on demand, or VOD, and other online content.

Variety Package. Our variety package combines content from several Internet subscription and entertainment products into a single package. These packages may include any combination of games (such as AtomShockwave), greeting card services (such as American Greetings), weather services (such as weather.com), educational elements (such as Encyclopedia Britannica or Clever Island) and sports elements (such as MLB.com, NASCAR.com Trackpass, NHL.com or Fox Sports).

Sports Plus Package. The sports plus package combines access to multiple sports-related content providers that would otherwise require separate subscriptions into a single package. The package includes access to MLB.com, NASCAR.com Trackpass, NHL.com and Fox Sports.

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Portable and Non-Portable Music. Our music offering includes download-to-own, download-to-rent, and streaming music from our content providers' libraries. Non-portable subscriptions allow subscribers to play music on their PCs, while portable subscriptions allow the subscribers to listen to music on a mobile device. Our music services are provided through contractual relationships with MediaNet and Rdio, Inc.

GamesSomnia™. Our GamesSomnia package includes subscriptions to popular online gaming services and gaming-related news sources, which may include offerings from Classic Atari, LEGO PC Games, Yummy Arcade, Shockwave and IGN Insider.

Learning Edge™. Our Learning Edge package combines a number of educational products that appeal to families with young children, which may include offerings from Nick Jr. Boost, Boston Test Prep, Clever Island, Encyclopedia Britannica and IKnowThat.com.

We invoice our customers on a monthly basis with varying payment terms ranging from 30 days to 45 days following the end of the month in which the revenue was earned. Our content provider payment terms range from prepayment to 30 days or 45 days following the end of the month in which the content was provided.

Technology and Operations

Technology Platform Architecture

Our technology platform has been designed and built to support reliability and scalability. To route traffic through our network in the most efficient manner, we use load-balancing products, which spread work among multiple servers, and link controllers, which monitor availability and performance of multiple connections to our platform. Our technology platform is fault tolerant and scalable through the addition of more servers as usage grows.

Data Center Facilities

We currently operate and maintain four data centers in regionally diverse locations and have a network operations center which is staffed 24 hours a day, seven days a week. Our three primary data centers are located in shared facilities in Atlanta, Georgia; Denver, Colorado and Amsterdam, The Netherlands. We also maintain a secondary data center in a shared facility in Buffalo, New York. All systems are fully monitored for reporting continuity and fault isolation. The Atlanta, Buffalo, Denver and Amsterdam data centers are each in a physically secure facility using monitoring, environmental alarms, closed circuit television and redundant power sources. Our network operations center is located in a secure facility.

Customers

Our customers principally consist of high-speed Internet service providers, such as Charter Communications Inc., or Charter, and CenturyLink, Inc., or CenturyLink, as well as a consumer electronics manufacturer, Toshiba America Information Systems, Inc., or Toshiba. Our customer contracts typically have an initial term of two to three years from the deployment of the customer's website and frequently provide for one or more automatic renewal terms of one to two years each. Our customer contracts typically contain service level agreements which call for specific system up times and 24 hours per day, seven days per week support. As of December 31, 2011, we had agreements with over 45 customers.

Content Providers

We license the content which we provide to our customers, including free and paid content offerings and value added services, from numerous third-party content and service providers. Our content and service partners provide a variety of content, including news and information, entertainment, sports, music, video, games, shopping, travel, autos, careers and finance. To obtain this content, we enter into a variety of licensing

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arrangements with our content providers. These arrangements are typically one to three years in duration with payment terms that may be based on traffic, advertising revenue share, number of subscribers, flat fee payments over time, or some combination thereof. We use licensed content to populate our customers' websites, as well as to provide value added services and paid content that subscribers may purchase for additional fees. As of December 31, 2011, we had arrangements with over 75 content providers such as MLB Advanced Media, L.P., or MLB Advanced Media, CNN, The Associated Press, FOX News Network, LLC, NASCAR, MusicNet, Inc., AG.com, Inc., or American Greetings, and Encyclopedia Britannica, Inc.

Sales and Marketing

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

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

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

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

Our advertising sales team sells display advertising inventory directly to advertisers, frequently through the advertising agencies representing those advertisers. These advertisers may be small companies with the advertising regionally focused on the website of one customer, or large companies with nationwide advertising on the websites of many customers. We have a team of direct advertising sales employees and independent advertising sales representatives focused on this effort and expect to add to this team and to grow the amount of display advertising revenue generated with our customers.

Government Regulation

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

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Federal laws regarding the Internet that could have an impact on our business include the following: the Digital Millennium Copyright Act of 1998, which is intended to reduce the liability of online service providers of third-party content, including content that may infringe copyrights or rights of others; the Children's Online Privacy Protection Act, which imposes additional restrictions on the ability of online services to collect user information from minors; and the Protection of Children from Sexual Predators Act, which requires online service providers to report evidence of violations of federal child pornography laws under certain circumstances.

Laws and regulations regarding user privacy and information security impact our business because we collect and use personal information regarding our customers' websites. We use this information to deliver more relevant content and services and provide consumers with a personalized online experience. We share this information on an aggregate basis with our customers and content providers and, subject to confidentiality agreements, to prospective customers and content providers. Laws such as the CAN-SPAM Act of 2003 or other user privacy or security laws could restrict our and our customers' ability to market products to their consumers, create uncertainty in Internet usage and reduce the demand for our services and products or require us to redesign our customers' websites.

Intellectual Property

We believe that the protection of our intellectual property is critical to our success. We rely on copyright and service mark enforcement, contractual restrictions and trade secret laws to protect our proprietary rights. We have entered into confidentiality and invention assignment agreements with our employees and contractors, and nondisclosure agreements with certain parties with whom we conduct business in order to limit access to and disclosure of our proprietary information. Our registered service mark in the United States is Synacor®.

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

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

Competition

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

When one of our prospective or existing customers considers another supplier, including one of our partners, for elements of the services or products which we provide.

When consumers choose to rely on other vendors for similar products and services.

When content and service providers prefer to establish direct relationships with one or more of our customers. Our technology platform, value added services and paid content offerings compete primarily with high-speed Internet service providers that have internal information technology staff capable of developing similar solutions in-house. In addition, we compete with companies such as Facebook, Inc., Yahoo! Inc., or Yahoo!, Google, AOL LLC, or AOL, and MSN, a division of Microsoft Corporation, or Microsoft, which have destination websites of their own or are capable of delivering competing platforms with content and service offerings similar to ours.

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We also compete with providers of paid content and services over the Internet, especially companies with the capability of bundling paid content and value added services in much the same manner that we do. These companies include ESPN3, F-Secure Corporation or F-Secure, Exent Technologies Ltd. or Exent, Zynga Inc., MLB Advanced Media, Symantec Corporation, McAfee, Inc., Activision Blizzard, Inc. and Electronic Arts Inc. In some cases we have performed software integrations with these companies on behalf of our customers or, as in the case of F-Secure and Exent, we have partnered with them in order to offer their services more broadly to all our customers.

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

reinforce the brand of the high-speed Internet service provider;

produce products that are flexible and easy to use;

offer competitive fees for website development and operation;

generate additional revenue for high-speed Internet service providers;

enable high-speed Internet service providers to be involved in designing the look and feel of their online presence;

offer services and products that meet the changing needs of high-speed Internet service providers and their subscribers, including emerging technologies and standards;

provide high-quality product support to assist the customer's service representatives; and

aggregate content to deliver more compelling bundled packages of paid content.

We believe that we distinguish ourselves from potential competitors in three principal ways. First, we provide a white-label solution that, unlike the co-branded approach of most of our competitors, creates a consumer experience that reinforces our customers' and partners' brands. Second, we give customers control over the sign-on process and billing function for a wide range of Internet services and content by integrating with their internal systems (where applicable) thereby allowing our customers to own the consumer. Finally, our solution is flexible, meaning that we allow each customer to fashion websites that are specifically tailored to their desired look and feel.

Employees

As of December 31, 2011, we had 260 employees in the United States and 1 employee in the United Kingdom. None of our employees is represented by a labor union, and we consider current employee relations to be good.

Available Information

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

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Synacor, Inc.

Investor Relations Department

40 La Riviere Dr.

Suite 300

Buffalo, New York 14202

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ITEM 1A. RISK FACTORS

Our business is subject to numerous risks. You should carefully consider the following risk factors and all other information contained in this Annual Report on Form 10-K together with any other documents we file with the SEC. If any of the following events actually occur or risks actually materialize, our business, financial condition or results of operations could be materially and adversely affected. The risks described below are not the only risks facing our company. Risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition and results of operations.

Risks Related to Our Business

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

We have incurred significant losses in each year of operation other than 2009 and 2011, including a net loss of \$5.8 million in 2008 and a net loss of \$3.6 million in 2010. Our net income in 2009 and 2011 was \$0.3 million and \$9.9 million, respectively. We expect that our expenses will increase in future periods as we implement initiatives designed to grow our business including, among other things, the development and marketing of new services and products, licensing of content, expansion of our infrastructure, international expansion and general and administrative expenses associated with being a public company. If our revenue does not sufficiently increase to offset these expected increases in operating expenses, we may incur significant losses and may not be profitable. Our revenue growth in recent periods may not be indicative of our future performance. In fact, in future periods, our revenue could decline. Accordingly, we may not be able to achieve profitability in the future. Any failure to achieve profitability may materially and adversely affect our business, financial condition and results of operations.

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

We rely on traffic on our platform to generate search and display advertising revenue, a substantial portion of which is derived from text-based links to advertisers' websites as a result of Internet searches. We have a revenue-sharing relationship with Google under which we include a Google-branded search tool on our customers' websites. When a consumer makes a search request using this tool, we deliver it to Google, and Google returns search results to us that include advertiser-sponsored links. If the consumer clicks on a sponsored link, Google receives payment from the sponsor of that link and shares a portion of that payment with us. We then typically share a portion of that payment with the applicable customer. Our Google-related search advertising revenue attributable to our customers, which consists of the portion of the payment from the sponsor that Google shares with us, accounted for approximately 45%, 49% and 57% of our revenue in 2009, 2010 and 2011, or \$27.7 million, \$32.6 million and \$51.5 million, respectively. Our agreement with Google expires in February 2014 unless we and Google mutually elect to renew it. Additionally, Google may terminate our agreement if we experience a change in control or enter into an agreement providing for a change in control, if we do not maintain certain search and display advertising revenue levels, or upon the two-year anniversary of the agreement, in February 2013. If advertisers were to discontinue their advertising via Internet searches, if Google's revenue from search-based advertising were to decrease, if Google's share of the search revenue were to be increased or if our agreement with Google were to be terminated for any reason or renewed on less favorable terms, our business, financial condition and results of operations would be materially and adversely affected.

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

We derive a substantial portion of our revenue from a small number of customers. For example, revenue attributable to two customers, Charter and CenturyLink (including our revenue attributable to Qwest

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

Our contracts with our customers generally have an initial term of approximately two to three years from the launch of their websites and frequently provide for one or more automatic renewal terms of one to two years each. Our agreement with Embarq Management Company, or Embarq, a subsidiary of CenturyLink, is currently in such a renewal term. If any one of these key contracts is not renewed or is otherwise terminated, or if revenue from these significant customers declines because of competitive or other reasons, our revenue would decline and our ability to achieve or sustain profitability would be impaired. In addition to loss of subscriber-based revenue, including website and paid content sales, we would also lose significant revenue from the related search and display advertising services that we provide.

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

The number of people who access the Internet through devices other than PCs, including tablets, smartphones and connected TVs, has increased dramatically in the past few years and is projected to continue to increase. Similarly, individuals are increasingly accessing the Internet through applications, or apps, other than Internet browsers, such as those available for download through Apple Inc.'s App Store and the Android Market. While we are developing solutions to these alternative means of accessing the Internet, including through our acquisition of mobile device software and technology from Carbyn, Inc., or Carbyn, in January 2012, we do not currently offer our customers and their subscribers a wide variety of apps and other non-browser solutions. Additionally, as new devices and new apps are continually being released, it is difficult to predict the problems we may encounter in developing new versions of our apps and other solutions for use on these alternative devices and apps, and we may need to devote significant resources to the creation, support and maintenance of such apps and solutions. If users of these devices and apps do not widely adopt the apps and other solutions we develop, our business, financial condition and results of operations could be adversely affected.

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

Our business depends on aggregating and providing services and content that our customers will place on their websites, including television programming, news, entertainment, sports and other content that their subscribers find engaging, and value added services and paid content that their subscribers will buy. Accordingly, we must continue to invest significant resources in licensing efforts, research and development and marketing to enhance our service and content offerings, and we must make decisions about these matters well in advance of product releases to implement them in a timely manner. Our success depends, in part, on unpredictable and volatile factors beyond our control, including consumer preferences, competing content providers and websites and the availability of other news, entertainment, sports and other services and content. While each consumer's homepage is set to our applicable customer's website upon the installation of our customer's services or the sale of our customer's product, a consumer may easily change that setting, which would likely decrease the use of our platform. If our services are not responsive to the requirements of our customers or the preferences of their consumers, or the services are not brought to market in a timely and effective manner, our business, financial

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condition and results of operations would be harmed. Even if our services and content are successfully introduced and initially adopted, a subsequent shift in the preferences of our customers or their consumers could cause a decline in the popularity of our services and content that could materially reduce our revenue and harm our business, financial condition and results of operations.

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

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

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

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

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

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

Our revenue from high-speed Internet service providers, including our search and display advertising revenue generated by online consumer traffic on our platform, accounted for more than 95% of our revenue in each of 2009 and 2010 and nearly 86% in 2011. The cable and telecommunications industries have experienced consolidation over the past several years, and we expect that this trend will continue. As a result of consolidation, some of our customers may be acquired by companies with which we do not have existing relationships and which may have relationships with one of our competitors or may have the in-house capacity to perform the services we provide. As a result, such acquisitions could cause us to lose customers and the associated subscriber-based and search and display advertising revenue. Additionally, under certain of our customer agreements, including our agreement with CenturyLink, the customer has a right to terminate the agreement if it experiences a change in control. Under our agreement with Charter, Charter has a right to terminate the agreement if we experience a change in control.

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

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

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

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

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

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

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

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

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

We license the content that we aggregate on our platform from numerous third-party content providers, and our future success is highly dependent upon our ability to maintain and enter into new relationships with these and other content providers. In the future, some of our content providers may not give us access to high-quality

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content, may fail to adapt to changes in consumer tastes or may increase the royalties, fees or percentages that they charge us for their content, any of which could have a material negative effect on our operating results. Our rights to the content that we offer to our customers and their consumers are not exclusive, and the content providers could license their content to our competitors. Our content providers could even grant our competitors exclusive licenses. In addition, our customers are not prohibited from entering into content deals directly with our content providers. Any failure to enter into or maintain satisfactory arrangements with content providers would adversely affect our ability to provide a variety of attractive services and products to our customers. Our reputation and operating results could suffer as a result, and it may be more difficult for us to develop new relationships with potential customers. Our costs as a percentage of revenue may also increase due to price competition.

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

As a result of the rapidly changing nature of the markets in which we compete, our quarterly and annual revenue and operating results are likely to fluctuate from period to period. These fluctuations may be caused by a number of factors, many of which are beyond our control, including:

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