

Synacor, Inc.
Form 10-Q
May 15, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2012

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)

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Delaware
(State or other jurisdiction of
incorporation or organization)
40 La Riviere Drive, Suite 300
Buffalo, New York
(Address of principal executive offices)

16-1542712
(I.R.S. Employer
Identification No.)

14202
(Zip Code)

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

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 or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer

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

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

As of April 12, 2012, there were 26,880,005 shares of the registrant's common stock outstanding. All share and per share amounts in this Quarterly Report on Form 10-Q reflect the 1-for-2 reverse stock split of the registrant's common stock which took effect immediately prior to the effectiveness of the registration statement for the registrant's initial public offering.

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Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****Synacor, Inc.****CONDENSED CONSOLIDATED BALANCE SHEETS UNAUDITED****AS OF DECEMBER 31, 2011 AND MARCH 31, 2012****(In thousands except for share and per share data)**

	December 31, 2011	March 31, 2012
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 10,925	\$ 33,120
Accounts receivable net of allowance of \$25 and \$25	14,336	15,117
Deferred income taxes	3,534	3,433
Prepaid expenses and other current assets	1,811	2,600
Total current assets	30,606	54,270
PROPERTY AND EQUIPMENT Net	8,301	10,387
DEFERRED INCOME TAXES, NON-CURRENT	2,549	2,255
OTHER LONG-TERM ASSETS	1,926	765
GOODWILL		819
TOTAL ASSETS	\$ 43,382	\$ 68,496
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 12,498	\$ 12,368
Accrued expenses and other current liabilities	5,492	3,749
Current portion of bank financing	250	125
Current portion of capital lease obligations	1,593	2,338
Total current liabilities	19,833	18,580
LONG-TERM PORTION OF CAPITAL LEASE OBLIGATIONS	2,098	3,294
OTHER LONG-TERM LIABILITIES	71	604
Total liabilities	22,002	22,478
COMMITMENTS AND CONTINGENCIES (Note 7)		
STOCKHOLDERS EQUITY:		
Common stock, \$0.01 par value 30,000,000 shares authorized, 3,052,856 issued and 2,733,356 outstanding at December 31, 2011, and 100,000,000 authorized, 27,197,264 issued and 26,877,764 shares outstanding at March 31, 2012	31	272
Preferred stock, \$0.01 par value 10,000,000 shares authorized, no shares issued and outstanding at March 31, 2012		
Convertible preferred stock, \$0.01 par value Series A, 5,709,638 shares authorized and 5,548,508 shares issued and outstanding at December 31, 2011, and no shares authorized, issued and outstanding at March 31, 2012	5,077	

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Convertible preferred stock, \$0.01 par value Series A-1, 570,344 shares authorized and 570,344 shares issued and outstanding at December 31, 2011, and no shares authorized, issued and outstanding at March 31, 2012	730	
Convertible preferred stock, \$0.01 par value Series B, 3,500,000 shares authorized, 2,737,500 shares issued and outstanding at December 31, 2011, and no shares authorized, issued and outstanding at March 31, 2012	5,401	
Convertible preferred stock, \$0.01 par value Series C, 2,740,407 shares authorized, 2,740,407 shares issued and outstanding at December 31, 2011, and no shares authorized, issued and outstanding at March 31, 2012	17,224	
Treasury stock at cost, 319,500 shares at December 31, 2011 and March 31, 2012	(569)	(569)
Additional paid-in capital	45,639	97,294
Accumulated deficit	(52,153)	(50,979)
 Total stockholders' equity	 21,380	 46,018
 TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	 \$ 43,382	 \$ 68,496

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

Table of Contents**SYNACOR, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME UNAUDITED****FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2012****(In thousands except for share and per share data)**

	Three Months Ended March 31,	
	2011	2012
REVENUE	\$ 18,694	\$ 30,670
COSTS AND OPERATING EXPENSES:		
Cost of revenue (exclusive of depreciation shown separately below)	9,980	16,764
Research and development (exclusive of depreciation shown separately below)	4,602	6,288
Sales and marketing	1,796	2,377
General and administrative (exclusive of depreciation shown separately below)	1,551	2,840
Depreciation	620	781
Total costs and operating expenses	18,549	29,050
INCOME FROM OPERATIONS	145	1,620
OTHER INCOME	1	
INTEREST EXPENSE	(32)	(47)
INCOME BEFORE INCOME TAXES	114	1,573
PROVISION FOR INCOME TAXES	3	399
NET INCOME	111	1,174
COMPREHENSIVE INCOME	111	1,174
UNDISTRIBUTED EARNINGS ALLOCATED TO PREFERRED STOCKHOLDERS	101	
NET INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS	\$ 10	\$ 1,174
NET INCOME PER SHARE ATTRIBUTABLE TO COMMON STOCKHOLDERS:		
Basic	\$ 0.01	\$ 0.07
Diluted	\$	\$ 0.04
WEIGHTED AVERAGE SHARES USED TO COMPUTE NET INCOME PER SHARE ATTRIBUTABLE TO COMMON STOCKHOLDERS:		
Basic	1,929,909	16,603,579
Diluted	22,211,922	26,778,455

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

Table of Contents**SYNACOR, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS UNAUDITED****FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2012****(In thousands)**

	Three Months Ended March 31,	
	2011	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 111	\$ 1,174
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	620	781
Stock-based compensation expense	222	558
Deferred income taxes		395
Change in assets and liabilities, net of effect of acquisition:		
Accounts receivable, net	(981)	(781)
Prepaid expenses and other current assets	16	(534)
Other long-term assets	(503)	123
Accounts payable	1,481	236
Accrued expenses and other current liabilities	(590)	(1,232)
Other long-term liabilities	(9)	33
Net cash provided by operating activities	367	753
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(230)	(879)
Cash paid for business acquisition		(600)
Net cash used in investing activities	(230)	(1,479)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment on bank financing	(125)	(125)
Repayments on capital lease obligations	(628)	(402)
Proceeds from exercise of common stock options	14	559
Proceeds from initial public offering		25,364
Initial public offering costs		(2,475)
Net cash (used in) provided by financing activities	(739)	22,921
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(602)	22,195
CASH AND CASH EQUIVALENTS Beginning of period	5,412	10,925
CASH AND CASH EQUIVALENTS End of period	\$ 4,810	\$ 33,120
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest	\$ 32	\$ 47
Cash paid for income taxes		27
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING TRANSACTIONS:		

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Property and equipment acquired under capital lease obligations	\$	\$ 2,343
Accrued business acquisition consideration		500
Accrued initial public offering costs		278
Accrued property and equipment expenditures	496	122

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

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SYNACOR, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED

AS OF DECEMBER 31, 2011 AND MARCH 31, 2012, AND

FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2012

(In thousands except for share and per share data)

1. The Company and Summary of Significant Accounting Policies

Synacor, Inc. and its wholly-owned subsidiary, Synacor Canada Inc. (collectively, the Company), is a leading provider of authentication and aggregation solutions for delivery of online content and services. The Company delivers solutions as a set of services through its 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. The Company's platform allows its customers to package a wide array of online content and services with their high-speed Internet, communications, television and other offerings. Synacor's customers offer the Company's services under their own brands on Internet-enabled devices such as PCs, tablets, smartphones and connected TVs.

Initial Public Offering In February 2012, the Company completed its initial public offering whereby 6,818,170 shares of common stock were sold to the public at a price of \$5.00 per share. The Company sold 5,454,545 common shares and selling stockholders sold 1,363,625 common shares. The Company received aggregate proceeds of \$25,364 from the initial public offering, net of underwriters' discounts and commissions but before deducting offering expenses of \$3,016.

In connection with the initial public offering in February 2012, the Board of Directors of the Company approved a 1-for-2 reverse stock split of the Company's common stock. All common shares, stock options, and per share information presented in these condensed consolidated financial statements reflect the reverse stock split.