Synacor, Inc.
Form S-1/A
October 30, 2007

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As filed with the Securities and Exchange Commission on October 30, 2007.

Registration No. 333-145077

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

AMENDMENT NO. 3
TO
Form S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

SYNACOR, INC.
(Exact Name of Registrant as Specified in its Charter)

Delaware	**7389**	**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)

Ron 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)

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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. o

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. o

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. o

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. o

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	**Proposed Maximum Aggregate Offering Price (1) (2)**	**Amount of Registration Fee (3)**
Common stock, par value $0.01 per share	$ 86,250,000	$ 2,648

(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) A registration fee of $2,648 was paid at the time of the initial filing of the registration statement based on an estimate of the aggregate offering price.

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 preliminary 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 declared effective. This preliminary 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, Dated October 30, 2007

Synacor, Inc.

Shares
Common Stock

This is the initial public offering of Synacor, Inc. We are offering shares of our common stock. We anticipate that the initial public offering price will be between $ and $ per share. We have applied to list our common stock on The Nasdaq Global Market under the symbol SYNC.

Investing in our common stock involves risk. See Risk Factors beginning on page 8.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

	Per Share	Total
Public offering price	$	$
Underwriting discounts and commissions	$	$
Proceeds, before expenses, to Synacor, Inc.	$	$

The underwriters expect to deliver the shares of our common stock to investors in New York, New York on or about , 2007.

We have granted the underwriters the right to purchase up to additional shares of common stock to cover over-allotments.

Deutsche Bank Securities **Bear, Stearns & Co. Inc.**

Thomas Weisel Partners LLC

Canaccord Adams

Montgomery & Co.

The date of this prospectus is , 2007.

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 consolidated financial statements and related notes, before making an investment decision. Unless the context otherwise requires, we use the terms Synacor, the company, we, u and our in this prospectus to refer to Synacor, Inc. and its subsidiaries and predecessor entities on a consolidated basis.

Our Business

We provide an Internet platform and a portfolio of digital content and services that enable broadband service providers to create a compelling online experience for their subscribers. Our platform is used to create customized Internet portals and includes integration infrastructure, subscriber personalization capabilities, a content management and delivery system and a customer-branded video player and toolbar. Our platform also aggregates free and paid digital content and value-added services, including video, from third-party providers to create a customized and branded Internet portal solution. We deliver a seamless subscriber experience by integrating these services and products with existing customer billing and management systems, thereby allowing our customers to extend their brands and enhance their subscriber relationships. We believe our solution assists our customers in promoting subscriber retention, increasing average revenue per user, or ARPU, and cultivating new revenue streams.

Our customers primarily consist of providers of high-speed Internet access, or broadband service providers, such as cable television multi-system operators, or MSOs, telecommunications operators, or Telcos, and independent Internet service providers, or ISPs. Our customers include, among others, Charter Communications, Inc., EarthLink, Inc., Embarq Corporation, Time Warner Cable Inc., United Online, Inc. and Virgin Media Limited. Based on our own internal estimates, we believe that, as of March 31, 2007, our customers had over 21.0 million broadband Internet subscribers, over 5.0 million narrowband Internet subscribers and over 33.0 million household television subscribers in the United States and the United Kingdom.

We have an extensive network of relationships with digital content and service providers. By combining our technology platform with our portfolio of digital content and services, we enable our customers to flexibly package content and services for their subscribers, which allows them to differentiate their brand and respond to changing subscriber needs. Our content providers include, among others, CinemaNow, CNN, Encyclopedia Britannica, Fox Sports Interactive Media, MLB Advanced Media, MusicNet, Inc. and NASCAR.

We generate subscriber-based revenues from the provision of our technology platform, value-added services and paid content. By using Internet search and advertising technologies, we also generate revenues from subscribers usage of our customers websites, which we refer to as traffic. We have a revenue-sharing relationship with Google, Inc., or Google, that allows us to monetize search activity that takes place on our customers portals, and we work with several advertising networks to monetize traffic generated by our customers portals with display and other forms of non-search advertising.

Our Industry

The Internet has emerged as a global digital medium for content, communications, advertising and commerce. According to International Data Corporation, or IDC, the number of households with Internet access in 2006 was approximately 72.3 million in the United States and 306.7 million globally. IDC estimates that the number of broadband Internet subscribers in the United States will increase from 56.3 million in 2006 to 91.5 million in 2011,

while the total

number of broadband subscribers globally will increase from 232.7 million in 2006 to 386.6 million in 2011.

The growth of the Internet has also led to increasing demand for digital content and services. According to Frost & Sullivan Limited, or Frost & Sullivan, the U.S. residential online paid content and services market, which includes music, online games and video, is projected to grow from $3.1 billion in 2006 to $8.8 billion in 2011. As digital media consumption, commerce and overall usage grow across the Internet, advertisers are also shifting a greater proportion of their marketing budgets online. According to IDC, online advertising spending in the United States is projected to increase from $16.9 billion in 2006 to $31.4 billion by 2011.

Against this backdrop, there is an emerging trend towards convergence of digital media within the residence. Consumers are increasingly using their home networks to access multimedia, such as streaming video, music and online content, from multiple platforms, including personal computers, stereos, home theater systems and a variety of Internet-enabled networked devices. IDC forecasts that the number of network-enabled video devices, one of the key building blocks of this digital home, will grow from 1.6 million units in the United States in 2006 to 45.3 million units in 2011, for a compound annual growth rate, or CAGR, of 96%.

As usage of the Internet continues to grow, the broadband access market has become increasingly competitive due to the commoditization of Internet access, pricing pressure, evolving consumer demand and the advent of competing new access technologies. MSOs and Telcos are competing directly with each other by packaging broadband Internet access with other services, such as fixed-line voice, television and mobile communications. At the same time, Internet media and technology companies such as AOL LLC, Google, Microsoft Corporation and Yahoo! Inc. are competing with MSOs, Telcos and ISPs for consumer loyalty and spending. To retain subscribers in this competitive environment, broadband service providers are seeking to evolve from providers of basic voice, television and Internet access services to integrated providers of digital content and service offerings.

To maintain and grow their subscriber bases and effectively compete in the current environment, broadband service providers are seeking to provide a differentiated solution in particular, compelling digital content and value-added online services that can help promote subscriber retention and increase their ARPU. Providing online content and services, however, has not traditionally been a focus of broadband service providers, and many have not developed the expertise required to provide a seamless user experience integrating a broad range of online offerings. Constantly changing subscriber needs and tastes and rapidly evolving technology, coupled with the difficulty of delivering a digital media experience, create technical and management challenges for companies seeking to deliver these offerings. Broadband service providers are also challenged to extend and strengthen their brand beyond the core Internet access market.

Our Solution

We provide an Internet platform and a portfolio of digital content and services that enable broadband service providers to create a compelling online experience for their subscribers. Our solution provides our customers with the following key benefits:

Differentiation of Broadband Service Providers Offerings. Our platform enables broadband service providers, both domestic and international, to differentiate their offerings by packaging and customizing a wide variety of free and paid digital content and value-added services for their subscribers. Our platform also includes a comprehensive content management and delivery solution that enables our customers to aggregate and deliver content and service offerings from diverse sources.

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Access to a Diverse Portfolio of Digital Content and Services. We have an extensive network of relationships with content and service providers and aggregated a broad portfolio of digital content and services. Using our platform, we and our customers can flexibly package such content and services and make them available to their subscribers.

Ability to Integrate Different Technologies. We integrate our platform with our customers internal systems, which allows subscribers to access third-party content from within the customer-branded portal with a single sign-on and consolidated billing.

Focus and Expertise in Delivering Services and Content. We are singularly focused on developing an Internet platform and providing a portfolio of digital content and services for our customers. The size of our customer base, together with their associated subscriber footprint, and the depth of our technology expertise provide us with the ability to continually develop and refine our solutions in a way that may not be feasible for many of our customers on a stand-alone basis.

Support for Online Branding Strategies of Broadband Service Providers. Our solution is a white label solution that features the customer s brand and not ours. Unlike co-branded solutions, where the solution provider could have different or competing objectives and could seek to promote its own brand, we focus solely on strengthening our customers relationship with their subscribers.

Enhanced Customer Presence in the Digital Home. Our solution offers our customers the ability to extend their presence in the digital home by providing them with a flexible technology platform that scales across multiple devices, including personal computers, television sets, personal multimedia players and mobile phones.

Our Strategy

Our goal is to accelerate the growth of our business and to achieve long-term profitability. In order to achieve this goal, we seek to:

- Enhance our technology platform;
- Increase subscriber penetration of paid and packaged online services and products;
- Increase usage and revenue from traffic generated by our services and products;
- Broaden our customer base;
- Expand our international operations; and
- Increase support for new digital platforms and technologies.

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 8.

Some of these risks are:

- We have a limited operating history and may not be able to achieve operational or financial success;

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

Any loss of, or diminution in, our business relationship with Google could materially and adversely affect our financial performance;

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

Our business could suffer if we do not continue to obtain high-quality content at a reasonable cost;

The loss of key officers or an inability to attract and retain qualified personnel could harm our business; and

We may not effectively manage growth in our business.

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.

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. This prospectus contains additional trade names and trademarks of other companies. 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 historical and projected future broadband subscribers and usage and on-line advertising expenditures. We have derived this information from reports and analyses prepared by third-party market research firms, including the following: IDC; Frost & Sullivan; eMarketer, Inc., or eMarketer; and comScore, Inc., or comScore. We have no reason to believe that any of this information is inaccurate in any material respect; however, we are not able to independently verify this information.

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 Nasdaq Global Market symbol	SYNC

The number of shares of our common stock to be outstanding following this offering is based on 12,043,502 shares of our common stock outstanding as of June 30, 2007, which assumes the conversion of all outstanding shares of our preferred stock, but excludes:

- 180,000 restricted shares of common stock sold to our chief financial officer in April 2007 for $1.39 per share, which are subject to our right of repurchase upon termination of service;
- 2,369,161 shares of common stock issuable upon exercise of options outstanding as of June 30, 2007 at a weighted average exercise price of $1.08 per share;
- 598,292 shares of common stock issuable upon exercise of warrants outstanding as of June 30, 2007 at an exercise price of $1.17 per share;
- an aggregate of 161,941 shares of common stock reserved as of June 30, 2007 for future grants under our 2000 Stock Plan and 2006 Stock Plan and an additional 550,000 shares of common stock reserved since June 30, 2007 for future grants; and
- 1,500,000 shares of common stock reserved for future issuance under our 2007 Equity Incentive Plan and 250,000 shares of common stock reserved for issuance under our 2007 Employee Stock Purchase Plan, each of 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:

- the automatic conversion of all outstanding shares of our preferred stock into 11,596,759 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.

Summary Consolidated Financial Data

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

We derived the summary consolidated financial data for the years ended December 31, 2004, 2005 and 2006 and the six months ended June 30, 2007 and as of December 31, 2005 and 2006 and June 30, 2007 from our audited consolidated financial statements and related notes, which are included in this prospectus. The summary consolidated financial data for the six months ended June 30, 2006 are derived from our unaudited condensed consolidated financial statements and related notes included elsewhere in this prospectus. The unaudited condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and include, in the opinion of management, all adjustments, which include only normal recurring adjustments, that management considers necessary for the fair presentation of the financial information set forth in those statements. Historical results are not necessarily indicative of future results and the results for the six months ended June 30, 2007 are not necessarily indicative of the results to be expected for the year ending December 31, 2007.

	Year Ended December 31,			Six Months Ended June 30,	
	2004	2005	2006	2006	2007
				(unaudited)	
	(in thousands except share and per share data)				
Consolidated Statements of Operations Data:					
Net sales	$ 2,385	$ 14,340	$ 26,327	$ 11,823	$ 17,681
Costs and expenses:					
Cost of sales(1)	1,244	7,781	15,327	6,958	10,179
Research and development(1)(2)	1,385	2,802	4,546	2,135	3,152
Sales and marketing(2)	1,426	2,434	4,413	1,981	3,320
General and administrative(1)(2)(3)	1,072	1,892	3,933	1,668	2,287
Depreciation and amortization	191	177	465	191	577
Total costs and expenses	5,318	15,086	28,684	12,933	19,515
Loss from operations	(2,933)	(746)	(2,357)	(1,110)	(1,834)
Loss on extinguishment of debt			(32)		
Other income	27	93	279	36	330
Interest expense	(77)	(117)	(132)	(73)	(91)
Loss before income taxes	(2,983)	(770)	(2,242)	(1,147)	(1,595)
Provision for income taxes			14		9
Net loss	$ (2,983)	$ (770)	$ (2,256)	$ (1,147)	$ (1,604)
Net loss per common share, basic and diluted(4)	$ (36.27)	$ (9.20)	$ (18.83)	$ (13.10)	$ (5.93)

Weighted average number of common shares outstanding basic and diluted(4)	82,260	83,630	119,815	87,582	270,420

(1) Exclusive of depreciation and amortization shown separately.

(2) Amounts for the years ended December 31, 2004, 2005 and 2006 and for the six months ended June 30, 2006 and 2007 have been restated to appropriately allocate the expense for employee bonuses in each period to research and development, sales and marketing, and general and administrative expense. (See Note 14 to the consolidated financial statements.)

(3) Amounts for the six months ended June 30, 2007 have been restated to adjust stock-based compensation expense. (See Note 14 to the consolidated financial statements.)

(4) Amounts for the six months ended June 30, 2007 have been restated to exclude the effect of the 180,000 restricted shares of common stock sold to our chief financial officer. (See Note 14 to the consolidated financial statements.)

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The following table sets forth consolidated balance sheet data as of December 31, 2005 and 2006. The table also sets forth consolidated balance sheet data as of June 30, 2007:

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,		As of June 30, 2007		
	2005	2006	Actual	Pro Forma (unaudited)	Pro Forma As Adjusted (unaudited)
	(in thousands)				
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$ 2,721	$ 15,293	$ 12,225	$ 12,225	
Trade receivables, net	2,067	4,102	4,162	4,162	
Property and equipment, net	1,190	4,315	5,172	5,172	
Total assets	6,243	24,212	23,441	23,441	
Long-term notes payable, capital lease obligations and other long term liabilities(1)	934	1,297	2,200	2,200	
Convertible preferred stock	11,187	28,432	28,432		
Total stockholders equity(1)	2,554	17,608	16,092	16,092	

(1) Amounts as of June 30, 2007 have been restated to correct the accounting for 180,000 restricted shares of common stock sold to our chief financial officer. (See Note 14 to the consolidated financial statements.)

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 limited operating history and may not be able to achieve operational or financial success.

We have only a limited history of generating revenues, and the future revenue potential of our business is uncertain. As a result of our short operating history, we have limited financial data that can be used to evaluate our business and assess our future prospects. Any evaluation of our business and our prospects must be considered in light of our limited operating history, which may not be indicative of future performance, and the risks and uncertainties encountered by companies in our stage of development. As an early stage company, we face increased risks, uncertainties, expenses and difficulties. To address these risks and uncertainties, we must do the following:

- maintain and expand our current, and develop new, relationships with broadband service providers and other potential customers;
- maintain and expand our current, and develop new, relationships with third-party content owners;
- maintain and expand our current, and develop new, relationships with search and advertising partners;
- retain or improve our current revenue-sharing arrangements with our customers, third-party content owners and our search and advertising partners;
- continue to develop new high-quality products that achieve significant market acceptance;
- continue to develop and upgrade our technology;
- continue to enhance our information processing systems;
- increase the number of subscribers that access our content and purchase our premium offerings;
- execute our business and marketing strategies successfully;
- respond to competitive developments; and
- attract, integrate, retain and motivate qualified personnel.

We may be unable to accomplish one or more of these objectives, which could cause our business to suffer. In addition, accomplishing these objectives might be very expensive, which could adversely impact our operating results and financial condition.

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

We have incurred significant losses since inception, including a net loss of $3.0 million in 2004, a net loss of $0.8 million in 2005 and a net loss of $2.3 million in 2006. Due to increased

expenses, our net loss for the six months ended June 30, 2007 exceeded our net loss for the comparable period in 2006, and our net loss for the year ending December 31, 2007 may exceed our net loss for 2006. Our expenses will continue increasing 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 revenues do not sufficiently increase to offset these expected increases in operating expenses, we will continue to incur significant losses and will not become profitable. Our revenue growth in recent periods should not be considered indicative of our future performance. In fact, in future periods, our revenues 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, results of operations and financial condition, as well as the trading price of our common stock.

Our quarterly revenues 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 our limited operating history and the rapidly changing nature of the markets in which we compete, our quarterly revenues 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 of significant customers to renew their agreements with us;
- our ability to attract new customers;
- any failure to maintain strong relationships and favorable revenue sharing arrangements with our search and advertising partners, in particular Google;
- our ability to increase sales of value-added services and paid content to existing subscribers;
- a reduction in the quantity or pricing of sponsored links that subscribers click on;
- a reduction in the pricing of display advertisements by advertisers;
- the timing and success of new service and product introductions by us or our competitors;
- service outages, other technical difficulties or security breaches;
- limitations relating to the capacity of our networks, systems and processes;
- changes in our pricing policies or those of our competitors;
- changes in the prices our customers charge for value-added services and paid content;
- variations in the demand for our services and products and the implementation cycles of our services and products by our customers;
- our failure to accurately estimate or control costs, including costs related to the initial launch of new customers websites;
- 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 customer base 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.

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

We leverage traffic on our customers websites to generate search and advertising revenues, a substantial portion of which are 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 typically include a Google-branded search tool on customer portals. When a subscriber makes a search request using this tool, we deliver it to Google. Google returns search results to us that include advertiser-sponsored links. If the subscriber 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 revenues, which consist of the portion of the payment from the sponsor that Google shares with us, accounted for approximately 49.7% of our net sales in 2006 and 44.4% of our net sales in the six months ended June 30, 2007. Our agreement with Google, which was renewed in July 2006, expires in July 2008, unless we and Google mutually elect to renew it. If advertisers were to discontinue their usage of Internet search, if Google s revenues from search-based advertising were to decrease, if our share of Google s revenues were to be reduced, or if our agreement with Google were to be terminated for any reason or renewed on less favorable terms, our revenues could be materially and adversely affected.

Most of our customers are MSOs and Telcos, and consolidation within the cable and telecommunications industries, or migration of MSO and Telco subscribers from one broadband service provider to another, could adversely affect our business.

Our net sales from MSOs and Telcos, including our search and advertising revenue generated by the traffic on these customers websites, accounted for more than 83% of our net sales in 2006 and more than 82% of our net sales in the six months ended June 30, 2007. 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 advertising revenues. For example, in April 2006, Comcast Corporation, or Comcast, completed its acquisition of Susquehanna Communications, which subsequently ended its relationship with us as a customer in April 2007. In addition, in July 2006, Time Warner Cable Inc., or Time Warner, and Comcast announced that they completed the acquisition of substantially all of the assets of Adelphia Communications Corp., or Adelphia. In connection with the acquisition, we entered into a new agreement with Time Warner, under which we agreed that we will continue providing Adelphia subscribers who became Time Warner subscribers the same services that such subscribers had been receiving under our agreement with Adelphia prior to the acquisition. We refer to this agreement as the Adelphia legacy agreement. Our revenues from the traffic associated with the former Adelphia subscribers have, however, declined significantly and we expect revenues associated with this traffic to continue to decline or cease in the near term.

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Consolidation may also require us to reduce prices as a result of enhanced customer leverage. We may not be able to offset the effects of any price reductions, and we may not be able to expand our customer base to counter any revenue declines resulting from the loss of customers or subscribers.

MSO and Telco subscribers may become dissatisfied with their current broadband 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 a relationship, the fees that we receive on a per-subscriber basis, and the related search and advertising revenues generated by these customers websites, could decline.

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

We derive a substantial portion of our net sales from a small number of customers. For example, net sales attributable to two customers, Charter Communications Inc., or Charter, and Time Warner (pursuant to the Adelphia legacy agreement only), together accounted for approximately 53% of our net sales for the year ended December 31, 2006, with net sales attributable to each of these customers accounting for more than 20% in such period. In addition, net sales attributable to Charter, Time Warner (pursuant to the Adelphia legacy agreement only) and Embarq Corporation, or Embarq, together accounted for approximately 56% of our net sales for the six months ended June 30, 2007, with net sales attributable to two of these customers each accounting for more than 15% in such period and net sales attributable to the third customer accounting for more than 10%. Net sales attributable to these customers includes the subscriber-based revenues earned directly from them, as well as the search and advertising revenues earned from third parties, such as Google, based on traffic generated from their websites.

Our contracts with these and other customers are generally long-term contracts, with a term of approximately two to three years. If any one of these key contracts is not renewed or otherwise is terminated, or if revenues from these significant customers decline because of competitive or other reasons, our revenues would decline and our ability to achieve or sustain profitability would be impaired. In addition to loss of subscriber-based revenues, including portal and paid content sales, we would also lose significant revenues from the related search and advertising services that we provide on these customers websites. We must maintain our key customer relationships, but we cannot assure you that we will be successful in doing so.

Our agreements with some of our customers and content providers contain penalties for non-performance and fixed payments, which could limit our ability to improve 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 revenues or the loss of customers, which would have an adverse effect on our business.

Moreover, certain of our agreements with customers and content providers require us to make fixed payments to them. The aggregate amount of such fixed payments for the years ending 2007, 2008 and 2009 are approximately $7.1 million, $6.5 million and $1.6 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 affect our profitability.

Our sales cycles in contracting with new customers are long and unpredictable, which makes it difficult to project when we will obtain new customers and when we will generate additional revenues and cash flows from those customers.

We market our services and products directly to broadband service providers, including MSOs, Telcos and ISPs. New customer relationships typically take time to 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 revenues and cash flows from these potential new customers.

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 overall revenues, 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 when we promise to do so, 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 customer base 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.

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.

We depend on the continued contributions of our senior management and other key personnel, especially Ron Frankel, our chief executive officer, Eric Blachno, our chief financial officer, George Chamoun, our senior vice president, and Ross Winston, our chief technology officer. The loss of the services of any of our executive officers or other key employees could harm our business. 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. 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 are unable to attract and retain the qualified personnel we need to succeed, our business would 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 our key employees. 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, operating results and financial condition would be harmed.

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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 customers portals 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 or may increase the royalties, fees or percentages that they charge us for their content, which could have a material negative effect on our operating results. Our rights to the content that we offer to our customers and their subscribers are not exclusive, and the content providers could license their content to our competitors. Our content providers could even grant our competitors exclusive licenses. In addition, our customers are not prohibited from entering into content deals directly with our content providers. Any failure to enter into or maintain satisfactory arrangements with content providers would adversely affect our ability to provide a variety of interesting 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 revenues may also increase due to price competition.

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. Interruptions in our service could reduce our revenues and profits, and our 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, computer viruses, computer denial of service attacks or other attempts to harm our systems and similar events. 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 $1.0 million. Any system failure or disruption and any resulting losses that are not recoverable under our insurance policies may materially harm our business, operating results and financial condition.

Although we regularly back-up our systems and store these system back-ups in a site located in the greater Buffalo, New York area, we do not have full second-site redundancy. If we were forced to rely on our system back-ups, we would experience significant delays in restoring the functionality of our customers websites and could experience loss of data, which would harm our business and our operating results.

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 subscriber 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.

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 must effectively manage growth in our business.

To date, we have expanded our business through organic growth. We expect to continue to grow organically, and we may also 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 content owner and customer 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, operating results and financial condition would be harmed.

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, 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 the 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.

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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 revenues.

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.

Although we have no present understandings, commitments or agreements to pursue acquisitions of other businesses, we may decide to do so in the future. Future acquisitions could divert 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:

- 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 financial condition and operating results. Future acquisitions may also require us to obtain additional financing, which may not be available on favorable terms or at all.

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 trademark enforcement, contractual restrictions and trade secret laws to protect our proprietary rights. We have entered into confidentiality and invention assignment agreements with our employees and contractors, and nondisclosure agreements with certain parties with whom we conduct business 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. Other parties may

also independently develop similar or competing products that do not infringe upon our intellectual property rights, and that are similar or superior to our technology.

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.

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 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. As we face increasing competition, the possibility of 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 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.

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

Any unauthorized disclosure or theft of private 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 email addresses. Unauthorized disclosure of personally identifiable 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 personally identifiable information, or if a third party were to gain unauthorized access to the personally identifiable 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 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 are 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 would 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. 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.

Changes in, or interpretations of, accounting rules and regulations, including recent rules and regulations regarding expensing of stock options, could result in unfavorable accounting charges and make attracting and retaining personnel more difficult.

We prepare our financial statements to conform to accounting principles generally accepted in the United States, or GAAP. These accounting principles are subject to interpretation by the Financial Accounting Standards Board, or FASB, the Securities and Exchange Commission, or SEC, and other regulatory bodies. A change in accounting principles could have a significant effect on our reported results and might affect our reporting of transactions completed before a change is announced. For example, we have used stock options as a fundamental component of our employee compensation packages. We believe that stock options directly motivate our employees to maximize long-term stockholder value and, through the use of vesting, encourage employees to remain in our employ. Several regulatory agencies and entities have made regulatory changes that could make it more difficult or expensive for us to grant stock options to employees. For example, the FASB released Statement of Financial Accounting Standards, or SFAS 123R, Share-Based Payments, which required us to record a charge to earnings for employee stock option grants beginning in January 2006. We may, as a result of these changes, incur increased compensation costs or change our equity compensation strategy, which could make it more difficult to attract, retain and motivate employees. Any of these factors could materially and adversely affect our business, operating results and financial condition.

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 or if we disclose material weaknesses in those controls.

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 and have our independent registered public accounting firm attest to our evaluation beginning

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with our Annual Report on Form 10-K for the year ending December 31, 2008. We are in the process of preparing and implementing 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, and our independent registered public accounting firm concurs, that 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 generally accepted accounting principles, 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.

If we or our independent registered public accounting firm discover a material weakness in our internal control over financial reporting, the disclosure of that fact, even if quickly remedied, could reduce the market s confidence in our financial statements and harm our stock price.

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 The Nasdaq Global Market 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.

Completion of our initial public offering may limit our ability to use our net operating loss carryforwards.

As of December 31, 2006, we had substantial federal and state net operating loss, or NOL, carryforwards. Under the provisions of the Internal Revenue Code of 1986, as amended, substantial changes in our ownership may limit the amount of NOL carryforwards that we can utilize in the future to offset taxable income. We believe that, as a result of this initial public offering, it is possible that a change in our ownership will be deemed to have occurred. If such a change in our ownership is deemed to occur, our ability to use our NOL carryforwards in any fiscal year may be limited under these provisions.

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, 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 broadband access growth. Any downturn in the use or growth rate of the Internet or broadband 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 portion of our net sales are derived from search and advertising, so that our net sales might 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 portion of our net sales from search-based and other advertising on our customers websites. 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, our revenue might stagnate or 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 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 revenues are based on the number of paid clicks on sponsored links that are included in search results generated from our customers websites. Generally, each time a subscriber clicks on a sponsored link, the 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 and 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 may lead to a loss of revenue to our search providers and consequently to lesser fees paid to us, which could have a material negative effect on our financial results.

We cannot assure you that market prices for online advertising will not 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. Moreover, there are varying standards for the measurement of the effectiveness of Internet advertising, and no single standard may develop sufficiently to support online

advertising as a significant advertising medium. If no such standards develop, advertisers may be reluctant to transition to the Internet from conventional media.

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 primary competitors include broadband service providers with internal information technology staff capable of developing similar solutions in-house and Yahoo! Inc., or Yahoo!, InfoSpace, Inc., or InfoSpace, Ask.com, a wholly-owned business of IAC/InterActiveCorp, or Ask, Google, AOL LLC, or AOL, and MSN, a division of Microsoft Corporation, or Microsoft. Advantages of some of our existing and potential competitors over us include the following:

- significantly greater revenues 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 MSOs, Telcos and ISPs that afford them a strong customer base;
- 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, operating results and financial condition.

Subscriber 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 news, entertainment, sports and other content that subscribers find engaging, and value-added services and paid content that subscribers will buy. 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 subscriber preferences, competing content providers and portals and the availability of other news, entertainment, sports and other services and content. If our services and content are not responsive to the requirements of our customers or the preferences of their subscribers, or the services and content are not brought to market in a timely and effective manner, our business, operating results and financial condition 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 subscribers could cause a decline in our services and content s popularity that could materially reduce our revenues and harm our business, results of operations and financial condition.

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 of laws related to the Internet could harm our business, operating results and financial condition 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 is intended to reduce the liability of online service providers of third-party content, including content that may infringe copyrights or rights of others. The Children s Online Privacy Protection Act 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.

Laws and regulations regarding user privacy and information security impact our business because we collect and use personal information regarding the users of our customers websites. We use this information to deliver more relevant content and services and provide subscribers with a personalized online experience. We share this information on an aggregate basis with our partners and, subject to confidentiality agreements, to prospective partners and sponsors.

Laws such as the CAN-SPAM Act of 2003 or other user privacy or security laws could restrict our and our customers ability to market products to their subscribers, create uncertainty in Internet usage and reduce the demand for our services and products or require us to redesign our customers Internet portals.

We could find it 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

subscribers 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. Even though we believe we meet the safe harbor requirements of the Digital Millennium Copyright Act, we could be exposed to copyright actions, which could be costly and time-consuming to defend.

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.

Risks Related to this Offering and Ownership of Our Common Stock

Our existing stockholders will continue to 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 over-allotment option 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 June 30, 2007, upon completion of this offering, we will have outstanding shares of common stock (or shares if the underwriters exercise their over-allotment option in full). Of these shares, only the shares of common stock sold in this offering will be immediately freely tradable, without restriction, in the public market, except for those shares held by affiliates, as that term is defined in Rule 144 under the Securities Act of 1933, as amended, or the Securities Act.

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

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period through the date that is 180 days after the date of this prospectus, except with the prior written consent of Deutsche Bank Securities Inc. In addition, substantially all of the holders 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 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 release earnings results 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 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 release of the earnings results or material news or the occurrence of a material event relating to us.

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 Securities and Exchange Commission, or SEC, up to 11,671,891 shares 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 2007 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 at least 50.1% 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;

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 of 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 of 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 that we will receive from this offering, including for working capital, possible acquisitions and other general corporate purposes. We cannot specify with certainty the actual uses of the net proceeds that we will receive from 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 and financial condition.

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 book value as of June 30, 2007 was $16.1 million, or approximately $1.34 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 12,043,502 shares of common stock outstanding 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 or warrants are exercised, additional dilution will occur. As of June 30, 2007, options to purchase 2,369,161 shares of our common stock with a weighted average exercise price of approximately $1.08 per share were outstanding. In addition, as of the date of this prospectus, warrants to purchase an aggregate of 598,292 shares of our common stock with an exercise price of $1.17 were outstanding. Exercise of these options and warrants will result in additional dilution to purchasers of our common stock in this offering. Additionally, as of June 30, 2007, 180,000 restricted shares of common stock sold to our chief financial officer in April 2007 for $1.39 per share were outstanding, and also are not included in the 12,043,052 shares indicated above.

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. We have applied to list our common stock 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

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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