Synacor, Inc.
Form S-1/A
December 23, 2011
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As filed with the Securities and Exchange Commission on December 22, 2011.

Registration No. 333-178049

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 1

TO

Form S-1

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

SYNACOR, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware	**7370**	**16-1542712**
(State or Other Jurisdiction of Incorporation or Organization)	*(Primary Standard Industrial Classification Code Number)*	*(I.R.S. Employer Identification Number)*

40 La Riviere Drive, Suite 300

Buffalo, NY 14202

(716) 853-1362

(Address, including zip code and telephone number, including area code, of registrant s principal executive offices)

Ronald N. Frankel

President and Chief Executive Officer

Synacor, Inc.

40 La Riviere Drive, Suite 300

Buffalo, NY 14202

(716) 853-1362

(Name, address, including zip code and telephone number, including area code, of agent for service)

Copies to:

Scott Dettmer, Esq. **Brian Hutchings, Esq.** **Gunderson Dettmer Stough** **Villeneuve Franklin & Hachigian, LLP** **220 West 42nd Street, 21st Floor** **New York, New York 10036** **(212) 730-8133**	**Steven L. Grossman, Esq.** **O Melveny & Myers, LLP** **1999 Avenue of the Stars, 7th Floor** **Los Angeles, California 90067** **(310) 553-6700**

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, as amended, check the following box. ¨

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

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 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 x (Do not check if a smaller reporting company)	Smaller reporting company ¨

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	**Proposed Maximum Aggregate Offering Price (1)(2)**	**Amount of Registration Fee (1)(3)**
Common stock, par value $0.01 per share	$75,000,000	$8,595

(1) Includes offering price of shares of common stock that may be purchased by the underwriters to cover over-allotments, if any.
(2) Estimated solely for the purpose of computing the amount of the registration fee pursuant to Rule 457(o) under the Securities Act.
(3) Of the total fee, $5,947 was paid concurrently with the initial filing of this registration statement. Pursuant to Rule 457(p) under the Securities Act, the registration fee was offset by the $2,648 registration fee previously paid by the registrant, Synacor, Inc., in connection with the registration statement on Form S-1 (File No. 333-145077) initially filed by the registrant on August 2, 2007 and subsequently withdrawn.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to Completion

Preliminary Prospectus dated December 22, 2011

PROSPECTUS

Shares

Common Stock

This is Synacor, Inc. s initial public offering. We are selling shares of our common stock.

We expect the public offering price to be between $ and $ per share. Currently, no public market exists for the shares. After pricing of the offering, we expect that the shares will trade on The NASDAQ Global Market under the symbol SYNC.

Investing in the common stock involves risks that are described in the Risk Factors section beginning on page 11 of this prospectus.

	Per Share	Total
Public offering price	$	$
Underwriting discount	$	$
Proceeds, before expenses, to us	$	$

The underwriters may also exercise their option to purchase up to an additional shares from us, at the public offering price less the underwriting discount, for 30 days after the date of this prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The shares will be ready for delivery on or about , .

BofA Merrill Lynch **Citigroup** **Stifel Nicolaus Weisel**

BMO Capital Markets **Needham & Company, LLC** **Oppenheimer & Co.**

The date of this prospectus is , .

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PROSPECTUS SUMMARY

This summary highlights selected information contained in greater detail elsewhere in this prospectus. This summary does not contain all the information you should consider before investing in our common stock. You should carefully read the entire prospectus, including Risk Factors and our financial statements and related notes, before making an investment decision. Unless the context otherwise requires, we use the terms Synacor, the company, we, us and our in this prospectus to refer to Synacor, Inc.

Our Business

We are 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 that 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. As of September 30, 2011, our high-speed Internet service provider customers used our platform to offer an engaging Internet experience to over 25% of the estimated 79 million United States high-speed Internet households.

Our hosted and managed platform allows our customers to enhance their consumers online experience. Individuals are spending more time consuming online content at home and on the go, and as a result, it has become increasingly important for our customers to provide consumers with choice, a personalized experience and seamless, single sign-on, access to online content and services. We believe the increased functionality we offer through our platform results in an enhanced experience for consumers and a broadened relationship between our customers and their consumers, both of which increase the traffic associated with our platform. This increased traffic creates an opportunity, through our revenue-share agreements, for increased monetization for both us and our customers.

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 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 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. 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. 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.

We have historically experienced growth in the number of consumers whose online traffic can generate search and display advertising revenues through our platform. The number of these consumers who are subscribers through our high-speed Internet customers has increased from 5.2 million in December 2006 to 9.5 million in December 2009 to 21.1 million in September 2011. These subscribers, along with other consumers, such as those attributable to our consumer electronics manufacturer customer, have driven a 71% increase in average monthly unique visitors to our customers websites, an 81% increase in average monthly search queries by consumers on our platform and a 64% increase in average monthly advertising impressions, each on a comparative quarterly basis since the first quarter of 2010.

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For the nine months ended September 30, 2011, our revenue was $62.1 million, which represented a 29.3% increase over $48.0 million in the same period in 2010. For the nine months ended September 30, 2011, our net income was $2.2 million, compared to a net loss of $3.2 million in the same period in 2010. For the nine months ended September 30, 2011, adjusted EBITDA was $4.9 million compared to $(0.5) million over the same period in 2010. Adjusted EBITDA is a non-GAAP financial measure, and thus should be considered in addition to, not as substitute for, or superior to, measures of financial performance prepared in accordance with GAAP. For additional information on adjusted EBITDA, including its limitations, and for a reconciliation of adjusted EBITDA to net income (loss), the most directly comparable financial measure calculated and presented in accordance with GAAP, for each of these periods, see Selected Financial Data.

Market Overview

According to a June 2011 report published by PricewaterhouseCoopers LLP, or PwC, from 2006 through 2010, high-speed Internet penetration (measured on a household basis) has increased substantially both within the United States and globally, from 46% and 18% to 69% and 34%, respectively. This represents an increase from 50 million subscribers with high-speed Internet to 79 million subscribers in the United States, and from 248 million subscribers to 490 million subscribers globally. Individuals are spending more time online driven by a growing selection of online services, higher bandwidth speeds, the increased amount of content available online and the societal shift towards virtual socialization. According to a report published by Forrester Research, Inc., or Forrester, in May 2011, in 2010, people consumed 36% of their media on the Internet compared with only 19% in 2005. This growth in Internet usage has driven advertisers to expand their reach and market to these consumers who are increasingly spending their time online. According to the PwC report, Internet advertising is expected to continue to grow rapidly, with United States search advertising revenue growing at an average rate of approximately 10% per annum from 2011 to 2015, and United States display advertising revenue growing at an average rate of approximately 12% per annum over the same period. Taken together, the market for search and display advertising in the United States is expected to grow from $21 billion in 2011 to $31 billion in 2015.

High-speed Internet service providers have continuously upgraded their networks in recent years, providing users with significantly faster connection speeds and enabling online access through multiple types of devices, thus reinforcing and enabling the growth in Internet usage. These higher speeds and increased number of platforms have resulted in an increased number of services available online. In addition, the proliferation of new types of connected mobile devices, such as smartphones and tablets, has enabled consumers to increase the amount and type of content they consume online. Rapid innovations in technology have made it possible for users to easily transition between smartphones, tablets, laptops and desktops, thereby significantly increasing the total amount of time spent online and the quality of the viewing experience.

The rapid growth of online content offerings across a multitude of websites and applications, while embraced by consumers, has also created a new challenge, as consumers sometimes find it difficult to ascertain

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which online content they already have rights to access. Furthermore, the disaggregation of content forces consumers to sign on across multiple online platforms, making it cumbersome for them to access authorized content. Consumers want a simplified solution that allows them to sign on once and view all of their content in a seamless manner.

Increasingly available Internet connectivity, increases in high-speed Internet penetration and speed, and the expansion of online video content services, have driven explosive growth in consumption of video content delivered over the Internet to televisions, computers, tablets and smartphones, more commonly referred to as over-the-top (OTT). Nevertheless, the OTT landscape remains highly fragmented, making specific content often difficult to find or consume. We believe high-speed Internet providers that also provide television services face a growing threat of disintermediation from these OTT providers, and are increasingly seeking compelling solutions to help them compete.

The Synacor Solution

Our customers face a number of challenges, including responding to changing consumer preferences, maintaining relevance in the face of increasing competitive pressure, addressing OTT and finding new ways to increase their average revenue per subscriber. We tailored our platform to provide solutions to these challenges and to enable our customers to:

Deliver a compelling consumer experience. Our platform simplifies the consumer Internet experience by packaging online content and services with the goal of providing consumers easy access to the content they are entitled to receive anytime, anywhere, on any device.

Broaden relationships with consumers. We provide our customers with a platform that enables multiple touch points with consumers and increases engagement through an extensive offering of online content and services across multiple devices.

Increase monetization. We enable our customers to generate additional revenue by monetizing their consumer Internet traffic and packaging value added services which we partner with them to provide.

Our Strengths

Robust platform at scale. We benefit from scalable technology, our customers large subscriber base and extensive relationships with content providers. By applying our proprietary platform and investment in research and development, we are able to offer our services to new and existing customers on what we believe are highly competitive terms. As a result, we believe our customers benefit from the decrease in capital expenditures and ongoing maintenance expense required to implement and operate their own platform. In addition, we believe that our scale enables us to obtain more favorable terms from third parties (such as search and display advertising partners) than our customers could obtain on their own. Finally, our customers large subscriber base draws many programmers and content providers with whom we have content licensing agreements. We believe that our economies of scale make it difficult for our customers to cost-effectively develop comparable solutions in-house or for a competitor to replicate our comprehensive suite of solutions.

Flexible and easily integrated solution. Our flexible platform allows our customers to package content that meets the specific requirements of their consumers. We designed our platform to fully integrate with our customers billing and subscriber management systems, enabling consumers to access content and services that they are authorized to receive across multiple devices. Our

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integration also provides our customers with an opportunity to package, cross-sell and up-sell premium content and additional tiers of service to their consumers.

Large and engaged consumer base. Over the three months ended September 30, 2011, we had an average of 14.1 million unique visitors per month, as measured by comScore. These unique visitor levels represent a large and engaged consumer base that has developed as we have attracted new customers and added more content and services to our platform. We have the ability to target specific consumer segments, enabling us to attract advertisers seeking to target specific local and national audiences.

Established customer relationships. We have long-term relationships with many of our customers which, together with what we believe is a high cost of switching (from our platform to another solution), have resulted in very low levels of customer turnover over time. While we derive a substantial majority of our revenue from a small number of customers, the majority of our revenue attributable to our established customers is generated through search and display advertising. Consumer search and page view behavior patterns on our platform have historically followed consistent patterns as our customers have made our offerings available to their consumers. The combination of established customer relationships, low customer turnover and historically consistent search and page view behavior patterns has generally provided us with a high level of visibility on our search and display advertising revenue once a new customer is brought online.

Well positioned in large and growing market. The market for Internet-delivered content has grown rapidly over the past several years. We believe we are one of the only companies that has a platform solution with the scale and functionality to allow the largest high-speed Internet service providers and consumer electronics manufacturers to develop or expand their online video or other online content offerings.

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.

Risks Related to Our Business

Our business is subject to a number of risks that you should be aware of before making an investment decision. These risks are discussed more fully in Risk Factors beginning on page 11.

Some of these risks are:

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

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Google Inc., or 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 derive a substantial portion of our revenue from a small number of customers, and a loss of any of these customers would likely negatively affect our financial performance.

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.

The market for Internet-based services and products in which we operate is highly competitive, and if we cannot compete effectively, our business may be harmed.

Our History and Corporate Information

Synacor was originally formed as a New York corporation in January 1998 with the name Chek, Inc., or Chek. Chek, an Internet messaging technology provider, designed and managed a proprietary messaging platform that supported the hosting of branded e-mail and time management applications. In December 2000, Chek acquired MyPersonal.com, Inc., or MyPersonal, through a recapitalization and stock swap and changed its name to CKMP, Inc. MyPersonal developed white-label Internet community portals and built and managed a flexible platform for delivering content-rich, branded portals to affinity groups with a focus on the educational marketplace. In July 2001, CKMP, Inc. changed its name to Synacor, Inc., and in November 2002, Synacor re-incorporated under the laws of the State of Delaware. MyPersonal remained a subsidiary of Synacor until May 2007 when it was dissolved. As of the date of this prospectus, Synacor has no subsidiaries.

Our corporate headquarters are located at 40 La Riviere Drive, Suite 300, Buffalo, New York 14202. Our telephone number is (716) 853-1362. Our website address is *www.synacor.com*. Information contained on our website is not incorporated by reference into this prospectus, and you should not consider information contained on our website to be part of this prospectus or in deciding whether to invest in our common stock.

Synacor® and other trademarks of Synacor appearing in this prospectus are the property of Synacor. All other service marks, trademarks and trade names appearing in this prospectus are the property of their respective holders. We do not intend our use or display of other companies trade names or trademarks to imply a relationship with, or endorsement or sponsorship of us by, these other companies.

Industry Data

We make statements in this prospectus about our industry, including statements about historical and projected future high-speed Internet subscribers and usage and online advertising expenditures. We have derived this information from reports and analyses prepared by third-party market research firms, including the following: PwC, Cisco Systems, Inc., or Cisco, Forrester, Google AdSense, DoubleClick, comScore and Veronis Suhler Stevenson, or VSS.

Key Business Metrics

In addition to the line items in our financial statements, we regularly review a number of business metrics related to Internet traffic and search and display advertising to evaluate our business, determine the allocation of resources and make decisions regarding business strategies. Specifically, we measure our business by using the following key business metrics: unique visitors, search queries and advertising impressions. We believe information on these metrics is useful for investors and analysts to understand the underlying trends in our business. For a description of how our key business metrics are defined and measured, see the section titled Management s Discussion and Analysis of Financial Condition and Results of Operations Key Business Metrics.

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The Offering

Common stock offered by Synacor	shares
Common stock to be outstanding after this offering	shares
Use of proceeds	We intend to use the net proceeds from this offering for working capital and other general corporate purposes. We may also use a portion of the net proceeds to acquire other businesses, products or technologies. We do not have agreements or commitments for any specific acquisitions at this time. See Use of Proceeds.
Dividend policy	We do not anticipate paying cash dividends for the foreseeable future. See Dividend Policy.
Proposed trading symbol	SYNC

The number of shares of our common stock to be outstanding following this offering is based on 39,990,379 shares of our common stock outstanding as of September 30, 2011, which assumes the conversion of all outstanding shares of our preferred stock, but excludes:

- 9,929,693 shares of common stock issuable upon exercise of options outstanding as of September 30, 2011 at a weighted average exercise price of $0.93 per share; and
- shares of common stock reserved for future issuance under our 2012 Equity Incentive Plan, which will become effective on the effective date of the registration statement of which this prospectus is a part.

Unless otherwise indicated, this prospectus reflects and assumes the following:

- a 3-for-1 forward split of our common stock that became effective July 31, 2008;
- the automatic conversion of all outstanding shares of our preferred stock into 34,790,277 shares of common stock concurrently with the closing of the offering;
- the filing of our amended and restated certificate of incorporation and the adoption of our amended and restated bylaws immediately prior to the closing of this offering; and
- no exercise by the underwriters of their option to purchase up to an additional shares from Synacor in the offering.

In addition, we anticipate effecting a -for- stock split prior to the completion of this offering. This prospectus does not reflect the effects of this stock split.

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Summary Financial and Other Data

The following tables summarize the financial and other data for our business for the periods presented. You should read this summary financial data in conjunction with Selected Financial Data, Management s Discussion and Analysis of Financial Condition and Results of Operations and our financial statements and related notes, all included elsewhere in this prospectus.

We derived the summary financial data for the years ended December 31, 2008, 2009 and 2010 and as of December 31, 2009 and 2010 from our audited financial statements and related notes, which are included in this prospectus. The summary financial data for the nine months ended September 30, 2010 and 2011 and as of September 30, 2011 are derived from our unaudited condensed financial statements appearing elsewhere in this prospectus. We have prepared the unaudited financial data on the same basis as the audited financial statements. We have included, in our opinion, all adjustments, consisting only of normal recurring adjustments, that we consider necessary for a fair presentation of the financial information set forth in those statements. Our historical results are not necessarily indicative of the results that should be expected in the future, and our interim results are not necessarily indicative of the results that should be expected for the full year.

The pro forma basic and diluted net income (loss) per share attributable to common stockholders data for the year ended December 31, 2010 and for the nine months ended September 30, 2011 reflect the conversion of all of our outstanding shares of preferred stock into 34,790,277 shares of common stock in connection with this offering. See Note 1 of Notes to the Financial Statements and Note 1 of Notes to the Condensed Financial Statements Unaudited for an explanation of the method used to determine the number of shares used in computing pro forma basic and diluted net income (loss) per share.

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Statements of Operations Data:	Year Ended December 31, 2008	2009	2010	Nine Months Ended September 30, 2010	2011
	(in thousands except share and per-share data)				
Revenue	$ 52,571	$ 60,798	$ 66,232	$ 48,041	$ 62,115
Costs and operating expenses:					
Cost of revenue (1)	28,575	34,074	36,703	26,907	32,872
Research and development (1)(2)	12,783	13,627	18,494	13,710	14,270
Sales and marketing (2)	5,732	5,591	6,211	4,597	5,811
General and administrative (1)(2)	4,997	4,966	5,656	3,941	4,887
Withdrawn initial public offering expenses	3,405				
Depreciation	1,574	2,005	2,506	1,884	1,950
Other operating expenses	1,121				
Total costs and operating expenses	58,187	60,263	69,570	51,039	59,790
Income (loss) from operations	(5,616)	535	(3,338)	(2,998)	2,325
Other income (expense)	156	69	(2)	(17)	(18)
Interest expense	294	285	240	189	64
Income (loss) before income taxes	(5,754)	319	(3,580)	(3,204)	2,243
Provision for income taxes	10	15	11	18	55
Net income (loss)	(5,764)	304	(3,591)	(3,222)	2,188
Undistributed earnings allocated to preferred stockholders		279			1,903
Net income (loss) attributable to common stockholders	$ (5,764)	$ 25	$ (3,591)	$ (3,222)	$ 285
Net income (loss) per share attributable to common stockholders:					
Basic	$ (1.70)	$ 0.01	$ (0.96)	$ (0.87)	$ 0.07
Diluted	$ (1.70)	$ 0.01	$ (0.96)	$ (0.87)	$ 0.05
Weighted average shares used to compute net income (loss) per share attributable to common stockholders:					
Basic	3,380,917	3,628,058	3,730,588	3,711,130	4,013,478
Diluted	3,380,917	44,586,142	3,730,588	3,711,130	44,866,723
Pro forma net income (loss) per share attributable to common stockholders:					
Basic			$ (0.09)		$ 0.06
Diluted			$ (0.09)		$ 0.05
Pro forma weighted average shares used to compute net income (loss) per share attributable to common stockholders:					
Basic			38,520,865		38,803,755

Diluted	38,520,865	44,866,723

Notes:

(1) Exclusive of depreciation shown separately.

(2) Includes stock-based compensation as follows:

	Year Ended December 31,			Nine Months Ended September 30,	
	2008	2009	2010	2010	2011
			(in thousands)		
Research and development	$ 221	$ 252	$ 398	$ 278	$ 205
Sales and marketing	142	189	202	140	141
General and administrative	305	460	268	187	294

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	Years Ended December 31, 2008	2009	2010	Nine Months Ended September 30, 2010	2011
Other Data:					
Adjusted EBITDA (1) (2)	$ (3,374)	$ 3,441	$ 36	$ (509)	$ 4,915
Unique Visitors (3) (4)	7,647,917	8,320,500	8,235,583	8,551,444	13,250,013
Search Queries (3) (5)	314,039,915	383,871,812	453,687,989	326,658,368	503,476,341
Advertising Impressions (3) (6)	9,432,921,273	16,549,485,330	18,832,969,669	13,769,460,560	19,461,422,855

Notes:

(1) We define adjusted EBITDA as net income (loss), plus: provision for income taxes, interest expense, other (income) expense, depreciation, and stock-based compensation. Please see Adjusted EBITDA below for more information and for a reconciliation of adjusted EBITDA to net income (loss), the most directly comparable financial measure calculated and presented in accordance with GAAP.

(2) In thousands.

(3) Please see the section titled Management s Discussion and Analysis of Financial Condition and Results of Operations Key Business Metrics for additional information on unique visitors, search queries and advertising impressions, including how we define and measure these key business metrics.

(4) Reflects the number of unique visitors to our customers websites computed on an average monthly basis during the applicable period.

(5) Reflects the total number of search queries during the applicable period.

(6) Reflects the total number of advertising impressions during the applicable period.

The following table sets forth balance sheet data as of December 31, 2009 and 2010 on an actual basis and as of September 30, 2011:

on an actual basis;

on a pro forma basis to give effect to the automatic conversion of all outstanding shares of preferred stock into common stock concurrently with the closing of this offering; and

on a pro forma as adjusted basis to give effect to (i) the conversion of all outstanding shares of preferred stock into common stock concurrently with the closing of this offering and (ii) the receipt of the estimated net proceeds from the sale of shares of common stock offered by us in this offering at an assumed initial public offering price of $, which is the midpoint of the range of the initial public offering price listed on the cover page of this prospectus, after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us, and the filing of our amended and restated certificate of incorporation immediately prior to the closing of this offering.

	As of December 31, 2009	2010	As of September 30, 2011 Actual	Pro Forma	Pro Forma As Adjusted
			(in thousands)		
Balance Sheet Data:					
Cash and cash equivalents	$ 10,462	$ 5,412	$ 7,253	$ 7,253	
Trade receivables, net	7,773	9,654	12,004	12,004	
Property and equipment, net	6,631	7,110	7,377	7,377	
Total assets	26,004	24,327	28,801	28,801	
Long-term bank financing and capital lease obligations	1,247	1,203	1,501	1,501	
Convertible preferred stock	28,432	28,432	28,432		

Total stockholders equity	13,053	10,156	13,278	13,278

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Adjusted EBITDA

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

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

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

- although depreciation is a non-cash charge, the assets being depreciated may have to be replaced in the future, and adjusted EBITDA does not reflect capital expenditure requirements for such replacements or for new capital expenditure requirements;

- adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;

- adjusted EBITDA does not consider the potentially dilutive impact of equity-based compensation;

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

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

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

	Year Ended December 31,			Nine Months Ended September 30,	
	2008	2009	2010	2010	2011
			(in thousands)		
Reconciliation of Adjusted EBITDA:					
Net income (loss)	$ (5,764)	$ 304	$ (3,591)	$ (3,222)	$ 2,188
Provision for income taxes	10	15	11	18	55
Interest expense	294	285	240	189	64
Other (income) expense (1)	(156)	(69)	2	17	18
Depreciation	1,574	2,005	2,506	1,884	1,950
Stock-based compensation	668	901	868	605	640
Adjusted EBITDA	$ (3,374)	$ 3,441	$ 36	$ (509)	$ 4,915

Note:

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

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RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the following risk factors and all other information contained in this prospectus before deciding to invest in our common stock. 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. In that case, the trading price of our common stock could decline, and you might lose some or all of your investment.

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, 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 was $0.3 million, and our net income in the nine months ended September 30, 2011 was $2.2 million. 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, as well as the trading price of our common stock.

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 48%, 45% and 49% of our revenue in 2008, 2009 and 2010, or $25.0 million, $27.7 million and $32.6 million, respectively, and approximately 55% of our revenue for the nine months ended September 30, 2011, or $34.0 million. 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. The consummation of this offering will not constitute a change in control for this purpose. 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 Communications Inc., or Charter, and CenturyLink, Inc., or CenturyLink (including our revenue attributable to Qwest Communications International, Inc., or Qwest, which merged with

CenturyLink in April 2011), together accounted for approximately 65%, 62% and 60% of our revenue for the years ended December 31, 2008, 2009 and 2010, or $34.3 million, $37.8 million and $39.8 million, respectively. Revenue attributable to each of these customers accounted for 20% or more in each such period. In addition, revenue attributable to Charter, CenturyLink (including revenue attributable to Qwest) and Toshiba America Information Systems, Inc., or Toshiba, together accounted for approximately 63% of our revenue for the nine months ended September 30, 2011, or $39.1 million, with revenue attributable to two of these customers each accounting for 20% or more in such period and revenue attributable to the third customer 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 agreements with both Charter and CenturyLink are 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, 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 applications 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 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 2008, 2009 and 2010 and nearly 90% in the nine months ended September 30, 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.

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.

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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 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

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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 quarterly revenue and operating results can fluctuate, and if we fail to meet or exceed the expectations of securities analysts or investors, our stock price and the value of your investment could decline substantially.

As a result of the rapidly changing nature of the markets in which we compete, our quarterly 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;

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

- our ability to attract new customers;

- our ability to increase sales of value added services and paid content to existing subscribers;

- the timing and success of new service and product introductions by us, our customers or our competitors;

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

- changes in our pricing policies or those of our competitors;

- changes in the prices our customers charge for value added services and paid content;

- service outages, other technical difficulties or security breaches;

- limitations relating to the capacity of our networks, systems and processes;

- our failure to accurately estimate or control costs, including costs related to the initial launch of new customers on our platform;

- maintaining appropriate staffing levels and capabilities relative to projected growth;

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

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

Because the market for our services and products is relatively new and rapidly changing, it is difficult to predict future financial results. For these reasons, you should not rely on period-to-period comparisons of our financial results, if any, as indications of future results. Our future operating results could fall below the expectations of securities analysts or investors and significantly reduce the trading price of our common stock. Fluctuations in our operating results will likely increase the volatility of our stock price.

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

We plan to expand our product offerings internationally, particularly in Europe and, over the long term, in Asia and Latin America. We have limited experience in marketing and operating our services and products in international markets, and we may not be able to successfully develop our business in these markets. Our success in these markets will be directly linked to the success of relationships with potential customers, content partners and other third parties.

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

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

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

Certain of our agreements with customers and content providers require us to make fixed payments to them. As of September 30, 2011, the aggregate amount of such fixed payments for the years ending December 31, 2011 and 2012 are approximately $6.9 million and $4.3 million, respectively. We are required to make these fixed payments regardless of the achievement of any revenue objectives or subscriber or usage levels. If we do not achieve our financial objectives, these contractual commitments would constitute a greater percentage of our revenue than originally anticipated and would adversely affect our profitability.

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

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

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

The provision of our services and products depends on the continuing operation of our information technology and communications systems. Any damage to or failure of our systems could result in interruptions in our service. Such interruptions could harm our business, financial condition and results of operations, and our

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reputation could be damaged if people believe our systems are unreliable. Our systems are vulnerable to damage or interruption from snow storms, terrorist attacks, floods, fires, power loss, telecommunications failures, security breaches, computer malware, computer hacking attacks, computer viruses, computer denial of service attacks or other attempts to, or events that, harm our systems. Our data center is also subject to break-ins, sabotage and intentional acts of vandalism and to potential disruptions if the operators of the facility have financial difficulties. Although we maintain insurance to cover a variety of risks, the scope and amount of our insurance coverage may not be sufficient to cover our losses resulting from system failures or other disruptions to our online operations. For example, the limit on our business interruption insurance is approximately $5.0 million. Any system failure or disruption and any resulting losses that are not recoverable under our insurance policies may materially harm our business, financial condition and results of operations. To date, we have never experienced any material losses.

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

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

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

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

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

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

We depend on the continued contributions of our senior management and other key personnel, especially Ronald N. Frankel, our chief executive officer, George G. Chamoun, our executive vice president of sales and marketing, Scott A. Bailey, our chief operating officer, and William J. Stuart, our chief financial officer. The loss of the services of any of our executive officers or other key employees could harm our business and our prospects. All of our executive officers and key employees are at-will employees, which means they may terminate their employment relationship with us at any time.

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

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

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

Following the merger of our predecessor companies, Chek and MyPersonal, to form Synacor, we have expanded our business through organic growth. We expect to continue to grow organically, and we may choose to grow through strategic acquisitions in the future. This growth has placed, and may continue to place, significant demands on our management and our operational and financial infrastructure. Our ability to manage our growth effectively and to integrate new technologies and acquisitions into our existing business will require us to continue to expand our operational, financial and management information systems and to continue to retain, attract, train, motivate and manage key employees. Continued growth could strain our ability to:

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

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

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

We may decide to pursue acquisitions of other businesses in the future. Such acquisitions could divert our management s time and focus from operating our business. In addition, integrating an acquired company, business or technology is risky and may result in unforeseen operating difficulties and expenditures, including, among other things, with respect to:

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

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

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

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

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

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

The protection of our intellectual property is critical to our success. We rely on copyright and service mark enforcement, contractual restrictions and trade secret laws to protect our proprietary rights. We have

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entered into confidentiality and invention assignment agreements with our employees and contractors, and nondisclosure agreements with certain parties with whom we conduct business to limit access to and disclosure of our proprietary information. However, if we are unable to adequately protect our intellectual property, our business may suffer from the piracy of our technology and the associated loss in revenue.

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

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

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

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

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

In addition, we typically have contractual obligations to our customers to indemnify and defend them with respect to third-party intellectual property infringement claims that arise from our customers use of our products or services. Such claims, whether valid or not, could harm our relationships with our customers, have resulted and could result in the future in us or our customers having to enter into licenses with the claimants and have caused and could cause us in the future to incur additional costs or reduced revenues. Such claims could also subject us to costly and time-consuming litigation as well as diverting management attention and resources. Satisfying our contractual indemnification obligations could also give rise to significant liability, and thus harm our business and our operating results.

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

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

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

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

We collect, and have access to, personal information of subscribers, including names, addresses, account numbers, credit card numbers and e-mail addresses. There are numerous federal, state and local laws around the world regarding privacy and the storing, sharing, use, processing, disclosure and protection of personal information and other subscriber data, the scope of which are changing, subject to differing interpretations, and may be inconsistent between countries or conflict with other rules. We generally comply with industry standards and are subject to the terms of our privacy policies and privacy-related obligations to third parties (including voluntary third-party certification bodies such as TRUSTe). We strive to comply with all applicable laws, policies, legal obligations and industry codes of conduct relating to privacy and data protection to the extent possible. However, it is possible that these obligations may be interpreted and applied in a manner that is inconsistent from one jurisdiction to another and may conflict with other rules or our practices. Any failure or perceived failure by us to comply with our privacy policies, our privacy-related obligations to users or other third parties, or our privacy-related legal obligations, or any compromise of security that results in the unauthorized release or transfer of personal information or other subscriber data, may result in governmental enforcement actions, litigation or public statements against us by consumer advocacy groups or others and could cause our customers to lose trust in us, which could have an adverse effect on our business. Additionally, if third parties we work with, such as customers, vendors or developers, violate applicable laws or our policies, such violations may also put subscriber information at risk and could in turn have an adverse effect on our business.

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

We have derived and expect to continue to derive a substantial portion of our revenue from display advertising on our platform. Such advertising accounted for approximately 14%, 19% and 20% of our revenue for the years ended December 31, 2008, 2009 and 2010, respectively, and approximately 23% of our revenue for the nine months ended September 30, 2011. Our ability to attract and retain advertisers and, ultimately, to generate advertising revenue depends on a number of factors, including:

- increasing the numbers of consumers using our platform;
- maintaining consumer engagement on those websites;
- competing effectively for advertising spending with other online and offline advertising providers; and
- continuing to grow our direct advertising sales force and develop and diversify our advertising platform.

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

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

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

Investors could lose confidence in our financial reports and the trading price of our common stock may be adversely affected if our internal controls over financial reporting are found by management or by our independent registered public accounting firm not to be adequate.

Effective internal controls are necessary for us to provide reliable financial reports and prevent fraud. In addition, Section 404 of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, will require us to evaluate and report on our internal control over financial reporting beginning with our Annual Report on Form 10-K for the year ending December 31, 2012. We have begun the process of preparing an internal plan for compliance with Section 404 and strengthening and testing our system of internal controls to provide the basis for our report. The process of implementing our internal controls and complying with Section 404 will be expensive and time-consuming, and will require significant attention of management. We cannot be certain that these measures will ensure that we implement and maintain adequate controls over our financial processes and reporting in the future. Even if we conclude our internal control over financial reporting provides reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP, because of its inherent limitations, internal control over financial reporting may not prevent or detect fraud or misstatements. Failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to meet our reporting obligations.

In addition, a delay in compliance with Section 404 could subject us to a variety of administrative sanctions, including ineligibility for short-form resale registration, action by the SEC, the suspension or delisting of our common stock from and the inability of registered broker-dealers to make a market in our common stock, which would further reduce the trading price of our common stock and could harm our business.

Our ability to use our net operating loss carryforwards and certain other tax attributes may be limited.

As of September 30, 2011, we had substantial federal and state net operating loss carryforwards. Under Sections 382 and 383 of the Internal Revenue Code of 1986, as amended, or the Code, if a corporation undergoes an ownership change, the corporation s ability to use its pre-change net operating loss carryforwards to offset its post-change income and taxes may be limited. In general, an ownership change generally occurs if there is a cumulative change in our ownership by five-percent stockholders that exceeds 50 percentage points over a rolling three-year period. For these purposes, a five-percent stockholder is generally any person or group of persons that at any time during the applicable testing period has owned 5% or more of our outstanding stock. In addition, persons who own less than 5% of the outstanding stock are grouped together as one or more public groups, which are also treated as five-percent stockholders. Similar rules may apply under state tax laws. We may experience ownership changes in the future as a result of this issuance or future transactions in our stock, some of which may be outside our control. As a result, our ability to use our pre-change net operating loss carryforwards to offset United States federal and state taxable income and taxes may be subject to limitations.

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Risks Related to Our Industry

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

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

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

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

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

We have derived and expect to continue to derive a substantial majority of our revenue from search and display advertising on our platform. Such search and display advertising revenue accounted for approximately 61%, 65% and 69% of our revenue for the years ended December 31, 2008, 2009 and 2010, or $32.2 million, $39.3 million and $45.9 million, respectively, and approximately 77% of our revenue for the nine months ended September 30, 2011, or $48.0 million. However, the prospects for continued demand and market acceptance for Internet advertising are uncertain. If advertisers do not continue to increase their usage of the Internet as an advertising medium, our revenue would decline. Advertisers that have traditionally relied on other advertising media may not advertise on the Internet. Most advertising agencies and potential advertisers, particularly local advertisers, have only limited experience advertising on the Internet and devote only a small portion of their advertising expenditures to online advertising. As the Internet evolves, advertisers may find online advertising to be a less attractive or less effective means of promoting their services and products than traditional methods of advertising and may not continue to allocate funds for Internet advertising. Many historical predictions by industry analysts and others concerning the growth of the Internet as a commercial medium have overstated the growth of the Internet and you should not rely upon them. This growth may not occur or may occur more slowly than estimated.

Most of our search revenue is based on the number of paid clicks on sponsored links that are included in search results generated from our platform. Generally, each time a consumer clicks on a sponsored link, the

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search provider that provided the commercial search result receives a fee from the advertiser who paid for such commercial click and the search provider pays us a portion of that fee. We, in turn, typically share a portion of the fee we receive with our customer. If an advertiser receives what it perceives to be a large number of clicks for which it needs to pay, but that do not result in a desired activity or an increase in sales, the advertiser may reduce or eliminate its advertisements through the search provider that provided the commercial search result to us. This reaction would lead to a loss of revenue to our search providers and consequently to lesser fees paid to us, which would have a material negative effect on our financial results.

Market prices for online advertising may decrease due to competitive or other factors. In addition, if a large number of Internet users use filtering software programs that limit or remove advertising from the users view, advertisers may perceive that Internet advertising is not effective and may choose not to advertise on the Internet.

The market for Internet-based services and products in which we operate is highly competitive, and if we cannot compete effectively, our sales may decline and our business may be harmed.

Competition in the market for Internet-based services and products in which we operate is intense and involves rapidly changing technologies and customer and subscriber requirements, as well as evolving industry standards and frequent product introductions. Our competitors may develop solutions that are similar or superior to our technology. Our primary competitors include high-speed Internet service providers with internal information technology staff capable of developing solutions similar to our technology. Other competitors include Yahoo! Inc., or Yahoo!, Google, AOL LLC, or AOL, and MSN, a division of Microsoft Corporation, or Microsoft. Advantages some of our existing and potential competitors hold over us include the following:

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

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

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

Today, there are relatively few laws specifically directed towards conducting business over the Internet. We expect more stringent laws and regulations relating to the Internet to be enacted. The adoption or modification

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of laws related to the Internet could harm our business, financial condition and results of operations by, among other things, increasing our costs and administrative burdens. Due to the increasing popularity and use of the Internet, many laws and regulations relating to the Internet are being debated at the international, federal and state levels, which are likely to address a variety of issues such as:

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

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

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

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

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

The regulatory framework for privacy issues worldwide is currently in flux and is likely to remain so for the foreseeable future. Practices regarding the collection, use, storage, transmission and security of personal

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information by companies operating over the Internet have recently come under increased public scrutiny. The United States government, including the Federal Trade Commission and the Department of Commerce, has announced that it is reviewing the need for greater regulation for the collection of information concerning consumer behavior on the Internet, including regulation aimed at restricting certain targeted advertising practices. In addition, the European Union is in the process of proposing reforms to its existing data protection legal framework, which may result in a greater compliance burden for companies with users in Europe. Various government and consumer agencies have also called for new regulation and changes in industry practices.

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

Risks Related to this Offering and Ownership of Our Common Stock

Our existing stockholders, if they act together, will have substantial control over us after this offering, which could limit your ability to influence the outcome of key corporate decisions, such as an acquisition of our company.

Following the consummation of this offering, our directors, executive officers and holders of more than 5% of our common stock, together with their affiliates, will beneficially own, in the aggregate, approximately % of our outstanding common stock, or % if the underwriters exercise their option to purchase additional shares in full. As a result, these stockholders, if they act together, would have the ability to control the outcome of matters submitted to our stockholders for approval, including the election of directors and any merger, consolidation or sale of all or substantially all of our assets. In addition, these stockholders, if they act together, would have the ability to control the management and affairs of our company. Accordingly, this concentration of ownership might harm the trading price of our common stock by:

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

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

If our existing stockholders, particularly our directors, their affiliated venture capital funds and our executive officers, sell substantial amounts of our common stock in the public market, or are perceived by the public market as intending to sell, the trading price of our common stock could decline below the initial public offering price. Based on shares outstanding as of September 30, 2011, upon completion of this offering, we will have outstanding shares of common stock (or shares if the underwriters exercise their option to purchase additional shares in full). Of these shares, only the shares of common stock sold in this offering and not subsequently held by affiliates, as that term is defined in Rule 144 under the Securities Act of 1933, as amended, or the Securities Act, will be immediately freely tradable, without restriction, in the public market.

Our directors, executive officers, holders of substantially all of our common stock and holders of options and warrants to purchase our stock have agreed with the underwriters, subject to certain exceptions, not to dispose of or hedge any of their common stock or securities convertible into or exchangeable or exercisable for shares of common stock for a period through the date that is 180 days after the date of this prospectus, except with the prior written consent of Merrill Lynch, Pierce, Fenner & Smith Incorporated and Citigroup Global Markets Inc. In addition, the holders of substantially all of our common stock and options to purchase our common stock have previously entered into agreements with us not to sell or otherwise transfer any of their

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common stock or securities convertible into or exchangeable for shares of common stock for a period through the date 180 days after the date of this prospectus.

The 180-day restricted period under the agreements with the underwriters described in the preceding paragraph will be automatically extended if: (1) during the last 17 days of the 180-day restricted period we issue an earnings release or material news or a material event relating to us occurs; or (2) prior to the expiration of the 180-day restricted period, we announce that we will release earnings results or become aware that material news or a material event will occur during the 16-day period following the last day of the 180-day period, in which case the restrictions described in the preceding paragraph will continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the occurrence of the material news or material event, as applicable, unless Merrill Lynch, Pierce, Fenner & Smith Incorporated and Citigroup Global Markets Inc. waive, in writing, such extension.

Upon the expiration of the contractual lock-up agreements pertaining to this offering 180 days from the date of this prospectus, or such longer period described above, up to an additional shares will be eligible for sale in the public market, of which will be held by directors, executive officers and other affiliates and will be subject to volume limitations under Rule 144 under the Securities Act and, in certain cases, various vesting agreements. Some of our existing stockholders have demand and piggyback rights to require us to register with the SEC up to 37,630,875 of our common stock, subject to contractual lock-up agreements. See Description of Capital Stock Registration Rights for more information. If we register any of these shares of common stock, the stockholders would be able to sell those shares freely in the public market.

In addition, the shares that are either subject to outstanding options or that may be granted in the future under our 2012 Equity Incentive Plan, and the shares that are subject to outstanding warrants, will become eligible for sale in the public market to the extent permitted by the provisions of various vesting agreements, the contractual lock-up agreements and Rules 144 and 701 under the Securities Act.

After this offering, we intend to register the shares of our common stock that we may issue under our equity plans. Once we register these shares, they can be freely sold in the public market upon issuance, subject to any vesting or contractual lock-up agreements.

If any of these additional shares described are sold, or if it is perceived that they will be sold, in the public market, the trading price of our common stock could decline. For additional information, see Shares Eligible for Future Sale.

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

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

- our board of directors is classified into three classes of directors with staggered three-year terms;
- our directors may only be removed for cause, and only with the affirmative vote of a majority of the voting interest of stockholders entitled to vote;
- only our board of directors and not our stockholders will be able to fill vacancies on our board of directors;

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- only our chairman of the board, our chief executive officer or a majority of our board of directors, and not our stockholders, are authorized to call a special meeting of stockholders;
- our stockholders will be able to take action only at a meeting of stockholders and not by written consent;
- our amended and restated certificate of incorporation authorizes undesignated preferred stock, the terms of which may be established and shares of which may be issued without stockholder approval; and
- advance notice procedures apply for stockholders to nominate candidates for election as directors or to bring matters before an annual meeting of stockholders.

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

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

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

We have not historically paid cash dividends on our capital stock. We anticipate that we will retain all future earnings and cash resources for the future operation and development of our business, and as a result, we do not anticipate paying any cash dividends to holders of our capital stock for the foreseeable future. Any future determination regarding the payment of any dividends will be made at the discretion of our board of directors and will depend on our financial condition, results of operations, capital requirements, general business conditions and other factors that our board may deem relevant. Consequently, investors must rely on sales of their common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investment. Investors seeking cash dividends should not invest in our common stock.

We will have broad discretion in the use of the net proceeds from this offering and may fail to apply these proceeds effectively.

Our management will have broad discretion in the application of the net proceeds of this offering, including for working capital, general corporate purposes and possible acquisitions. We cannot specify with certainty the actual uses of the net proceeds of this offering. You may not agree with the manner in which our management chooses to allocate and spend the net proceeds. Pending their use, we may invest the net proceeds from this offering in a manner that does not produce income or that loses value. The failure by our management to apply these funds effectively could harm our business, financial condition and results of operations.

Purchasers in this offering will suffer immediate and substantial dilution.

The initial public offering price of our common stock is substantially higher than the net tangible book value per share of our common stock outstanding immediately after this offering. Our pro forma net tangible

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book value as of September 30, 2011 was $13.3 million, or approximately $0.33 per share. Our pro forma net tangible book value per share represents the amount of our total tangible assets reduced by the amount of our total liabilities and divided by 39,990,379 shares of common stock outstanding as of September 30, 2011 after giving effect to the automatic conversion of all outstanding shares of preferred stock into shares of common stock upon the closing of this offering. Investors who purchase our common stock in this offering will pay a price per share that substantially exceeds the pro forma net tangible book value per share of our common stock. If you purchase our common stock in this offering, you will experience immediate and substantial dilution of $ in the net tangible book value per share of our common stock, based upon the initial public offering price of $ per share, which represents the mid-point of the range set forth on the cover page of this prospectus. Investors who purchase our common stock in this offering will have purchased % of the shares outstanding immediately after the offering, but will have paid % of the total consideration for those shares. If previously granted options are exercised, additional dilution will occur. As of September 30, 2011, options to purchase 9,929,693 shares of our common stock with a weighted average exercise price of approximately $0.93 per share were outstanding. Exercise of these options will result in additional dilution to purchasers of our common stock in this offering.

No public market for our common stock currently exists and an active market for our common stock may not develop, which could make it difficult for you to sell your shares of common stock and could have a material adverse effect on the value of your investment.

Prior to this offering, there has been no public market for shares of our common stock. After pricing of this offering, we expect that the shares will trade on The NASDAQ Global Market under the symbol SYNC. However, we cannot assure you that an active public trading market for our common stock will develop on that exchange or elsewhere or, if developed, that any market will be active or sustained. Accordingly, we cannot assure you of the liquidity of any such market, your ability to sell your shares of common stock or the prices that you may obtain for your shares of common stock. As a result, you could lose all or part of your investment.

The trading price and volume of our common stock is likely to be volatile, and you might not be able to sell your shares at or above the initial public offering price.

Even if an active trading market develops, the trading price of our common stock may be highly volatile and could be subject to wide fluctuations. In addition, the trading volume in our common stock may fluctuate and cause significant price variations to occur. If the trading price of our common stock declines significantly, you may be unable to resell your shares at or above your purchase price. We cannot assure you that the trading price of our common stock will not fluctuate or decline significantly in the future. Some of the factors that could negatively affect our share price or result in fluctuations in the price or trading volume of our common stock include:

- variations in our financial performance;
- announcements of technological innovations, new services and products, strategic alliances or significant agreements by us or by our competitors;
- recruitment or departure of key personnel;
- changes in the estimates of our operating results or changes in recommendations by any securities analysts that elect to follow our common stock;
- market conditions in our industry, the industries of our customers and the economy as a whole;
- adoption or modification of laws, regulations, policies, procedures or programs applicable to our business or announcements relating to these matters; and

the expiration of contractual lock-up agreements.

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In addition, if the market for technology stocks or the stock market in general experiences loss of investor confidence, the trading price of our common stock could decline for reasons unrelated to our business, financial condition or results of operations. The trading price of our common stock might also decline in reaction to events that affect other companies in our industry even if these events do not directly affect us. Some companies that have had volatile market prices for their securities have had securities class actions filed against them. Such a suit filed against us, regardless of its merits or outcome, could cause us to incur substantial costs and could divert management s attention.

If securities or industry analysts do not publish research or reports about our company, our stock price and trading volume could decline.

The trading market for our common stock will depend in part on the research and reports that securities or industry analysts publish about us or our business. We do not currently have and may never obtain research coverage by securities and industry analysts. If no securities or industry analysts commence coverage of our company, the trading price for our stock may be negatively impacted. In the event we obtain securities or industry analyst coverage, if one or more of the analysts who cover us downgrade our stock or publish inaccurate or unfavorable research about our business, our stock price would likely decline. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, demand for our stock could decrease, which might cause our stock price and trading volume to decline.

We will incur increased costs and demands upon management as a result of complying with federal securities laws and regulations applicable to public companies, which could adversely affect our financial performance and our ability to attract and retain directors.

As a public company, we will be subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, the Sarbanes-Oxley Act, the Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act, and the rules and regulations of The NASDAQ Global Market. The Sarbanes-Oxley Act, as well as rules subsequently implemented by the SEC and NASDAQ impose additional requirements on public companies, including enhanced corporate governance practices. For example, the NASDAQ listing requirements require that listed companies satisfy certain corporate governance requirements relating to independent directors, audit committees, distribution of annual and interim reports, stockholder meetings, stockholder approvals, solicitation of proxies, conflicts of interest, stockholder voting rights and codes of business conduct. In addition, our management team has limited experience managing a publicly-traded company or complying with the increasingly complex laws pertaining to public companies. In addition, most of our current directors have limited experience serving on the boards of public companies and directors have recently joined our board of directors. In order to have an effective board, these new directors and any other directors that join our board after the consummation of this offering will need to integrate with our other directors and management and become familiar with our operations and growth strategies.

The requirements of these rules and regulations will increase our legal, accounting and financial compliance costs, will make some activities more difficult, time-consuming and costly and may also place undue strain on our personnel, systems and resources. Our management and other personnel will need to devote a substantial amount of time to these requirements. These rules and regulations will also make it more difficult and more expensive for us to maintain directors and officers liability insurance, and we may be required to accept reduced coverage or incur substantially higher costs to maintain coverage. If we are unable to maintain adequate directors and officers insurance, our ability to recruit and retain qualified directors, especially those directors who may be considered independent for purposes of NASDAQ rules, and officers may be significantly curtailed.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus 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. Words such as, but not limited to, believes, can, expects, anticipates, estimates, intends, objective, plans, possibly, potential, predicts, targets, likely, may, might, w similar expressions or phrases (including the negative of such expressions or phrases) may identify forward-looking statements. 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;
- our expectations regarding the use of proceeds from this offering; and
- anticipated trends and challenges in our business and the markets in which we operate.

Any forward-looking statements contained in this prospectus 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, the underwriters 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 prospectus for a more complete discussion of these risks, assumptions and uncertainties and for other risks, assumptions and uncertainties. These

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risks, assumptions and uncertainties are not necessarily all of the important factors that could cause actual results to differ materially from those expressed in any of our forward-looking statements. Other unknown or unpredictable factors also could harm our results. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this prospectus 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 prospectus 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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USE OF PROCEEDS

We estimate that our net proceeds from the sale of the shares of common stock that we are offering will be approximately $, assuming an initial public offering price of $ per share, which is the midpoint of the range of the initial public offering price listed on the cover page of this prospectus, and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us. If the underwriters option to purchase additional shares in this offering is exercised in full, we estimate that our net proceeds will increase by approximately $.

A $1.00 increase (decrease) in the assumed initial public offering price of $ per share would increase (decrease) the net proceeds to us from this offering by approximately $ million, assuming the number of shares offered by us, as set forth on the cover page of this prospectus, and our offering expenses remain the same, and after deducting underwriting discounts and commissions. Similarly, each increase (decrease) of one million shares in the number of shares of common stock offered by us would increase (decrease) the net proceeds to us from this offering by approximately $ million, assuming the assumed initial public offering price and our offering expenses remain the same, and after deducting underwriting discounts and commissions.

The principal purposes of this offering are to obtain additional capital, to create a public market for our common stock, to facilitate our future access to the public equity markets and to increase our visibility in markets. We intend to use the net proceeds to us from this offering for working capital and other general corporate purposes. These purposes may include expansion of our sales and marketing activities through hiring additional personnel or funding new marketing initiatives. They may also include investments in research and development projects that our management and technical staff may wish to pursue in the future to enhance our product offerings. In addition, the net proceeds may be used to pursue other corporate opportunities that arise in the future.

We may also use a portion of the net proceeds to expand our current business through acquisitions of other companies, assets, products or technologies that enhance or add functionality to our solution, further solidify our market position or allow us to offer complementary services and products. However, we do not have agreements or commitments for any specific acquisitions at this time.

As of the date of this prospectus, we have not yet determined the specific uses of the net proceeds from this offering, and therefore we cannot specify with certainty the amounts to be used for each of the purposes discussed above. The amounts and timing of any expenditures will vary depending on the amount of cash generated by our operations, competitive and technological developments and the rate of growth of our business. As a result, we will have broad discretion in applying the net proceeds from this offering, and investors will be relying on our judgment regarding the application of these net proceeds.

Pending the use of the net proceeds from this offering, we intend to invest the net proceeds in short-term investment-grade, interest-bearing securities. The goal with respect to the investment of these net proceeds will be capital preservation and liquidity so that these funds are readily available to fund our operations.

DIVIDEND POLICY

We have never declared or paid cash dividends on our capital stock. We currently intend to retain all future earnings and cash resources for the future operation and development of our business and do not anticipate paying any cash dividends for the foreseeable future. Any future determination to declare cash dividends will be made at the discretion of our board of directors and will depend on our financial condition, results of operations, capital requirements, general business conditions and other factors that our board of directors may deem relevant.

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CAPITALIZATION

The following table sets forth our capitalization as of September 30, 2011:

- on an actual basis;

- on a pro forma basis to give effect to the automatic conversion of all outstanding shares of preferred stock into 34,790,277 shares of common stock, as if this had occurred as of September 30, 2011; and

- on a pro forma as adjusted basis to give effect to (i) the conversion of all outstanding shares of preferred stock into common stock as if this had occurred as of September 30, 2011, (ii) the receipt of the estimated net proceeds from the sale of shares of common stock offered by us in this offering at an assumed initial public offering price of $, which is the midpoint of the range of the initial public offering price listed on the cover page of this prospectus, after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us, and (iii) the filing of our amended and restated certificate of incorporation immediately prior to the closing of this offering.

You should read this table in conjunction with Selected Financial Data, Management s Discussion and Analysis of Financial Condition and Results of Operations and our financial statements and related notes included elsewhere in this prospectus.

	As of September 30, 2011		
	Actual	Pro Forma	Pro Forma as Adjusted
	(in thousands, except share and per share data)		
Cash and cash equivalents	$ 7,253	$ 7,253	$
Bank financing and Capital lease obligations, including current portion	$ 3,043	$ 3,043	$
Stockholders equity:			
Common stock, $0.01 par value per share, 60,000,000 shares authorized, 5,839,102 shares issued and 5,200,102 outstanding, actual; 60,000,0000 shares authorized, 40,629,379 shares issued and 39,990,379 shares outstanding, pro forma; 100,000,000 shares authorized, shares issued and outstanding, pro forma as adjusted	58	406	
Mandatorily convertible shares of Series A, Series A-1, Series B and Series C preferred stock, $0.01 par value per share, 12,520,389 shares authorized, 11,596,759 shares issued and outstanding, actual; 12,520,389 shares authorized, no shares issued and outstanding pro forma; 10,000,000 shares authorized, no shares issued and outstanding, pro forma as adjusted	28,432		
Treasury stock at cost 639,000 shares, actual; 639,000 shares, pro forma; shares, pro forma as adjusted	(569)	(569)	
Additional paid-in capital	45,254	73,338	
Accumulated deficit	(59,897)	(59,897)	
Total stockholders equity	13,278	13,278	
Total capitalization	$ 16,321	$ 16,321	$

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If the underwriters option to purchase additional shares in the offering were exercised in full, pro forma as adjusted cash and cash equivalents, additional paid-in capital, total stockholders equity (deficit), total capitalization and shares issued and outstanding as of September 30, 2011 would be $, $, $, $ and shares, respectively.

This table excludes the following shares:

- 9,929,693 shares of common stock issuable upon exercise of options outstanding as of September 30, 2011 at a weighted average exercise price of $0.93 per share; and

- shares of common stock reserved for future issuance under our 2012 Equity Incentive Plan, which will become effective on the effective date of the registration statement of which this prospectus is a part.

See Management Equity Benefit Plans for a description of our equity plans.

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DILUTION

If you invest in our common stock in this offering, your interest will be diluted to the extent of the difference between the initial public offering price per share of our common stock and the pro forma net tangible book value per share of our common stock immediately after completion of this offering.

Our pro forma net tangible book value as of September 30, 2011 was $13.3 million, or approximately $0.33 per share, based upon 39,990,379 shares outstanding as of that date. Our pro forma net tangible book value per share represents the amount of our total tangible assets reduced by the amount of our total liabilities and divided by the number of shares of common stock outstanding as of September 30, 2011 after giving effect to the automatic conversion of all outstanding shares of preferred stock into shares of common stock as if the conversion occurred on September 30, 2011. Net tangible book value dilution per share to new investors represents the difference between the amount per share paid by purchasers of shares of common stock in this offering and the pro forma net tangible book value per share of common stock immediately after completion of this offering.

After giving effect to our sale of shares of common stock in this offering at an assumed initial public offering price of $ per share, which is the midpoint of the range of the initial public offering price listed on the cover page of this prospectus, and after deducting estimated underwriting discounts and commissions and estimated offering expenses, our pro forma net tangible book value as of September 30, 2011 would have been $ million, or $ per share. This represents an immediate increase in pro forma net tangible book value of $ per share attributable to existing investors and an immediate dilution in pro forma net tangible book value of $ per share to purchasers of common stock in this offering, as illustrated in the following table:

Assumed initial public offering price per share	$
Pro forma net tangible book value per share as of September 30, 2011	0.33
Increase in pro forma net tangible book value per share attributable to existing investors	
Pro forma net tangible book value per share after the offering	
Dilution per share to new investors	

If the underwriters exercise in full their option to purchase additional shares of our common stock in this offering, the pro forma net tangible book value per share after the offering would be $ per share, the increase in pro forma net tangible book value per share to existing stockholders would be $ per share and the dilution to new investors purchasing shares in this offering would be $ per share.

Each $1.00 increase (decrease) in the assumed initial public offering price of $ per share would increase (decrease) our pro forma net tangible book value by $ million, or $ per share, increase (decrease) the pro forma net tangible book value attributable to existing investors by $ per share and increase (decrease) the dilution in pro forma net tangible book value per share to purchasers of common stock in this offering by $ per share, assuming that the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting an assumed underwriting discount and estimated offering expenses we must pay.

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The following table presents, on a pro forma basis as of September 30, 2011, after giving effect to the automatic conversion of all outstanding shares of preferred stock into common stock upon completion of this offering, the differences between the existing stockholders and the purchasers of shares in the offering with respect to the number of shares purchased from us, the total consideration paid and the average price paid per share:

	Shares Purchased		Total Consideration		Average Price per
	Number	Percent	Amount	Percent	Share
	(in thousands except share and per share data)				
Existing stockholders		%	$	%	$
New stockholders					
Total		100.0%	$	100.0%	

As of September 30, 2011, there were options outstanding to purchase a total of 9,929,693 shares of common stock at a weighted average exercise price of $0.93 per share. To the extent outstanding options are exercised, there will be further dilution to new investors. For a description of our equity plans, please see Management Equity Benefit Plans.

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SELECTED FINANCIAL DATA

You should read the following selected historical financial data below in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and the financial statements, related notes and other financial information included in this prospectus. The selected financial data in this section is not intended to replace the financial statements and is qualified in its entirety by the financial statements and related notes included in this prospectus.

We derived the selected financial data for the years ended December 31, 2008, 2009 and 2010 and as of December 31, 2009 and 2010 from our audited financial statements and related notes, which are included in this prospectus. We derived the selected consolidated financial data for the years ended December 31, 2006 and 2007 and as of December 31, 2006, 2007 and 2008 from our audited consolidated financial statements and related notes, which are not included in this prospectus. The selected financial data for the nine months ended September 30, 2010 and 2011, and the balance sheet data as of September 30, 2011 have been derived from our unaudited condensed financial statements appearing elsewhere in this prospectus. We have included, in our opinion, all adjustments, consisting only of normal recurring adjustments, that we consider necessary for a fair presentation of the financial information set forth in those statements. Our historical results are not necessarily indicative of the results to be expected in the future, and our interim results are not necessarily indicative of the results to be expected for the full fiscal year.

The pro forma basic and diluted net income (loss) per share attributable to common stockholders data for the year ended December 31, 2010 and for the nine months ended September 30, 2011 reflect the conversion of all of our outstanding shares of preferred stock into 34,790,277 shares of common stock in connection with this offering. See Note 1 of Notes to the Financial Statements and Note 1 of Notes to the Condensed Financial Statements Unaudited for an explanation of the method used to determine the number of shares used in computing pro forma basic and diluted net income (loss) per share.

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	Year Ended December 31, 2006	2007	2008	2009	2010	Nine Months Ended September 30, 2010	2011
	(in thousands except share and per share data)						
Consolidated Statements of Operations Data:							
Revenue	$ 26,327	$ 39,896	$ 52,571	$ 60,798	$ 66,232	$ 48,041	$ 62,115
Costs and operating expenses:							
Cost of revenue (1)	15,327	21,611	28,575	34,074	36,703	26,907	32,872
Research and development (1)(2)	4,546	7,947	12,783	13,627	18,494	13,710	14,270
Sales and marketing (2)	4,413	6,157	5,732	5,591	6,211	4,597	5,811
General and administrative (1)(2)	3,933	4,888	4,997	4,966	5,656	3,941	4,887
Withdrawn initial public offering expenses			3,405				
Depreciation	465	1,272	1,574	2,005	2,506	1,884	1,950
Other operating expenses			1,121				
Total costs and operating expenses	28,684	41,875	58,187	60,263	69,570	51,039	59,790
Income (loss) from operations	(2,357)	(1,979)	(5,616)	535	(3,338)	(2,998)	2,325
Loss on extinguishment of debt	(32)						
Other income (expense)	279	626	156	69	(2)	(17)	(18)
Interest expense	(132)	(189)	(294)	(285)	(240)	(189)	(64)
Income (loss) before income taxes	(2,242)	(1,542)	(5,754)	319	(3,580)	(3,204)	2,243
Provision for income taxes	14	15	10	15	11	18	55
Net income (loss)	(2,256)	(1,557)	(5,764)	304	(3,591)	(3,222)	2,188
Undistributed earnings allocated to preferred stockholders				279			1,903
Net income (loss) attributable to common stockholders	$ (2,256)	$ (1,557)	$ (5,764)	$ 25	$ (3,591)	$ (3,222)	$ 285
Net income (loss) per share attributable to common stockholders:							
Basic	$ (6.28)	$ (1.15)	$ (1.70)	$ 0.01	$ (0.96)	$ (0.87)	$ 0.07
Diluted	$ (6.28)	$ (1.15)	$ (1.70)	$ 0.01	$ (0.96)	$ (0.87)	$ 0.05
Weighted average shares used to compute net income (loss) per share attributable to common stockholders:							
Basic	359,445	1,348,776	3,380,917	3,628,058	3,730,588	3,711,130	4,013,478
Diluted	359,445	1,348,776	3,380,917	44,586,142	3,730,588	3,711,130	44,866,723
Pro forma net income (loss) per share attributable to common stockholders:							
Basic					$ (0.09)		$ 0.06
Diluted					$ (0.09)		$ 0.05
Pro forma weighted average shares used to compute net income (loss) per share attributable to common stockholders:							
Basic					38,520,865		38,803,755
Diluted					38,520,865		44,866,723

Other Financial Data:							
Adjusted EBITDA (3)	$ (1,886)	$ (313)	$ (3,374)	$ 3,441	$ 36	$ (509)	$ 4,915

Notes:

(1) Exclusive of depreciation shown separately.

(notes continue on following page)

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Notes (continued from previous page):

(2) Includes stock-based compensation as follows:

	Year Ended December 31,					Nine Months Ended September 30,	
	2006	2007	2008	2009	2010	2010	2011
	(in thousands)						
Research and development	$	$ 94	$ 221	$ 252	$ 398	$ 278	$ 205
Sales and marketing		71	142	189	202	140	141
General and administrative	58	229	305	460	268	187	294

(3) We define adjusted EBITDA as net income (loss), plus: provision for income taxes, interest expense, other (income) expense, depreciation, and stock-based compensation. Please see Adjusted EBITDA below for more information and for a reconciliation of adjusted EBITDA to net income (loss), the most directly comparable financial measure calculated and presented in accordance with GAAP.

	As of December 31,					As of September 30,
	2006	2007	2008	2009	2010	2011
	(in thousands)					
Consolidated Balance Sheet Data:						
Cash and cash equivalents	$ 15,293	$ 11,072	$ 8,830	$ 10,462	$ 5,412	$ 7,253
Trade receivables, net	4,102	6,134	7,162	7,773	9,654	12,004
Property and equipment, net	4,315	5,743	7,707	6,631	7,110	7,377
Total assets	24,212	28,629	25,945	26,004	24,327	28,801
Long-term bank financing and capital lease obligations	1,297	1,710	2,914	1,247	1,203	1,501
Total stockholders equity	17,608	17,175	12,211	13,053	10,156	13,278

Adjusted EBITDA

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

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

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

although depreciation is a non-cash charge, the assets being depreciated may have to be replaced in the future, and adjusted EBITDA does not reflect capital expenditure requirements for such replacements or for new capital expenditure requirements;

adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;

adjusted EBITDA does not consider the potentially dilutive impact of equity-based compensation;

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

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

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

	Year Ended December 31,					Nine Months Ended September 30,	
	2006	2007	2008	2009	2010	2010	2011
				(in thousands)			
Reconciliation of Adjusted EBITDA:							
Net income (loss)	$ (2,256)	$ (1,557)	$ (5,764)	$ 304	$ (3,591)	$ (3,222)	$ 2,188
Provision for income taxes	14	15	10	15	11	18	55
Interest expense	132	189	294	285	240	189	64
Other (income) expense (1)	(279)	(626)	(156)	(69)	2	17	18
Depreciation	465	1,272	1,574	2,005	2,506	1,884	1,950
Stock-based compensation	58	394	668	901	868	605	640
Adjusted EBITDA	$ (1,866)	$ (313)	$ (3,374)	$ 3,441	$ 36	$ (509)	$ 4,915

Note:

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

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MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

Overview

We are 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 that 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. As of September 30, 2011, our high-speed Internet service provider customers used our platform to offer an engaging Internet experience to over 25% of the estimated 79 million United States high-speed Internet households.

We generate revenue from search and display advertising and by charging subscriber-based fees for services and products delivered through our platform. Our results are driven primarily by our customer mix, the product and service mix preferences of those customers and the pricing of those products and services. We generate the majority of our revenue from search and display advertising on our customers branded websites, which comprise consumer-facing components of our platform. Adding new customers with large consumer bases and expansion of our relationships with existing customers have resulted in an increasing shift in our revenue mix towards search and display advertising revenue. In addition, as new customers adopt our platform, and as their respective consumers use of our platform ramps up as described below, our growth is increasingly driven by search and display advertising revenue. These increases are largely driven by our model of sharing a portion of this search and advertising revenue with our customers. As we expand our value added services offerings, we expect to generate increased subscriber-based revenue from our customers.

Growth in search and display advertising revenue is driven largely by increasing consumer use of our platform. As more consumers use our customers websites and as consumers spend more time on these websites, we have a greater number of opportunities to deliver advertisements. During the nine months ended September 30, 2011, search and display advertising revenue was $48.0 million, a growth of 50% over $32.1 million for the nine months ended September 30, 2010. Over the same period, our unique visitors increased by 55%, our search queries increased by 54% and our advertising impressions increased by 41%. We expect consumer engagement on our customers websites to continue to grow in the future as our customers deliver more services through their websites.

Our subscriber-based revenue consists of fees charged for the use of our proprietary technology platform and for the use of, or access to, services, such as e-mail, security, online games, music and other value added services and paid content. During the nine months ended September 30, 2011, subscriber-based revenue was $14.1 million, a decline of 12% from $16.0 million during the nine months ended September 30, 2010. While subscriber-based revenue decreased in amount and as a percentage of our total revenue, we believe there are opportunities to generate new sources of subscriber-based revenue, such as fees for TV Everywhere authentication and the introduction of new value added services. We believe that the variety of value added services and the introduction of new value added services will also drive increased search and display advertising revenue.

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As new customers introduce their branded websites to their consumers, usage of our platform and our revenue from our customers websites tends to increase over time. There are a variety of reasons for this ramp-up period. For example, a new customer may migrate its consumers from its existing platform to our platform over a period of time. Moreover, a new customer may initially launch a selection of our services and products, rather than our entire suite of offerings, and subsequently broaden their service and product offerings over time. When a customer launches a new service or product, marketing and promotional activities may be required to generate awareness and interest among consumers. Search and display advertising revenue typically grows significantly during the first two to three years after a customer launch, although there can be notable variances from customer to customer. Thereafter, changes in revenue tend to mirror changes in the consumer base of the applicable customer.

For the nine months ended September 30, 2011, we derived revenue from over 45 customers, with revenue attributable to three customers, CenturyLink (including revenue attributable to Qwest), Charter and Toshiba, together accounting for approximately 63% of our revenue for the nine months ended September 30, 2011, or $39.1 million. Two of these customers each accounted for 20% or more of revenue in such period, and revenue attributable to the third customer accounted for more than 10% in such period. As we gain additional customers and as recently-added customers ramp up as described above, we anticipate that our revenue will be more broadly spread across all our customers.

Revenue attributable to our customers includes the subscriber-based revenue earned directly from them, as well as the search and display advertising revenue generated through our relationships with our search and display advertising partners (such as Google for search advertising and advertising networks, advertising agencies and advertisers for display advertising). This revenue is attributable to our customers because it is produced from the traffic on our customers websites. These partners provide us with advertisements that we then deliver with search results and other content on our customers websites. Since our search advertising partner, Google, and our advertising network partners generate their revenue by selling those advertisements, we create a revenue stream for these partners. In the nine months ended September 30, 2011, search advertising through our relationship with Google generated approximately 55% of our revenue, or $34.0 million (all of which was attributable to our customers).

We have experienced, and expect to continue to experience, growth in our business as we acquire new customers, as our existing customers acquire new consumers, as we roll out new products and services and as we expand our presence into international markets. We expect to continue to make capital expenditures in 2012 related to both the customer supporting activities and our internal information technology infrastructure. We also expect that our research and development headcount and associated expenses will increase in 2012 as we continue to develop our technology platform, deliver new products and services, and make those and existing products and services available across different devices.

Although we experienced net losses in 2008 and 2010 (as well as in prior years), we believe that the revenue opportunities afforded us by the growth in search and display advertising across our customers have enhanced our ability to achieve profitability in the future. Our costs of revenue are expected generally to grow with revenue as most of these costs are associated with the sharing of revenue with our customers. Therefore, in order to take advantage of this revenue potential and continue to grow profitably it has been and will continue to be important for us to cost-effectively support our customers and manage our operating expenses. While we expect our costs of revenue to increase generally in line with revenue, we expect our operating expenses to decrease as a percentage of revenue, thereby increasing our profitability over time. For the first nine months of 2011 revenue grew by 29.3% over the first nine months of 2010 while operating expenses, including depreciation, grew by 11.5%, and excluding depreciation, grew by 12.2%.

The initiatives described below under Key Initiatives are expected to contribute to our ability to maintain and grow profitability via increases in advertising revenue, increases in customers and our consumer reach, and increases in availability of products across more devices. We expect the period in which we

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experience a return on future investments in each of these initiatives to differ. For example, more direct advertising at higher CPMs would be expected to have an immediate and direct impact on profitability while expansion into international markets may require an investment that involves a longer term return. We expect that some of the net proceeds of the offering will be utilized with a goal of enhancing our technology and our systems capabilities to more efficiently support our customers, develop new products and features and report upon, analyze and manage the financial performance of the business in order to improve our ability to achieve consistent profitability in the future. As of the date of this prospectus, we have not yet determined the specific uses of the net proceeds of the offering.

Trends Affecting Our Business

Our customers, who are predominantly high-speed Internet service providers that also offer television services, are facing increasing competition from companies that deliver video content over the Internet, more commonly referred to as over-the-top, or OTT. These new competitors include a number of large and growing companies, such as Google, Netflix, Inc., or Netflix, Hulu, LLC, or Hulu, and Amazon.com Inc., or Amazon. With the increased availability of high-speed Internet access and over-the-top programming, consumers video content consumption preferences may shift away from current viewing habits. As a result, many of our customers and potential customers are compelled to find new ways to deliver services and content to their consumers via the Internet. We expect this pressure to become even greater as more video content becomes available online. We expect to continue to benefit from this trend as customers adopt our platform to package and deliver video programming and other related authentication services on their own branded websites.

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

Our business is also affected by growth in advertising on the Internet, of which proliferation of high-speed Internet access and Internet-connected devices will be the principal drivers. According to the report published by PwC in June 2011, such search advertising is projected to continue to attract advertising spending to the Internet. Meanwhile, growth in the number of mobile Internet users is expected to drive mobile advertising. Our platform creates a revenue stream for our search advertising partner, Google, and our advertising network partners, who provide us with advertisements and share in the fees generated by those advertisements when we deliver them with search results and other content on our customers websites. We expect that we (and therefore these advertising partners) will continue to benefit from the underlying trend of growth in Internet advertising.

Key Initiatives

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

- increase the content and services we provide to our customers and their consumers, enhance our direct advertising sales effort to increase the cost-per-thousand impressions (referred to as cost per mille, or CPM) derived from advertising and increase the number of customers using our TV Everywhere authentication platform;

- add new customers from the high-speed Internet service provider and consumer electronics industries to expand our consumer reach;

- extend the availability of our existing and new products and services to additional devices including tablets and smartphones; and

- expand our presence into international markets.

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Key Business Metrics

In addition to the line items in our financial statements, we regularly review a number of business metrics related to Internet traffic and search and display advertising to evaluate our business, determine the allocation of resources and make decisions regarding business strategies. We believe information of these metrics is useful for investors and analysts to understand the underlying trends in our business. The following table summarizes our key business metrics, which are unaudited, for the years ended December 31, 2008, 2009 and 2010 and the first nine months of 2010 and 2011:

	Years Ended December 31,			Nine Months Ended September 30,	
	2008	2009	2010	2010	2011
Key Business Metrics:					
Unique Visitors (1)	7,647,917	8,320,500	8,235,583	8,551,444	13,250,013
Search Queries (2)	314,039,915	383,871,812	453,687,989	326,658,368	503,476,341
Advertising Impressions (3)	9,432,921,273	16,549,485,330	18,832,969,669	13,769,460,560	19,461,422,855

Notes:

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

Unique Visitors

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

Search Queries

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

Advertising Impressions

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

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Components of our Results of Operations

Revenue

We derive our revenue from two categories: revenue generated from search and display advertising activities and subscriber-based revenue, each of which is described below. We record our search and display advertising revenue on a gross basis, which includes the net amount received from Google under our agreement with them. The following table shows the revenue in each category, both in amount and as a percentage of revenue, for 2008, 2009 and 2010 and the nine months ended September 30, 2010 and 2011.

	Year Ended December 31,			Nine Months Ended September 30,	
	2008	2009	2010	2010	2011
			(in thousands)		
Revenue:					
Search and display advertising	$ 32,212	$ 39,268	$ 45,859	$ 32,089	$ 48,040
Subscriber-based	20,359	21,530	20,373	15,952	14,075
Total revenue	$ 52,571	$ 60,798	$ 66,232	$ 48,041	$ 62,115
Percentage of revenue:					
Search and display advertising	61%	65%	69%	67%	77%
Subscriber-based	39	35	31	33	23
Total revenue	100%	100%	100%	100%	100%

Search and Display Advertising Revenue

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

In the case of search advertising, we have a revenue-sharing relationship with Google, pursuant to which we include a Google-branded search tool on our customers websites. When a consumer makes a search query using this tool, we deliver the query to Google and they return search results to consumers that include advertiser-sponsored links. If the consumer clicks on a sponsored link, Google receives payment from the sponsor of that link and shares a portion of that payment with us, which we in turn share with the applicable customer. The net payment we receive from Google is recognized as revenue.

We generate display advertising revenue when consumers view or click on a text, graphic or video advertisement that was delivered on a Synacor-operated website. We fill our advertising inventory with advertisements sourced by our direct salesforce, independent advertising sales representatives and advertising network partners. Revenue may be calculated differently depending on our agreements with our advertisers or the agreements between our advertising network partners and their advertisers. It may be calculated on a cost per impression basis, which means the advertiser pays based on the number of times its advertisements appear, or a cost per action basis, which means that an advertiser pays when a consumer performs an action after engaging one of its advertisements. Historically only a small percentage of our display advertising revenue has been calculated on a cost per action basis.

Subscriber-Based Revenue

We define subscriber-based revenue as subscription fees and other fees that we receive from our customers for the use of our proprietary technology platform and the use of, or access to, e-mail, security, games

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and other services, including value added services and paid content. Monthly subscriber levels typically form the basis for calculating and generating subscriber-based revenue. They are generally determined by multiplying a per-subscriber per-month fee by the number of subscribers using the particular services being offered or consumed. In other cases, the fee is fixed. We recognize revenue from our customers as the service is delivered.

Costs and Expenses

Cost of Revenue

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

Research and Development

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

Sales and Marketing

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

General and Administrative

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

Depreciation

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

Other Income (Expense)

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

Interest Expense

Interest income (expense) primarily consists of expenses associated with our long-term debt, capital leases, and amortization of debt issuance costs.

Provision for Income Taxes

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

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Critical Accounting Policies

The preparation of financial statements in conformity with 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 Financial Statements and Notes to the Condensed Financial Statements Unaudited for further information. 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 display 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 display 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 platform. This revenue consists of the consideration we receive from Google and our display advertising partners in connection with traffic supplied by the applicable customer.

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Gross Versus Net Presentation of Revenue for Revenue Sharing

We evaluate our relationship between our search and display 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 display advertising services and value added 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

In accordance with FASB ASC 718, *Compensation Stock Compensation*, we measure stock-based compensation cost at fair value, net of estimated forfeitures, and generally recognize the corresponding compensation expense on a straight-line basis over the service period during which awards are expected to vest. We include stock-based compensation expense in research and development, sales and marketing and general and administrative expenses in our statement of operations, and determining the fair value of stock-based awards at the grant date requires judgment.

Fair Value of Stock Options. We use the Black-Scholes-Merton 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 has not been publicly traded, we must estimate the fair value of common stock, as discussed below.

Expected Term. The expected term represents the period of time the stock options are expected to be outstanding and is based on the simplified method allowed under SEC guidance. We used the simplified method due to the lack of sufficient historical exercise data to provide a reasonable basis upon which to otherwise estimate the expected life of the stock options.

Volatility. Since we do not have a trading history for our common stock, the expected stock price volatility was estimated by taking the average historic price volatility for publicly-traded options of comparable industry peers similar in size, stage of life cycle and financial leverage, based on daily price observations over a period equivalent to the expected term of the stock option grants. 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 Interest Rate. The risk-free interest rate is based on the yields of United States 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 dividend on our common stock. We intend to retain any future earnings and do not expect to pay any dividends in the foreseeable future.

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If any of the assumptions used in the Black-Scholes-Merton model changes significantly, stock-based compensation for future awards may differ materially compared with the awards granted previously.

The following table presents the weighted-average assumptions used to estimate the fair value of options granted during the years ended December 31, 2008, 2009, and 2010 and the nine months ended September 30, 2011:

	Year Ended December 31,			Nine Months Ended September 30,
	2008	2009	2010	2011
Dividend yield				
Risk-free interest rate	3.10%	3.40%	2.38%	1.63%
Expected term (in years)	6.25	6.25	6.25	6.25
Expected volatility	54%	52%	53%	51%

Since May 2006, in accordance with Section 409A of the Internal Revenue Code and related regulations issued by the Internal Revenue Service, our board of directors has received valuations of our common stock from an independent valuation specialist, Anvil Advisors, LLC, or Anvil Advisors, and used the values determined in their reports to set the exercise price of stock options. We also considered these valuations when determining the fair value of our common stock for purposes of calculating stock-based compensation expense in connection with stock options. Anvil Advisors, an unrelated valuation specialist as defined under the American Institute of Certified Public Accountants Practice Guide, *Valuation of Privately-Held Company Equity Securities Issued as Compensation*, or the Practice Guide, appraised the value of our common stock in accordance with the guidelines outlined in the Practice Guide. The assumptions it used in its valuation models were based on future expectations combined with management judgments.

In its valuations through June 2009, Anvil Advisors estimated the enterprise value of our company on the applicable valuation date using the discounted future cash flow method and the guideline company method and then computing a weighted average of the two based on the likelihood of an initial public offering. As an initial public offering became more likely, the guideline company method was given greater weight. Then Anvil Advisors used the company security valuation method to allocate the enterprise value of our company among its various classes of equity to derive a fully marketable value per share for the common stock. Anvil Advisors applied an appropriate discount for lack of marketability to this fully marketable value to arrive at the fair value per share of common stock.

In its valuations after June 2009, Anvil Advisors continued to use the guideline company method, but replaced the discounted future cash flow method with the comparable transaction method. This method determines a value based on prices paid by strategic and financial buyers of comparable companies in the Internet software and services sector. Anvil Advisors replaced the discounted cash flow method because our internal forecasting, on which it relied in its analysis, became more short-term focused following the departure of our former chief financial officer in December 2008.

The difference between the exercise price of the options and our estimate of the fair value has been factored into the stock-based compensation expense. Our estimates of the fair value used to compute the stock-based compensation expense for financial reporting purposes may not be reflective of the fair value that would result from the application of other valuation methods, including accepted valuation methods for tax purposes.

Along with these valuations, we considered other objective and subjective factors to determine the fair value of our common stock as of the date of each option grant, including the following factors:

- the prices, rights, preferences and privileges of our preferred stock relative to the common stock;

- our operating and financial performance;

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current business conditions and projections;

the hiring of key personnel;

the history of our company and the introduction of new products and services;

our stage of development;

the likelihood of achieving a liquidity event for the shares of common stock underlying these stock options, such as an initial public offering or sale of our company, given prevailing market conditions;

any adjustment necessary to recognize a lack of marketability for our common stock;

the market performance of comparable publicly-traded companies; and

the United States and global capital market conditions.

We granted stock options with the following weighted average exercise price each quarter since the beginning of 2008 through September 30, 2011.

Three Months Ended	Shares Underlying Options	Weighted Average Exercise Price ($)
March 31, 2008 (1)(2)	414,000	2.00
June 30, 2008 (1)(2)	1,179,000	2.00
September 30, 2008 (1)(2)	318,500	1.99
December 31, 2008	148,250	1.29
March 31, 2009	84,000	1.29
June 30, 2009	563,000	1.26
September 30, 2009	442,000	1.25
December 31, 2009	56,000	1.20
March 31, 2010	265,750	1.20
June 30, 2010	269,966	1.34
September 30, 2010	504,250	1.34
December 31, 2010	1,004,000	1.44
March 31, 2011	145,750	1.44
June 30, 2011	121,000	1.66
September 30, 2011	2,354,600	1.66

Notes:

(1) The Board amended the exercise price of these options to $1.26 in June 2009. Please see the section below titled Stock Option Re-pricing.

(2) Reflects a 3-for-1 forward stock split of our common stock that became effective July 31, 2008.

Summarized below are the significant factors we considered in determining the fair value of the common stock underlying our stock options.

For options granted through September 2008, we based our estimate of the fair value of our common stock on a report from our independent valuation specialist, which concluded that our common stock had a value of $5.71 per share as of March 31, 2008 (or $1.90 per share following a 3-for-1 forward split of our common stock that became effective on July 31, 2008). In this report, the specialist used a discount rate of 25% in its discounted future cash flow analysis. Based on a sample of comparable publicly-traded companies, company-specific volatility was determined to be 55%, and the lack-of-marketability discount was 10%. In light of our

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plans to pursue an initial public offering at the time, management determined that the probability of an initial public offering was greater than a sale of the company, and thus the guideline company method was weighted 80% and the discounted future cash flow method was weighted 20%.

For options granted in December 2008 through March 2009, we based our estimate of the fair value of our common stock in part on a report from our independent valuation specialist, which concluded that our common stock had a value of $1.29 per share as of October 14, 2008. We also considered that, as a result of the severe downturn in the United States economy and financial market conditions in the fall of 2008, the stock prices of publicly-traded comparable companies declined significantly. Moreover, we withdrew our registration statement for an initial public offering in October 2008, thereby reducing the likelihood of a liquidity event for our stockholders. In connection with the withdrawal of our initial public offering, we recorded expenses of $3.4 million, which had a material negative impact on our results of operations. Finally, in December 2008 our former chief financial officer, whom we had hired in anticipation of a proposed initial public offering, ended his employment with us.

For options we granted from June 2009 through July 2009, we based our estimate of the fair value of our common stock in part on a report from our independent valuation specialist, which concluded that our common stock had a value of $1.26 per share as of March 31, 2009. In this report, the specialist continued to use a discount rate of 25% in its discounted future cash flow analysis. Based on a sample of comparable publicly-traded companies, company-specific volatility was determined to be 80%, and the lack-of marketability discount was 20%. Because we had abandoned our plans for an initial public offering in 2008, the weighting of the guideline company method was lowered to 67% and the discounted future cash flow method was weighted 33%. We also observed that the United States economy and financial market conditions continued to be unfavorable during 2009, and the likelihood of a successful liquidity event remained low. Our operating and financial performance was hampered by poor economic conditions, and we signed no new significant customer contracts during this period.

For options we granted from September 2009 through February 2010, we based our estimate of the fair value of our common stock in part on a report from our independent valuation specialist, which concluded that our common stock had a value of $1.20 per share as of June 30, 2009. We also considered a transaction in August 2009 in which our chief executive officer sold 200,000 shares of his common stock back to us for $1.00 per share. Our operating and financial performance continued to be affected by poor economic conditions, and we did not sign any new significant customer contracts through the end of 2009.

For options we granted from May 2010 through September 2010, we based our estimate of the fair value of our common stock in part on a report from our independent valuation specialist, which concluded that our common stock had a value of $1.34 per share as of March 31, 2010. The guideline company method and the comparable transaction method were weighted equally. Based on a sample of comparable publicly-traded companies, company-specific volatility was determined to be 70%, and the lack-of marketability discount was 20%. We also considered improvements in the United States economy and financial market conditions.

For options we granted from November 2010 through March 2011, we based our estimate of the fair value of our common stock in part on a report from our independent valuation specialist, which concluded that our common stock had a value of $1.44 per share as of September 30, 2010. The specialist continued to weigh the guideline company method and the comparable transaction method equally. Since the specialist s last report as of March 31, 2010, we had renewed contracts with two of our largest customers, and we signed contracts with two significant new customers. In October 2010, Scott A. Bailey joined our executive team as chief operating officer. Finally, we considered continued improvement in the United States economy and financial market conditions and a transaction in September 2010 in which our chief executive officer sold 150,000 shares of his common stock back to us for $1.34 per share.

For options we granted from May 2011 through August 2011, we based our estimate of the fair value of our common stock in part on a report from our independent valuation specialist, which concluded that our

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common stock had a value of $1.66 per share as of March 31, 2011. We also considered the fact that the United States economy and financial market conditions improved in the first and second quarters of 2011 and our business continued to grow.

Stock Option Re-pricing. In June 2009, the Company s Board of Directors determined that the fair value of the Company s common stock had declined to $1.26 per share based on an independent valuation performed for the company and the other factors described above. In connection with this decline, stock options for a total of 2,217,694 shares of common stock, which were granted during from July 31, 2007 through September 16, 2008 with an exercise price above $1.99, were amended to have an exercise price of $1.26. The number of shares, the vesting commencement date and the length of the vesting period for each of these grants were not altered.

We treated the re-pricing as a modification of the original awards and calculated additional compensation costs for the difference between the fair value of the modified award and the fair value of the original award on the modification date. The re-pricing was estimated to result in incremental stock-based compensation expense of $0.3 million. The cost related to vested shares was expensed on the re-pricing date and the cost related to unvested shares will be amortized over the remaining vesting period of such stock options. The assumptions used to estimate the fair value of the original awards immediately before the modification and the fair value of the modified awards required significant judgment.

Recent Stock Option Grants. For the 198,000 options we granted in November 2011, we based our estimate of the fair value of our common stock in part on a report from our independent valuation specialist, which concluded that our common stock had a value of $1.85 per share as of September 30, 2011. We also considered the fact that while the United States economy and financial market conditions were difficult in the third quarter of 2011, our business continued to grow. In the third quarter of 2011, our operating and financial performance also benefited from a contract we signed with a significant new customer, and William J. Stuart, our current chief financial officer, joined our executive team.

In December 2011, we granted 261,500 options to directors and employees. We based our estimate of the fair value of our common stock on a report from our independent valuation specialist, which concluded that our common stock had a value of $2.98 per share as of December 15, 2011. In light of the fact that we had filed a registration statement for this offering, Anvil Advisors replaced the guideline company and comparable transaction methods in that report with the probability-weighted expected return method, or PWERM. Under the PWERM, the value of common stock is estimated based upon an analysis of future values for the enterprise assuming various scenarios and potential future expected outcomes (e.g., an initial public offering, or IPO, a merger or sale, continuing as a private company or dissolution with no value to common stockholders). Enterprise value is allocated to convertible preferred stock, warrants, options and shares of common stock based on the rights and characteristics of each equity instrument. The resulting share value is based upon the probability-weighted present value of expected future investment returns. The aggregate value of the common stock derived from the PWERM was then divided by the number of common shares to arrive at the per-share common value, and a discount for lack of marketability was then applied to the continuing as a private company scenario. This analysis resulted in a fair market value of our common stock of $2.98 per share as of December 15, 2011.

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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,			Nine Months Ended September 30,	
	2008	2009	2010	2010	2011
			(in thousands)		
Revenue	$ 52,571	$ 60,798	$ 66,232	$ 48,041	$ 62,115
Costs and operating expenses:					
Cost of revenue (1)	28,575	34,074	36,703	26,907	32,872
Research and development (1)(2)	12,783	13,627	18,494	13,710	14,270
Sales and marketing (2)	5,732	5,591	6,211	4,597	5,811
General and administrative (1)(2)	4,997	4,966	5,656	3,941	4,887
Withdrawn initial public offering expenses	3,405				
Depreciation	1,574	2,005	2,506	1,884	1,950
Other operating expenses	1,121				
Total costs and operating expenses	58,187	60,263	69,570	51,039	59,790
Income (loss) from operations	(5,616)	535	(3,338)	(2,998)	2,325
Other income (expense)	156	69	(2)	(17)	(18)
Interest expense	294	285	240	189	64
Income (loss) before income taxes	(5,754)	319	(3,580)	(3,204)	2,243
Provision for income taxes	10	15	11	18	55
Net income (loss)	$ (5,764)	$ 304	$ (3,591)	$ (3,222)	$ 2,188

Notes:

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

	Year Ended December 31,			Nine Months Ended September 30,	
	2008	2009	2010	2010	2011
			(in thousands)		
Research and development	$ 221	$ 252	$ 398	$ 278	$ 205
Sales and marketing	142	189	202	140	141
General and administrative	305	460	268	187	294

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	Year Ended December 31,			Nine Months Ended September 30,	
	2008	2009	2010	2010	2011
Revenue	100%	100%	100%	100%	100%
Costs and operating expenses:					
Cost of revenue (1)	54	56	55	56	53
Research and development (1)	24	22	28	29	23
Sales and marketing	11	9	9	10	9
General and administrative (1)	10	8	9	8	8
Withdrawn initial public offering expenses	6	0	0	0	0
Depreciation	3	3	4	4	3
Other operating expenses	2	0	0	0	0
Total costs and operating expenses	110	99	105	107	96
Income (loss) from operations	(11)	1	(5)	(6)	4
Other income (expense)	0	0	0	0	0
Interest expense	1	0	0	0	0
Income (loss) before income taxes	(11)	1	(5)	(7)	4
Provision for income taxes	0	0	0	0	0
Net income (loss)	(11)%	1%	(5)%	(7)%	4%

Note:

(1) Exclusive of depreciation shown separately.

Comparison of Nine Months Ended September 30, 2010 and 2011

Revenue

	Nine Months Ended September 30,		
	2010	2011	% Change
	(in thousands)		
Revenue:			
Search and display advertising	$ 32,089	$ 48,040	50%
Subscriber-based	15,952	14,075	(12)%
Total revenue	$ 48,041	$ 62,115	29%
Percentage of revenue:			
Search and display advertising	67%	77%	
Subscriber-based	33	23	
Total revenue	100%	100%	

Our revenue increased by approximately $14.1 million, or 29%, to approximately $62.1 million for the nine months ended September 30, 2011 from approximately $48.0 million for the same period in 2010. Search and display advertising revenue increased by approximately $15.9 million, or 50%, to approximately $48.0 million for the nine months ended September 30, 2011 from approximately $32.1 million for the same period in 2010. This increase was a result of increased search queries and advertising impressions on our platform, driven in part by the launch of a significant new customer on our platform in September 2010. The total number of search queries increased by 54% in the nine months ended September 30, 2011, and the total number of advertising impressions increased by 41% in the nine months ended September 30, 2011, in each case as compared to the nine months ended September 30, 2010. The increase in search queries contributed to approximately 72% of the increase in search and display advertising revenue, while the increase in advertising impressions contributed to approximately 28%.

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The increase in search and display advertising revenue was partially offset by a decline in subscriber-based revenue, which fell by approximately $1.9 million, or 12%, to approximately $14.1 million in the nine months ended September 30, 2011 from approximately $16.0 million for the same period in 2010. The decline was the result of adjustments in the subscriber-based fees we charge in order to participate in greater search and display advertising revenue resulting from the increases in search queries and advertising impressions.

Cost of Revenue

	Nine Months Ended September 30,		
	2010	2011	% Change
	(in thousands)		
Cost of revenue	$ 26,907	$ 32,872	22%
Percentage of revenue	56%	53%	

Our cost of revenue increased by approximately $6.0 million, or 22%, to approximately $32.9 million for the nine months ended September 30, 2011 from approximately $26.9 million for the same period in 2010. The increase in our cost of revenue was driven by additional revenue-sharing costs from increased search and display advertising. Cost of revenue as a percentage of revenue declined to 53% of revenue in the nine months ended September 30, 2011 from 56% of revenue in the nine months ended September 30, 2010 because of changes in search and display advertising revenue attributable to the mix of customers with revenue-sharing arrangements.

Research and Development Expenses

	Nine Months Ended September 30,		
	2010	2011	% Change
	(in thousands)		
Research and development	$ 13,710	$ 14,270	4%
Percentage of revenue	29%	23%	

Research and development expenses increased by approximately $0.6 million, or 4%, to approximately $14.3 million for the nine months ended September 30, 2011 from approximately $13.7 million for the same period in 2010. The increase was primarily due to a $0.9 million increase in employee-related costs as a result of the increase in headcount to support new product initiatives and customer deployments. In addition, there was a $0.3 million increase in expenses for contractors. These increases were partially offset by a $0.5 million decrease in spending on supplies and travel related expenses. The increase in spending reflects our increased hiring in 2010 in contemplation of new customer deployments in 2010 and 2011.

Sales and Marketing Expenses

	Nine Months Ended September 30,		
	2010	2011	% Change
	(in thousands)		
Sales and marketing	$ 4,597	$ 5,811	26%
Percentage of revenue	10%	9%	

Sales and marketing expenses increased by approximately $1.2 million, or 26%, to approximately $5.8 million for the nine months ended September 30, 2011 from approximately $4.6 million for the same period in 2010. The increase was primarily due to a $0.5 million increase in employee-related costs as a result of the increase in headcount as we hired salespeople in our advertising department. The remaining increases include a $0.4 million increase for sales commissions and a $0.1 million increase for reporting services.

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General and Administrative Expenses

	Nine Months Ended September 30, 2010	2011	% Change
	(in thousands)		
General and administrative	$ 3,941	$ 4,887	24%
Percentage of revenue	8%	8%	

General and administrative expenses increased by approximately $1.0 million, or 24%, to approximately $4.9 million for the nine months ended September 30, 2011 from approximately $3.9 million for the same period in 2010. The increase was primarily due to a $0.5 million increase in employee-related costs as a result of hiring in our executive management and finance departments. The remainder of the increase includes $0.4 million for independent contractors to support our growth.

Depreciation

	Nine Months Ended September 30, 2010	2011	% Change
	(in thousands)		
Depreciation	$ 1,884	$ 1,950	4%
Percentage of revenue	4%	3%	

Depreciation remained consistent at approximately $1.9 million for the nine months ended September 30, 2010 and 2011.

Other Income (expense)

	Nine Months Ended September 30, 2010	2011
	(in thousands)	
Other income (expense)	$ (17)	$ (18)

For each of the nine-month periods ended September 30, 2010 and 2011 foreign currency transactions related to our operations in the United Kingdom accounted for nearly all other income (expense).

Interest Expense

	Nine Months Ended September 30, 2010	2011
	(in thousands)	
Interest expense	$ 189	$ 64

Interest expense decreased for the nine months ended September 30, 2011 compared to the same period in 2010 as a result of lower average capital lease and bank financing balances. The interest rates applied to those balances remained substantially the same period-over-period.

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Provision for Income Taxes

	Nine Months Ended September 30, 2010	2011
	(in thousands)	
Provision for income taxes	$ 18	$ 55

We have incurred operating losses which are available to offset income and, consequently, did not incur any material federal or state income taxes for the nine months ended September 30, 2011 and 2010. We do not anticipate recording significant tax benefits or provisions in the near future.

Comparison of Years Ended December 31, 2008, 2009 and 2010

Revenue

	Year Ended December 31, 2008	2009	2010	2008 to 2009% Change	2009 to 2010% Change
		(in thousands)			
Revenue:					
Search and display advertising	$ 32,212	$ 39,268	$ 45,859	22%	17%
Subscriber-based	20,359	21,530	20,373	6%	(5)%
Total revenue	$ 52,571	$ 60,798	$ 66,232	16%	9%
Percentage of revenue:					
Search and display advertising	61%	65%	69%		
Subscriber-based	39	35	31		
Total revenue	100%	100%	100%		

In 2010 our revenue increased by $5.4 million, or 9%, to $66.2 million from $60.8 million in 2009. Search and display advertising revenue increased by $6.6 million, or 17%, to $45.9 million in 2010 from $39.3 million in 2009 as a result of increased search queries and advertising impressions on existing customers websites, as well as the launch of a significant new customer in September 2010. The total number of search queries increased by 18% in 2010, and the total number of advertising impressions increased by 14% in 2010 as compared with 2009. The increase in search queries accounted for approximately 75% of the increase in search and display advertising revenue in 2010, while the increase in advertising impressions accounted for approximately 25%. Subscriber-based revenue decreased $1.2 million, or 5%, to $20.4 million in 2010 from $21.5 million in 2009. The decrease was a result of reduced revenue of $2.0 million from existing products partially offset by increased revenue of $0.8 million from new value added services introduced after the beginning of 2009 to existing customers.

In 2009 our revenue increased by $8.2 million, or 16%, to $60.8 million from $52.6 million in 2008. Search and display advertising revenue increased by $7.1 million, or 22%, to $39.3 million in 2009 from $32.2 million in 2008 as a result of increased search queries and advertising impressions on existing customers websites. The total number of search queries increased by 22% in 2009, and the total number of advertising impressions increased by 75% in 2009. The increase in search queries accounted for approximately 38% of the increase in search and display advertising revenue, while the increase in advertising impressions accounted for approximately 62%. Subscriber-based revenue increased by $1.1 million, or 6%, to $21.5 million in 2009 from $20.4 million in 2008. Approximately $0.6 million of the increase resulted from the launch of new customer websites, and approximately $0.5 million resulted from the launch of new products with existing customers.

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Cost of Revenue

	Year Ended December 31,			2008 to 2009% Change	2009 to 2010% Change
	2008	2009 (in thousands)	2010		
Cost of revenue	$ 28,575	$ 34,074	$ 36,703	19%	8%
Percentage of revenue	54%	56%	55%		

Our cost of revenue increased by $2.6 million, or 8%, to $36.7 million in 2010 from $34.1 million in 2009, in part because greater search and display advertising on our platform led to additional revenue-sharing costs, which grew by $3.8 million in 2010. This was partially offset by a decline in our content acquisition costs of $1.4 million. Cost of revenue as a percentage of revenue declined to 55% of revenue in 2010 from 56% of revenue in 2009. This reduction in cost of revenue as a percentage of revenue was the result of a change in customer mix.

Our cost of revenue increased by $5.5 million, or 19%, to $34.1 million in 2009 from $28.6 million in 2008, in part because greater search and display advertising on our platform led to additional revenue-sharing costs, which grew by $5.6 million in 2009. In addition, our content acquisition costs increased $0.5 million in 2009. Cost of revenue in 2008 included $0.6 million of one-time expenses related to the move of a data center from Buffalo, New York to Atlanta, Georgia. The increase in cost of revenue as a percent of revenue was the result of changes in search and display advertising revenue attributable to the mix of customers with revenue-sharing arrangements partially offset by relocation of a data center.

Research and Development Expenses

	Year Ended December 31,			2008 to 2009% Change	2009 to 2010% Change
	2008	2009 (in thousands)	2010		
Research and development	$ 12,783	$ 13,627	$ 18,494	7%	36%
Percentage of revenue	24%	22%	28%		

Research and development expenses increased by $4.9 million, or 36%, to $18.5 million in 2010 from $13.6 million in 2009. The increase was primarily due to a $3.6 million increase in employee-related costs as a result of the increase in headcount as we added personnel to support new product initiatives and anticipated customer deployments in 2010 and 2011. The remaining increase includes $0.5 million for contractors, $0.4 million for supplies and $0.3 million for travel related costs.

Research and development expenses increased by $0.8 million, or 7%, to $13.6 million in 2009 from $12.8 million in 2008. The increase was due to a $0.8 million increase in employee-related costs as a result of additions to headcount to support new product initiatives and anticipated customer deployments.

Sales and Marketing Expenses

	Year Ended December 31,			2008 to 2009% Change	2009 to 2010% Change
	2008	2009 (in thousands)	2010		
Sales and marketing	$ 5,732	$ 5,591	$ 6,211	(2)%	11%
Percentage of revenue	11%	9%	9%		

Sales and marketing expenses increased by $0.6 million, or 11%, to $6.2 million in 2010 from $5.6 million in 2009. The increase included $0.3 million of additional sales commissions and additional payments to contractors and $0.1 million of additional travel-related expense.

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Sales and marketing expenses decreased by $0.1 million, or 2%, to $5.6 million in 2009 from $5.7 million in 2008. The decrease included a $0.2 million decline in payments to contractors, a $0.2 million decline in public relation services and a $0.1 million decline in trade show attendance costs. These decreases were partially offset by $0.4 million increase in employee related costs as a result of the increase in headcount.

General and Administrative Expenses

	Year Ended December 31,			2008 to 2009% Change	2009 to 2010% Change
	2008	2009	2010		
		(in thousands)			
General and administrative	$ 4,997				