Synacor, Inc.
Form 10-Q
November 14, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2017

OR

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

Commission File Number 001-33843

Synacor, Inc.

(Exact name of registrant as specified in its charter)

Delaware	16-1542712
(State or other jurisdiction of incorporation)	(I.R.S. Employer Identification No.)

40 La Riviere Drive, Suite 300 14202

Buffalo, New York
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (716) 853-1362

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

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

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of November 10, 2017, there were 38,686,068 shares of the registrant's common stock outstanding.

SYNACOR, INC. AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SYNACOR, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS - UNAUDITED
AS OF SEPTEMBER 30, 2017 AND DECEMBER 31, 2016
(In thousands except for share and per share data)

	September 30, 2017	December 31, 2016
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 22,932	$ 14,315
Accounts receivable, net of allowance of $70 and $263, respectively	20,453	27,386
Prepaid expenses and other current assets	6,583	4,862
Total current assets	49,968	46,563
PROPERTY AND EQUIPMENT, net	20,749	14,406
GOODWILL	15,956	15,943
INTANGIBLE ASSETS, net	13,230	14,837
OTHER LONG-TERM ASSETS	802	1,650
Total assets	$ 100,705	$ 93,399
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 17,791	$ 18,769
Accrued expenses and other current liabilities	8,126	11,684
Current portion of deferred revenue	11,005	12,149
Current portion of capital lease obligations	2,479	982
Total current liabilities	39,401	43,584
LONG-TERM PORTION OF CAPITAL LEASE OBLIGATIONS	3,981	1,014
DEFERRED REVENUE	2,981	3,917
LONG-TERM DEBT	—	5,000
OTHER LONG-TERM LIABILITIES	428	235
Total liabilities	46,791	53,750
COMMITMENTS AND CONTINGENCIES (Note 8)		
STOCKHOLDERS' EQUITY:		
Preferred stock – par value $0.01 per share; authorized 10,000,000 shares; none issued	—	—
Common stock – par value $0.01 per share; authorized 100,000,000 shares; 39,451,256 shares issued and 38,635,883 shares outstanding at September 30, 2017 and 31,626,635 shares issued and 30,881,148 shares	395	316

outstanding at December 31, 2016		
Treasury stock – at cost, 815,373 shares at September 30, 2017 and 745,487 shares at December 31, 2016	(1,664)	(1,547)
Additional paid-in capital	141,700	117,747
Accumulated deficit	(86,521)	(76,850)
Accumulated other comprehensive income (loss)	4	(17)
Total stockholders' equity	53,914	39,649
Total liabilities and stockholders' equity	$ 100,705	$ 93,399

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

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SYNACOR, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS - UNAUDITED
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016
(In thousands except for share and per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
REVENUE	$36,269	$31,721	$94,025	$92,457
COSTS AND OPERATING EXPENSES:				
Cost of revenue (exclusive of depreciation and amortization shown separately below)	17,620	14,611	44,644	41,099
Technology and development (exclusive of depreciation and amortization shown separately below)	6,748	6,791	20,950	19,255
Sales and marketing	6,179	5,907	19,025	17,177
General and administrative (exclusive of depreciation and amortization shown separately below)	4,495	4,871	12,820	15,027
Depreciation and amortization	2,596	2,414	7,004	6,782
Total costs and operating expenses	37,638	34,594	104,443	99,340
LOSS FROM OPERATIONS	(1,369)	(2,873)	(10,418)	(6,883)
GAIN ON SALE OF INVESTMENT	1,902	—	1,902	—
OTHER INCOME (EXPENSE)	99	(38)	172	206
INTEREST EXPENSE	(127)	(75)	(328)	(227)
INCOME (LOSS) BEFORE INCOME TAXES	505	(2,986)	(8,672)	(6,904)
INCOME TAX PROVISION	244	379	999	783
NET INCOME (LOSS)	$261	$(3,365)	$(9,671)	$(7,687)
NET INCOME (LOSS) PER SHARE:				
Basic	$0.01	$(0.11)	$(0.27)	$(0.26)
Diluted	$0.01	$(0.11)	$(0.27)	$(0.26)
WEIGHTED AVERAGE SHARES USED TO COMPUTE NET INCOME (LOSS) PER SHARE:				
Basic	38,471,377	30,260,172	35,590,563	30,108,725
Diluted	39,940,790	30,260,172	35,590,563	30,108,725

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

SYNACOR, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS – UNAUDITED
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016
(In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income (loss)	$261	$(3,365)	$(9,671)	$(7,687)
Other comprehensive income:				
Changes in foreign currency translation adjustment	(23)	112	21	(19)
Comprehensive income (loss)	$238	$(3,253)	$(9,650)	$(7,706)

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

SYNACOR, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS - UNAUDITED
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016
(In thousands)

	Nine Months Ended September 30,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(9,671)	$(7,687)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	7,004	6,782
Capitalized software impairment	256	—
Stock-based compensation expense	1,928	2,104
Gain on sale of long-term investment	(1,902)	—
Provision for deferred income taxes	197	—
Increase in estimated value of contingent consideration	107	90
Changes in operating assets and liabilities, net of effect of acquisition:		
Accounts receivable, net	6,933	5,313
Prepaid expenses and other assets	(1,646)	(1,282)
Accounts payable	(1,668)	1,842
Accrued expenses and other liabilities	(2,369)	1,245
Deferred revenue	(2,080)	(1,696)
Net cash (used in) provided by operating activities	(2,911)	6,711
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from the sale of investment	2,645	—
Purchases of property and equipment	(5,774)	(4,246)
Acquisition	—	(2,500)
Net cash used in investing activities	(3,129)	(6,746)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from offering of common stock, net of underwriting costs	20,258	—
Payments of public offering issuance costs	(212)	—
Repayments of long-term debt	(5,000)	—
Repayments on capital lease obligations	(914)	(1,242)
Proceeds from exercise of common stock options	1,942	744
Treasury stock shares received to satisfy minimum withholding liabilities	(117)	(128)
Deferred acquisition payments	(1,300)	—
Net cash provided by (used in) financing activities	14,657	(626)
Effect of exchange rate changes on cash and cash equivalents	—	(8)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	8,617	(669)
Cash and cash equivalents, beginning of period	14,315	15,697
Cash and cash equivalents, end of period	$22,932	$15,028
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest	$328	$247
Cash paid for income taxes	$572	$439
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING		

TRANSACTIONS:		
Non-cash proceeds from sale investment	$257	$—
Liability for estimated additional acquisition consideration	$—	$567
Property, equipment and service center contracts financed under capital lease	$5,832	$982
Minimum capital lease payments in accounts payable	$454	$—
Accrued property and equipment expenditures	$462	$463
Stock-based compensation capitalized to property and equipment	$116	$142

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

SYNACOR, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

AS OF SEPTEMBER 30, 2017 AND DECEMBER 31, 2016, AND

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016

1. The Company and Summary of Significant Accounting Principles

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

Basis of Presentation —

The interim unaudited condensed consolidated financial statements and accompanying notes have been prepared in accordance with United States generally accepted accounting principles ("U.S. GAAP") and include the accounts of the Company and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. In the opinion of the Company's management, the interim unaudited condensed consolidated financial statements include all adjustments, which include only normal recurring adjustments, necessary for the fair presentation of the Company's financial position for the periods presented. These interim unaudited condensed consolidated financial statements are not necessarily indicative of the results expected for the full fiscal year or for any subsequent period.

The accompanying condensed consolidated balance sheet as of December 31, 2016 was derived from the audited financial statements as of that date, but does not include all the information and footnotes required by U.S. GAAP. These financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

Accounting Estimates —

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

Concentrations of Risk —

As of September 30, 2017 and December 31, 2016, the Company had concentrations equal to or exceeding 10% of the Company's accounts receivable as follows:

	Accounts Receivable	
	September 30, 2017	December 31, 2016
Google advertising affiliate	17 %	*
Google search	9 %	*
Advertising customer	14 %	*

* - Less than 10%

For the three and nine months ended September 30, 2017 and 2016, the Company had concentrations equal to or exceeding 10% of the Company's revenue as follows:

	Revenue			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Google search	17 %	10 %	15 %	14 %
Google advertising affiliate	22 %	*	19 %	*

* - Less than 10%

For the three and nine months ended September 30, 2017 and 2016, the following customers received revenue-share payments equal to or exceeding 10% of the Company's cost of revenue:

	Cost of Revenue			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Customer A	11%	22 %	13%	26 %
Customer B	27%	*	16%	*
Customer C	*	*	*	10 %

* - Less than 10%

Recent Accounting Pronouncements —

Not Yet Adopted

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09 (ASU 2014-09), Revenue from Contracts with Customers. ASU 2014-09 supersedes the revenue recognition requirements in "Revenue Recognition (Topic 605)" and requires an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. In August 2015, the FASB issued ASU 2015-14 Revenue from Contracts with Customers: Deferral of the Effective Date, which deferred the effective date of ASU 2014-09 to annual reporting periods beginning after December 15, 2017, with earlier application permitted as of annual reporting periods beginning after December 15, 2016. In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net), to clarify the implementation guidance on principal versus agent. In April 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, providing additional guidance relating to identifying performance obligations under ASU 2014-09 as well as licensing.

The Company is currently in the process of assessing the financial impact of adopting these ASUs and the methods of adoption. The Company currently recognizes subscription license revenue from its Email/Collaboration contracts, which is included within recurring and fee-based revenue, over the life of the contracts (which are typically six months or longer). The Company has concluded that the new guidance will require significantly expanded revenue disclosures, and has tentatively concluded that it is likely that this new guidance will require it to recognize a portion of the revenue from those license contracts upon delivery, at the inception of the contracts, which would have the effect of accelerating recognition of revenue on such contracts, and may have a material impact on the Company's consolidated financial statements. The standard will be effective for the Company beginning January 1, 2018. The Company will adopt the standard as of its effective date of January 1, 2018. The guidance permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (the cumulative catch-up transition method). The Company has decided to use the latter method.

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

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

Recently Adopted

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

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

2. Stock Offering

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

3. Acquisitions

In August 2015, the Company and Zimbra, Inc. (now known as "TZ Holdings") entered into an agreement under which the Company acquired certain assets relating to TZ Holdings' email/collaboration products and services business, including certain of its wholly-owned foreign subsidiaries, for cash consideration of $17.3 million, 2.4 million shares of common stock and warrants to purchase 480,000 shares of common stock (collectively valued at $3.2 million). The Company held back an additional 600,000 shares of common stock and warrants to purchase an additional 120,000 shares of common stock (collectively valued at $0.8 million at the acquisition date) to secure TZ Holdings' indemnification obligations including pending claims. The held back common shares and warrants were released to TZ holdings in March 2017. The warrants expire on September 14, 2018.

Additionally, TZ Holdings was eligible to receive cash consideration of up to $2.0 million (the "Earn-Out Consideration") upon the satisfaction of certain business performance milestones following the closing of the transaction, subject to and contingent upon any reduction to satisfy indemnification claims including pending claims. The acquisition date fair value of this contingent consideration was estimated to be $1.6 million. The Company paid $0.9 million of the Earn-Out Consideration to TZ Holdings in November 2016, and the Company paid the remaining $0.7 million of the Earn-Out Consideration in May 2017.

In connection with the Company's February 2016 acquisition of Technorati, the Company withheld $0.5 million of the purchase price to secure Technorati's indemnification obligations under the Asset Purchase Agreement, and the Company owed approximately $0.1 million in post-closing working capital adjustments. These amounts were paid in March 2017.

4. Goodwill and Other Intangible Assets

The change in goodwill is as follows for the nine months ended September 30, 2017 and 2016 (in thousands):

	Nine Months Ended September 30,	
	2017	2016
Balance – beginning of period	$15,943	$15,187
Acquisition of Technorati	—	751
Effect of foreign currency translation	13	11
Balance – end of period	$15,956	$15,949

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Intangible assets consisted of the following (in thousands):

	September 30, 2017	December 31, 2016
Customer and publisher relationships	$ 14,780	$ 14,780
Technology	2,330	2,330
Trademark	300	300
	17,410	17,410
Less accumulated amortization	(4,180)	(2,573)
Intangible assets, net	$ 13,230	$ 14,837

Amortization of intangible assets totaled $0.6 million and $0.5 million for the three months ended September 30, 2017 and 2016, respectively, and $1.6 million and $1.5 million for the nine months ended September 30, 2017 and 2016, respectively.

5. Property and Equipment – Net

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

	September 30, 2017	December 31, 2016
Computer equipment (1)	$ 28,782	$ 23,438
Computer software	18,075	15,198
Furniture and fixtures	2,601	2,062
Leasehold improvements	1,638	1,463
Work in process (primarily software development costs)	7,468	4,572
Other	126	249
	58,690	46,982
Less accumulated depreciation (2)	(37,941)	(32,576)
Property and equipment, net	$ 20,749	$ 14,406

Notes:

(1) Includes equipment and software held under capital leases of $11.1 million and $5.2 million as of September 30, 2017 and December 31, 2016, respectively.

(2) Includes $4.6 million and $3.4 million of accumulated depreciation of equipment under capital leases as of September 30, 2017 and December 31, 2016, respectively.

Depreciation expense totaled $2.1 million and $1.9 million for the three months ended September 30, 2017 and 2016, respectively, and $5.4 million and $5.3 million, for the nine months ended September 30, 2017 and 2016, respectively.

6. Accrued Expenses and Other Current Liabilities

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

	September 30, 2017	December 31, 2016
Accrued compensation	$ 4,429	$ 6,860
Accrued content fees	1,289	1,788
Accrued business acquisition consideration	—	1,193
Other	2,408	1,843
Total	$ 8,126	$ 11,684

7. Information About Segment and Geographic Areas

Operating segments are components of the Company in which separate financial information is available that is evaluated regularly by the Company’s chief operating decision maker in deciding how to allocate resources and in assessing performance. The chief operating decision maker for the Company is the Chief Executive Officer. The Chief Executive Officer reviews financial information presented on a total company basis, accompanied by information about revenue by major service line for purposes of allocating resources and evaluating financial performance. Profitability measures by service line are not prepared or used. The Company

has one business activity and there are no segment managers who are held accountable for operations, operating results or plans for levels or components below the company level. Accordingly, the Company has determined that it has a single reporting segment and operating unit structure.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenue:				
United States	$30,742	$27,169	$77,600	$79,787
International	5,527	4,552	16,425	12,670
Total revenue	$36,269	$31,721	$94,025	$92,457

	September 30, 2017	December 31, 2016
Long-lived tangible assets:		
United States	$ 19,952	$ 13,519
Canada	526	573
Other international	271	314
Total long-lived tangible assets	$ 20,749	$ 14,406

8. Commitments and Contingencies

Contract Commitments —

The Company is obligated to make minimum payments under various contracts with vendors and other business partners, principally for revenue-share and content arrangements. Contract commitments as of September 30, 2017 are as follows (in thousands):

Year ending December 31,	
2017 (remaining - three months)	$225
2018	900
2019	900
2020	300
Total	$2,325

Capital Lease Commitments —

Capital lease commitments for the remainder of 2017 and for the following three years as of September 30, 2017 are summarized as follows (in thousands):

Years Ending December 31,	Capital Lease Commitments
2017 (three months remaining)	$ 719
2018	2,712
2019	2,351
2020	1,152
Total minimum capital lease commitments	6,934
Less-amount representing interest	474
Total capital lease obligations	6,460
Less-current portion of capital lease obligations	2,479
Long-term portion of capital lease obligations	$ 3,981

Litigation —

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

9. Stock-based Compensation

The Company has stock-based employee compensation plans for which compensation cost is recognized in its financial statements. The cost is measured at the grant date, based on the fair value of the award, determined using the Black-Scholes option pricing model, and is recognized as an expense over the employee's requisite service period (generally the vesting period of the equity award).

No income tax deduction is allowed for incentive stock options ("ISOs"). Accordingly, no deferred income tax asset is recorded for the potential tax deduction related to these options. Expense related to stock option grants of non-qualified stock options ("NSOs") results in a temporary difference, which gives rise to a deferred tax asset.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Technology and development	$190	$238	$604	$681
Sales and marketing	142	173	500	604
General and administrative	273	269	824	819
Total stock-based compensation expense	$605	$680	$1,928	$2,104

Stock Option Activity – A summary of the stock option activity for the nine months ended September 30, 2017 is presented below:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2017	8,756,174	$ 2.53		
Granted	1,486,400	3.21		
Exercised	(858,438)	2.24		
Forfeited or expired	(678,005)	3.64		
Outstanding at September 30, 2017	8,706,131	$ 2.59	7.16	$ 3,267
Vested and expected to vest at September 30, 2017	8,380,530	$ 2.58	7.09	$ 3,173
Vested and exercisable at September 30, 2017	4,959,229	$ 2.59	6.13	$ 1,934

Aggregate intrinsic value represents the difference between the Company’s closing stock price of its common stock and the exercise price of outstanding, in-the-money options. The Company’s closing stock price as reported on the Nasdaq Global Market as of September 30, 2017 was $2.70 per share. The total intrinsic value of options exercised for the nine months ended September 30, 2017 was $1.0 million. The weighted average fair value of options issued during the nine months ended September 30, 2017 amounted to $1.55 per option share.

As of September 30, 2017, the unrecognized compensation cost related to non-vested options granted, for which vesting is probable, and adjusted for estimated forfeitures, was approximately $4.4 million. This cost is expected to be recognized over a weighted-average period of 2.6 years. The total fair value of shares vested was $1.5 million for the nine months ended September 30, 2017.

In addition, the Company may, from time to time, grant Restricted Stock Units (“RSUs”) to its employees. A summary of RSU activity for the nine months ended September 30, 2017 is presented below:

	Number of Shares	Weighted Average Fair Value
Unvested—January 1, 2017	319,889	$ 2.71
Granted	—	—
Released	(174,236)	2.51
Forfeited	(18,427)	2.96
Unvested—September 30, 2017	127,226	$ 2.95
Unvested expected to vest—September 30, 2017	123,975	$ 2.93

10. Net Income (Loss) Per Common Share Data

Basic net income (loss) per share is computed using the weighted-average number of common shares outstanding during the period. Diluted net income (loss) per share is computed using the weighted-average number of common shares and, if dilutive, potential common shares outstanding during the period. The Company's potential common shares consist of the incremental common shares issuable upon the exercise of stock options, and to a lesser extent, shares issuable upon the release of RSUs. The dilutive effect of these potential common shares is reflected in diluted earnings per share by application of the treasury stock method.

Stock options, warrants and RSUs are not included in the calculation of diluted net loss per share for the nine months ended September 30, 2017 and for the three and nine months ended September 30, 2016 because the Company had a net loss for those periods. The inclusion of these equity awards would have had an antidilutive effect on the calculation of diluted loss per share. As such, the Company's calculations of basic and diluted net loss per share are identical.

The following table presents the calculation of basic and diluted net income (loss) per share for the three and nine months ended September 30, 2017 and 2016:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Basic net income (loss) per share:				
Numerator:				
Net income (loss) (in thousands)	$261	$(3,365)	$(9,671)	$(7,687)
Denominator:				
Weighted average common shares outstanding	38,471,377	30,260,172	35,590,563	30,108,725
Basic net income (loss) per share	$0.01	$(0.11)	$(0.27)	$(0.26)
Diluted net income (loss) per share:				
Numerator:				
Net income (loss) (in thousands)	$261	$(3,365)	$(9,671)	$(7,687)
Denominator:				
Weighted average common shares outstanding - basic	38,471,377	30,260,172	35,590,563	30,108,725
Add - potentially dilutive securities (options, RSUs and warrants)	1,469,413	—	—	—
Weighted average common shares outstanding - diluted	39,940,790	30,260,172	35,590,563	30,108,725
Diluted net income (loss) per share	$0.01	$(0.11)	$(0.27)	$(0.26)

The following securities were excluded from the calculation of diluted net loss per share because their effect would have been anti-dilutive for the periods presented:

	Three Months Ended	Nine Months Ended

	September 30,		September 30,	
	2017	2016	2017	2016
Anti-dilutive equity awards:				
Stock options and Restricted Stock Units	2,393,118	9,664,771	8,833,357	9,664,771
Warrants	—	480,000	600,000	480,000

11. Sale of Investment

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

During the three months ended September 30, 2017, B&FF was acquired by accesso Technology Group, plc, a U.K. public company, and the Company received, in connection with the sale of its investment in B&FF, cash consideration of $2.2 million and stock in the acquiring company valued at approximately $0.4 million. This stock was sold in September 2017 for $0.5 million. In addition, the Company stands to receive contingent consideration of cash and stock totaling approximately $0.5 million, which was held back to secure B&FF's indemnification obligations under the purchase and sale agreement. These amounts have been valued at approximately $0.3 million, and may be received after the 18-month indemnification period expires. The Company recorded a gain on sale of investment totaling $1.9 million in the three months ended September 30, 2017.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This quarterly report on Form 10-Q contains "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. In addition, we may make other written and oral communications from time to time that contain such statements. Forward-looking statements include statements as to industry trends and future expectations of ours and other matters that do not relate strictly to historical facts. These statements are often identified by the use of words such as "may," "expect," "believe," "anticipate," "intend," "could," "estimate," or "continue," ar expressions or variations. These statements are based on the beliefs and assumptions of our management based on information currently available to management. Such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. These forward-looking statements include statements in this Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations." Factors that could cause or contribute to such differences include, but are not limited to, those discussed in the section titled "Risk Factors" included elsewhere in this Form 10-Q and in our other Securities and Exchange Commission filings, including our Annual Report on Form 10-K for the fiscal year ended December 31, 2016. Furthermore, such forward-looking statements speak only as of the date of this report. We undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the condensed consolidated financial statements and related notes thereto appearing elsewhere in this Form 10-Q and with the consolidated financial statements and notes thereto and management's discussion and analysis of financial condition and results of operations appearing in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

Our Business

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

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

Overview

We generate search and digital advertising revenue from consumer traffic on our Managed Portals and Advertising solutions, which we collect from our search partner, Google Inc., or Google, our advertising network providers and directly from advertisers. We typically share a portion of this Managed Portals and Advertising revenue with our customers. Growth in this portion of our business is dependent on expansion of relationships with our existing customers and new customers adopting our Managed Portals and Advertising solutions and increased engagement by their consumers with these solutions.

We also generate revenue from our Recurring and Fee-Based Revenue solutions for the use of our technology, email and messaging, premium services and paid content. We generate this revenue in the form of licensing fees including perpetual licenses, subscription licenses, maintenance and support fees and professional services. As we expand our Cloud ID, syndicated content, Email/Collaboration and other premium services offerings, we expect to generate increased Recurring and Fee-Based revenue from our customers.

During the three months ended September 30, 2017, Managed Portals and Advertising revenue was $22.7 million, an increase of 22% as compared to $18.5 million for the three months ended September 30, 2016. During the nine months ended September 30, 2017, Managed Portals and Advertising revenue was $54.2 million, an increase of 2% as compared to $53.3 million for the nine months ended September 30, 2016.

Search revenue increased by $2.8 million, or 87%, for the three months ended September 30, 2017 compared to the same period in 2016, due to search revenue attributable to the AT&T Portal (including personal computers, smartphones and tablets), which was fully deployed by the end of the second quarter of 2017, offset partially by the effects of ongoing migration of search activity at other portal customers from personal computers to other devices, such as tablets and smartphones, generally across the consumer base, and the residual effect of the placement of our Managed Portals and Advertising solutions on the second tab of the default Windows 8 and Windows 10 internet browsers. Search revenue increased by $1.2 million, or 10%, for the nine months ended September 30, 2017 as compared to the same period in 2016, which is principally attributable to the AT&T Portal, deployed during the second quarter of 2017, offset partially by the effects of the migration of search activity at other customers from personal computers to other devices and the residual effect of the placement of our Managed Portals and Advertising solutions on the second tab of the default Windows 8 and Windows 10 internet browsers.

Digital advertising revenue increased by $1.3 million, or 9%, during the three months ended September 30, 2017 as compared to the same period in 2016, and decreased by $0.3 million, or 1%, during the nine months ended September 30, 2017 as compared to the same period in 2016. The third quarter increase in digital advertising revenue was driven by advertising on the AT&T Portal and higher syndicated advertising revenue, partially offset by lower average contractual rates for advertising and general softness in digital advertising demand. The nine-month decrease was attributable to lower average contractual rates for advertising and lower digital advertising demand, nearly offset by advertising on the AT&T Portal and increased syndicated advertising revenue.

We expect that both search and digital advertising activity and revenue will increase in future quarters due to our three-year portal services contract with AT&T Services, Inc., or AT&T, to provide Managed Portals and Advertising solutions (including the AT&T Portal) for use by AT&T's consumers. We entered into the portal services contract with AT&T in May 2016, we completed deployment of the AT&T Portal in June 2017, and we expect to see increasing search and digital advertising revenue as monetization of the AT&T Portal is optimized. In addition, we expect a future increase of search activity on smartphones and tablets as we believe our continuing investment in our next-generation Managed Portals and Advertising solutions will allow us to compete more effectively for search activity on smartphones and tablets.

Our Recurring and Fee-Based revenue consists of fees charged for the use of our proprietary technology and for the use of, or access to, services, such as e-mail and messaging, security, Cloud ID, online games, music and other premium services and paid content. For the three months ended September 30, 2017, Recurring and Fee-Based revenue was $13.6 million, an increase of $0.4 million, or 3%, compared to the same period in 2016, and for the nine months ended September 30, 2017, Recurring and Fee-Based revenue was $39.8 million, an increase of $0.7 million, or 2%, compared to the same period in 2016. These increases were primarily attributable to increased Cloud ID licensing revenue and increased professional services revenue, offset by decreased portal value added services, the effects of the transition of e-mail customers from perpetual to subscription license revenue, and a decrease in hosted email services revenue.

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

Revenue attributable to our customers includes the Recurring and Fee-Based revenue earned directly from them, as well as the Managed Portals and Advertising revenue generated through our relationships with our search and digital

advertising partners (such as Google for search advertising and advertising networks, advertising agencies and advertisers for digital advertising). This revenue is attributable to our customers because it is produced from the traffic on our Managed Portals. These search and advertising partners provide us with advertisements that we then deliver with search results and other content on our Managed Portals. Since our search advertising partner, Google, and our advertising network partners generate their revenue by selling those advertisements, we create a revenue stream for these partners. In the three and nine months ended September 30, 2017, search advertising through our relationship with Google generated $6.1 million and $14.0 million, or approximately 17% and 15% of our revenue, respectively (all of which was attributable to our customers). For the three months ended September 30, 2017, Managed Portals and Advertising solutions and other services attributable to one customer accounted for 25% of our revenue, and for the nine months ended September 30, 2017, Managed Portals and Advertising solutions and other services attributable to two customers accounted for 26% of our revenue.

The initiatives described below under "Key Initiatives" are expected to contribute to our ability to maintain and grow revenue and return to operating profitability via increases in advertising revenue, increases in customers and our consumer reach, and increases in availability of products across more devices. We expect the period in which we experience a return on future investments in each of these initiatives to differ. For example, more direct advertising at higher rates would be expected to have an immediate and direct impact on profitability while expansion into international markets may require an investment that involves a longer term return.

Key Initiatives

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

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

Key Business Metric

In addition to the line items in our financial statements, we review the number of Multiplatform Unique Visitors to evaluate our business, determine the allocation of resources and make decisions regarding business strategies. Following the acquisition of the Technorati media solutions platform in February 2016, our Multiplatform Unique Visitors metric includes the number of multiplatform unique visitors through our advertising network. We believe disclosing this metric is useful for investors and analysts to understand the underlying trends in our business. The following table reflects the number of multiplatform unique visitors for the three and nine months ended September 30, 2017 and 2016:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Multiplatform Unique Visitors	197,228,519	197,521,552	198,797,791	185,111,519

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

Components of our Results of Operations

Revenue

We derive our revenue from two categories: revenue generated from search and digital advertising activities and Recurring and Fee-Based revenue, each of which is described below. The following table shows the revenue in each

category, both in amount and as a percentage of revenue, for the three and nine months ended September 30, 2017 and 2016:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(in thousands)		(in thousands)	
Revenue:				
Search and digital advertising	$22,674	$18,511	$54,188	$53,312
Recurring and fee-based	13,595	13,210	39,837	39,145
Total revenue	$36,269	$31,721	$94,025	$92,457
Percentage of Revenue:				
Search and digital advertising	63 %	58 %	58 %	58 %
Recurring and fee-based	37 %	42 %	42 %	42 %
Total revenue	100 %	100 %	100 %	100 %

Search and Digital Advertising Revenue

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

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

Recurring and Fee-Based Revenue

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

Revenue is also recognized from the licensing and distribution of our Email/Collaboration products and services, including perpetual licenses. Revenue from perpetual licenses is recognized upon execution of the contract, and when all other criteria have been met.

Costs and Expenses

Cost of Revenue

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

Technology and Development

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

Sales and Marketing

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

General and Administrative

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

Depreciation and Amortization

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

Gain on Sale of Investment

Gain on sale of investment represents cash and non-cash proceeds from the Company's sale of its investment in Blazer & Flip Flops (doing business as The Experience Engine) in excess of the recorded cost of the investment.

Other Income (Expense)

Other income (expense) consists primarily of foreign currency transaction gains and losses, and interest income earned.

Interest Expense

Interest expense consists of interest on capital leases and outstanding bank borrowings, if any.

Provision for Income Taxes

Income tax provision consists of federal and state income taxes in the United States and taxes in certain foreign jurisdictions, as well as any changes to deferred tax assets or liabilities, and deferred tax valuation allowances. Our income tax provision also includes amounts withheld for payment of income taxes upon payment of our invoices by our customers in certain foreign jurisdictions. Those amounts increase the amount of our foreign tax credit which would defray our U.S. tax liability if we were presently a U.S. taxpayer. However, because the deferred income tax assets relating to our federal tax attributes, including our foreign tax credits, are fully reserved, any such foreign tax withholdings are charged to our income tax provision. Such amounts paid may be carried forward to offset future federal income tax liabilities for a period of ten years. Finally, we record a deferred income tax provision to reflect the recognition of deferred tax liabilities relating to goodwill and certain intangible assets that cannot be predicted to reverse for book purposes during our loss carry-forward periods.

Critical Accounting Policies and Estimates

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

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

For a discussion of our critical accounting policies and estimates, see “Critical Accounting Policies and Estimates” included in our Annual Report on Form 10-K for the year ended December 31, 2016 under the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” We have made no significant changes to our critical accounting policies and estimates from those described in our Annual Report on Form 10-K for the year ended December 31, 2016.

Adjusted EBITDA

To provide investors with additional information regarding our financial results, we have disclosed within this Quarterly Report on Form 10-Q adjusted EBITDA, a non-GAAP financial measure. We define adjusted EBITDA as net income (loss) plus: provision (benefit) for income taxes, interest expense, other (income) expense, gains on sale of investment, depreciation and amortization, asset impairments, stock-based compensation, acquisition costs and certain one-time items. 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 Quarterly Report on Form 10-Q because it is a key measure used by our management and board of directors to understand and evaluate our core operating performance and trends, to prepare and approve our annual budget and to develop short- and long-term operational plans. In particular, the exclusion of certain expenses in calculating adjusted EBITDA can provide a useful measure for period-to-period comparisons of our core business. Additionally, adjusted EBITDA is a key financial measure used by the compensation committee of our board of directors in connection with the payment of bonuses to our executive officers. Accordingly, we believe that adjusted EBITDA provides useful information to investors and others in understanding and evaluating our operating results in the same manner as our management and board of directors.

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

- although depreciation and amortization and asset impairments are non-cash charges, the assets being depreciated, amortized or impaired may have to be replaced in the future, and adjusted EBITDA does not reflect capital expenditure requirements for such replacements or for new capital expenditure requirements;
- adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- adjusted EBITDA does not consider the potentially dilutive impact of equity compensation;
- adjusted EBITDA does not reflect the impact of tax payments that may represent a reduction in cash available to us;
- adjusted EBITDA does not reflect the impact of the cost of business acquisitions on the cash available to us;
- adjusted EBITDA does not reflect the impact of non-recurring items, such as the costs associated with reductions in workforce, on the cash available to us: and
- other companies, including companies in our industry, may calculate adjusted EBITDA differently, which reduces its usefulness as a comparative measure.

Because of these limitations, you should consider adjusted EBITDA alongside other financial performance measures, including various cash flow metrics, net 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:

	Three Months Ended September 30,	Nine Months Ended September 30,