

Synacor, Inc.  
Form 10-Q  
November 09, 2018

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, 2018

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-33843

Synacor, Inc.

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of incorporation)

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

40 La Riviere Drive, Suite 300                      14202

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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 every Interactive Data File required to be submitted 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 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	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 2, 2018, there were 39,000,303 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, 2018 AND DECEMBER 31, 2017

(In thousands except for share and per share data)

	September 30, 2018	December 31, 2017
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 15,685	\$ 22,476
Accounts receivable, net of allowance of \$217 and \$99, respectively	21,180	31,696
Prepaid expenses and other current assets	5,131	4,516
Total current assets	41,996	58,688
PROPERTY AND EQUIPMENT, net	19,748	20,505
GOODWILL	15,950	15,955
INTANGIBLE ASSETS, net	11,088	12,695
OTHER ASSETS	598	937
Total assets	\$ 89,380	\$ 108,780
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 17,220	\$ 25,931
Accrued expenses and other current liabilities	6,589	7,075
Current portion of deferred revenue	7,481	11,605
Current portion of capital lease obligations	2,376	2,444
Total current liabilities	33,666	47,055
LONG-TERM PORTION OF CAPITAL LEASE OBLIGATIONS	1,668	3,371
DEFERRED REVENUE	2,594	3,682
DEFERRED INCOME TAXES	85	264
OTHER LONG-TERM LIABILITIES	151	63
Total liabilities	38,164	54,435
<b>COMMITMENTS AND CONTINGENCIES (Note 8)</b>		
<b>STOCKHOLDERS' EQUITY:</b>		
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;	393	396

39,826,640 shares issued and 38,977,760 shares outstanding at

September 30, 2018 and 39,625,980 shares issued and 38,783,760 shares

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outstanding at December 31, 2017

Treasury stock – at cost, 848,880 shares at September 30, 2018 and 842,220		
shares at December 31, 2017	(1,893 )	(1,881 )
Additional paid-in capital	144,334	142,486
Accumulated deficit	(91,348 )	(86,627 )
Accumulated other comprehensive loss	(270 )	(29 )
Total stockholders' equity	51,216	54,345
Total liabilities and stockholders' equity	\$ 89,380	\$ 108,780

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

## SYNACOR, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS - UNAUDITED  
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017

(In thousands except for share and per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
REVENUE	\$35,643	\$36,269	\$104,481	\$94,025
COSTS AND OPERATING EXPENSES:				
Cost of revenue (exclusive of depreciation and amortization  shown separately below)	18,186	17,620	51,659	44,644
Technology and development (exclusive of depreciation and  amortization shown separately below)	6,017	6,748	18,773	20,950
Sales and marketing	5,667	6,179	18,507	19,025
General and administrative (exclusive of depreciation and  amortization shown separately below)	5,279	4,495	14,616	12,820
Depreciation and amortization	2,437	2,596	7,316	7,004
Total costs and operating expenses	37,586	37,638	110,871	104,443
LOSS FROM OPERATIONS	(1,943 )	(1,369 )	(6,390 )	(10,418 )
GAIN ON SALE OF INVESTMENT	—	1,902	—	1,902
OTHER (EXPENSE) INCOME	(32 )	99	(46 )	172
INTEREST EXPENSE	(80 )	(127 )	(265 )	(328 )
(LOSS) INCOME BEFORE INCOME TAXES	(2,055 )	505	(6,701 )	(8,672 )
INCOME TAX PROVISION	165	244	478	999
NET (LOSS) INCOME	\$(2,220 )	\$261	\$(7,179 )	\$(9,671 )
NET (LOSS) INCOME PER SHARE:				
Basic	\$(0.06 )	\$0.01	\$(0.18 )	\$(0.27 )
Diluted	\$(0.06 )	\$0.01	\$(0.18 )	\$(0.27 )
WEIGHTED AVERAGE SHARES USED TO COMPUTE NET				
(LOSS) INCOME PER SHARE:				
Basic	38,951,558	38,471,377	38,856,836	35,590,563
Diluted	38,951,558	39,940,790	38,856,836	35,590,563

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



SYNACOR, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS)  
 INCOME – UNAUDITED  
 FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017  
 (In thousands)

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
Net (loss) income	\$(2,220)	\$261	\$(7,179)	\$(9,671)
Other comprehensive (loss) income:				
Changes in foreign currency translation adjustment	(66 )	(23 )	(241 )	21
Comprehensive (loss) income	\$(2,286)	\$238	\$(7,420)	\$(9,650)

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, 2018 AND 2017

(In thousands)

	Nine Months Ended September 30, 2018      2017	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$(7,179 )	\$(9,671 )
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	7,316	7,004
Capitalized software impairment	—	256
Stock-based compensation expense	1,451	1,928
Gain on sale of long-term investment	—	(1,902 )
Provision for deferred income taxes	(179 )	197
Change in allowance for doubtful accounts	118	—
Increase in estimated value of contingent consideration	—	107
Changes in operating assets and liabilities:		
Accounts receivable, net	10,398	6,933
Prepaid expenses and other assets	(291 )	(1,646 )
Accounts payable	(8,284 )	(1,668 )
Accrued expenses and other liabilities	(398 )	(2,369 )
Deferred revenue	(2,756 )	(2,080 )
Net cash provided by (used in) operating activities	196	(2,911 )
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from the sale of investment	—	2,645
Purchases of property and equipment	(5,271 )	(5,774 )
Net cash used in investing activities	(5,271 )	(3,129 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
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	(1,811 )	(914 )
Proceeds from exercise of common stock options	341	1,942
Treasury stock received to satisfy minimum withholding liabilities	(12 )	(117 )
Deferred acquisition payments	—	(1,300 )
Net cash (used in) provided by financing activities	(1,482 )	14,657
Effect of exchange rate changes on cash and cash equivalents	(234 )	—
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(6,791 )</b>	<b>8,617</b>
Cash and cash equivalents, beginning of period	22,476	14,315
Cash and cash equivalents, end of period	\$15,685	\$22,932
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
Cash paid for interest	\$250	\$328
Cash paid for income taxes	\$293	\$572
<b>SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING</b>		

TRANSACTIONS:

Non-cash proceeds from sale investment	\$—	\$257
Property, equipment and service center contracts financed under capital lease	\$—	\$5,832
Minimum capital lease payments in accounts payable	\$—	\$454
Accrued property and equipment expenditures	\$142	\$462
Stock-based compensation capitalized to property and equipment	\$53	\$116

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, 2018 AND DECEMBER 31, 2017, AND

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017

#### 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, 2017 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, 2017.

#### 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, 2018 and December 31, 2017, the Company had concentrations equal to or exceeding 10% of the Company’s accounts receivable as follows:

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	Accounts Receivable			
	September			
	30, 2018		December 31, 2017	
Google advertising affiliate	*		16	%
Google search	7	%	7	%
Advertising customer	10	%	12	%

\* - Less than 10%

For the three months and nine months ended September 30, 2018 and 2017, the Company had concentrations equal to or exceeding 10% of the Company's revenue as follows:

	Revenue			
	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
	2018	2017	2018	2017
Google search	14%	17 %	14%	15 %
Google advertising affiliate	10%	22 %	12%	19 %

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For the three months and nine months ended September 30, 2018 and 2017, 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, 2018		Nine Months Ended September 30, 2017	
Customer A	*	11 %	*	13 %
Customer B	21 %	27 %	25 %	16 %
* - Less than 10%				

Recent Accounting Pronouncements —

Not Yet Adopted

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, Leases (Topic 842) which amends lease account