

Support.com, Inc.
Form 10-Q
May 08, 2014

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

FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
For the Quarterly Period Ended March 31, 2014

OR

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

For the transition period from to

Commission File No. 000-30901

SUPPORT.COM, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware 94-3282005
(State or Other Jurisdiction of (I.R.S. Employer
Incorporation or Organization) Identification No.)

900 Chesapeake Drive, 2nd Floor
Redwood City, CA 94063

(Address of Principal Executive Offices)
(Zip Code)

Registrant's Telephone Number, Including Area Code: (650) 556-9440

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

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

Accelerated filer ☒ Non-accelerated filer ☐

Edgar Filing: Support.com, Inc. - Form 10-Q

Large accelerated filer
☐

(Do not check if a smaller reporting
company)

Smaller reporting company
☐

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

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

On April 30, 2014, 53,742,512 shares of the Registrant's Common Stock, \$0.0001 par value, were outstanding.

SUPPORT.COM, INC.

FORM 10-Q

QUARTERLY PERIOD ENDED MARCH 31, 2014

INDEX

	Page
<u>Part I. Financial Information</u>	
Item 1. <u>Financial Statements (Unaudited)</u>	3
<u>Condensed Consolidated Balance Sheets at March 31, 2014 and December 31, 2013</u>	3
<u>Condensed Consolidated Statements of Operations for the three months ended March 31, 2014 and 2013</u>	4
<u>Condensed Consolidated Statements of Comprehensive Income (Loss) for the three months ended March 31, 2014 and 2013</u>	5
<u>Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2014 and 2013</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	7
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	18
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	23
Item 4. <u>Controls and Procedures</u>	23
<u>Part II. Other Information</u>	
Item 1. <u>Legal Proceedings</u>	24
Item 1A. <u>Risk Factors</u>	24
Item 4. <u>Mine Safety Disclosures</u>	35
Item 6. <u>Exhibits</u>	35
<u>Signature</u>	36
<u>Exhibit Index</u>	37

Index

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

SUPPORT.COM, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands except share and per share data)

	March 31, 2014 (Unaudited)	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 31,609	\$28,390
Short-term investments	43,940	43,967
Accounts receivable, net	12,015	13,993
Prepaid expenses and other current assets	1,303	1,322
Total current assets	88,867	87,672
Property and equipment, net	423	461
Goodwill	14,240	14,240
Intangible assets, net	3,181	3,454
Other assets	1,114	1,072
Total assets	\$ 107,825	\$106,899
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,097	\$860
Accrued compensation	3,233	2,157
Other accrued liabilities	2,961	3,359
Short-term deferred revenue	2,985	3,323
Total current liabilities	10,276	9,699
Long-term deferred revenue	64	50
Other long-term liabilities	1,813	1,754
Total liabilities	12,153	11,503
Commitments and contingencies (Note 4)		
Stockholders' equity:		
Common stock; par value \$0.0001, 150,000,000 shares authorized; 54,651,443 issued and 53,458,845 outstanding at March 31, 2014; 54,474,594 issued and 53,281,996 outstanding at December 31, 2013	5	5
Additional paid-in capital	258,972	258,291
Treasury stock	(5,036)	(5,036)
Accumulated other comprehensive loss	(1,797)	(1,874)
Accumulated deficit	(156,472)	(155,990)
Total stockholders' equity	95,672	95,396
Total liabilities and stockholders' equity	\$ 107,825	\$106,899

See accompanying notes.

3

Index

SUPPORT.COM, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

(Unaudited)

Three Months

Ended

March 31,

2014 2013

Revenue:

Services

\$16,726 \$16,446

Software and other

1,887 3,756

Total revenue

18,613 20,202

Cost of revenue:

Cost of services

12,962 9,310

Cost of software and other

239 307

Total cost of revenue

13,201 9,617

Gross profit

5,412 10,585

Operating expenses:

Research and development

1,354 1,588

Sales and marketing

1,551 3,936

General and administrative

2,663 2,763

Amortization of intangible assets and other

273 335

Total operating expenses

5,841 8,622

Income (loss) from operations

(429) 1,963

Interest income and other, net

78 73

Income (loss) from continuing operations, before income taxes

(351) 2,036

Income tax provision

125 149

Income (loss) from continuing operations, after income taxes

(476) 1,887

Income (loss) from discontinued operations, after income taxes

(6) (5)

Net income (loss)

\$(482) \$1,882

Basic and diluted earnings per share:

Income (loss) from continuing operations

\$(0.01) \$0.04

Income (loss) from discontinued operations

(0.00) (0.00)

Basic and diluted net income (loss) per share

\$(0.01) \$0.04

Shares used in computing basic net income (loss) per share

53,313 50,085

Shares used in computing diluted net income (loss) per share

53,313 52,141

See accompanying notes.

Index

SUPPORT.COM, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands)

(Unaudited)

	Three Months Ended March 31, 2014 2013	
Net income (loss)	\$(482)	\$1,882
Other comprehensive income (loss):		
Change in foreign currency translation adjustment	69	13
Change in net unrealized gain (loss) on investments	8	(14)
Other comprehensive income (loss)	77	(1)
Comprehensive income (loss)	\$(405)	\$1,881

See accompanying notes.

5

Index

SUPPORT.COM, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	Three Months Ended March 31,	
	2014	2013
Operating Activities:		
Net income (loss)	\$(482)	\$1,882
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	72	97
Amortization of premiums and discounts on investments	239	156
Amortization of purchased technology	—	21
Amortization of intangible assets and other	273	335
Stock-based compensation	622	796
Changes in assets and liabilities:		
Accounts receivable, net	1,978	(469)
Prepaid expenses and other current assets	21	(388)
Other long-term assets	(28)	36
Accounts payable	237	621
Accrued compensation	1,078	744
Other accrued liabilities	(395)	815
Other long-term liabilities	84	74
Deferred revenue	(338)	(368)
Net cash provided by operating activities	3,361	4,352
Investing Activities:		
Purchases of property and equipment	(34)	(38)
Purchases of investments	(15,312)	(10,874)
Maturities of investments	15,108	6,481
Net cash used in investing activities	(238)	(4,431)
Financing Activities:		
Proceeds from issuances of common stock	59	3,094
Repurchase of common stock	—	(4,114)
Net cash provided by (used in) financing activities	59	(1,020)
Effect of exchange rate changes on cash and cash equivalents	37	—
Net increase (decrease) in cash and cash equivalents	3,219	(1,099)
Cash and cash equivalents at beginning of period	28,390	30,852
Cash and cash equivalents at end of period	\$31,609	\$29,753
Supplemental schedule of cash flow information:		
Income taxes paid	\$60	\$17

See accompanying notes.

Index

SUPPORT.COM, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Significant Accounting Policies

Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements include the accounts of Support.com, Inc. (the “Company”, “Support.com”, “We” or “Our”) and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated. The condensed consolidated balance sheet as of March 31, 2014 and the consolidated statements of operations and comprehensive income (loss) for the three months ended March 31, 2014 and 2013 and the consolidated statements of cash flows for the three months ended March 31, 2014 and 2013 are unaudited. In the opinion of management, these unaudited interim condensed consolidated financial statements reflect all adjustments (consisting of normal recurring adjustments) that are necessary for a fair presentation of the results for, and as of, the periods shown. The results of operations for such periods are not necessarily indicative of the results expected for the full fiscal year or for any future period. The condensed consolidated balance sheet information as of December 31, 2013 is derived from audited financial statements as of that date. These financial statements have been prepared based upon Securities and Exchange Commission (“SEC”) rules that permit reduced disclosure for interim periods. For a more complete discussion of significant accounting policies and certain other information, these unaudited interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2013, filed with the SEC on March 7, 2014.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. The accounting estimates that require management’s most significant, difficult and subjective judgments include accounting for revenue recognition, the valuation and recognition of investments, the assessment of recoverability of intangible assets and their estimated useful lives, the valuations and recognition of stock-based compensation and the recognition and measurement of current and deferred income tax assets and liabilities. Actual results could differ materially from these estimates.

Revenue Recognition

For all transactions, we recognize revenue only when all of the following criteria are met:

- Persuasive evidence of an arrangement exists;
- Delivery has occurred;
- Collection is considered probable; and
- The fees are fixed or determinable.

We consider all arrangements with payment terms longer than 90 days not to be fixed or determinable. If the fee is considered not to be fixed or determinable, revenue is recognized as payment becomes due from the customer

provided all other revenue recognition criteria have been met.

Services Revenue

Services revenue is comprised primarily of fees for technology support services. Our service programs are designed for both the consumer and small business markets, and include computer and mobile device set-up, security and support, virus and malware removal, wireless network set-up, security and support, and home security and automation system onboarding and support.

Index

We offer technology services to consumers and small businesses, primarily through our partners (which include communications providers, retailers, technology companies and others) and to a lesser degree directly through our website at www.support.com. We transact with customers via reseller programs, referral programs and direct transactions. In reseller programs, the partner generally executes the financial transactions with the customer and pays a fee to us which we recognize as revenue when the service is delivered. In referral programs, we transact with the customer directly and pay a referral fee to the referring party. Referral fees are generally expensed in the period in which revenues are recognized. In such instances, since we are the primary obligor and bear substantially all risks associated with the transaction, we record the gross amount of revenue. In direct transactions, we sell directly to the customer at the retail price.

The technology services described above include four types of offerings:

Hourly-Based Services - In connection with the provisions of certain services programs, fees are calculated based on contracted hourly rates with partners. For these programs, we recognize revenue as services are performed, based on billable hours of work delivered by our technology specialists. These services programs also include performance standards, which may result in incentives or penalties, which are recognized as earned or incurred.

Subscriptions - Customers purchase subscriptions or “service plans” under which certain services are provided over a fixed subscription period. Revenues for subscriptions are recognized ratably over the respective subscription periods.

Incident-Based Services - Customers purchase a discrete, one-time service. Revenue recognition occurs at the time of service delivery. Fees paid for services sold but not yet delivered are recorded as deferred revenue and recognized at the time of service delivery.

Service Cards / Gift Cards - Customers purchase a service card or a gift card, which entitles the cardholder to redeem a certain service at a time of their choosing. For these sales, revenue is deferred until the card has been redeemed and the service has been provided.

In certain cases, we are paid for services that are sold but not yet delivered. We initially record such balances as deferred revenue, and recognize revenue when the service has been provided or, on the non-subscription portion of these balances, when the likelihood of the service being redeemed by the customer is remote (“services breakage”). Based on our historical redemption patterns for these relationships, we believe that the likelihood of a service being delivered more than 90 days after sale is remote. We therefore recognize non-subscription deferred revenue balances older than 90 days as services revenue. For the three months ended March 31, 2014 and 2013, services breakage revenue was approximately 3% and 1% of our total revenue, respectively.

Partners are generally invoiced monthly. Fees from customers via referral programs and direct transactions are generally paid with a credit card at the time of sale. Revenue is recognized net of any applicable sales tax.

Services revenue also includes fees from implementation services of our Nexus Service Platform (“Nexus Platform”). Currently, revenues from implementation services are recognized ratably over the term of the arrangement once the Nexus Platform services are made available to customers. We generally charge for these services on a time and material basis.

We generally provide a refund period on services, during which refunds may be granted to customers under certain circumstances, including inability to resolve certain support issues. For our partnerships, the refund period varies by partner, but is generally between 5 and 14 days. For referral programs and direct transactions, the refund period is generally 5 days. For all channels, we recognize revenue net of refunds and cancellations during the period. Refunds and cancellations have not been material.

Software and Other Revenue

Software and other revenue is comprised primarily of fees for end-user software products provided through direct customer downloads and through the sale of these end-user software products via partners as well as the licensing of our Nexus Platform. Our software is sold to customers as a perpetual license or as a fixed period subscription. We act as the primary obligor and generally control fulfillment, pricing, product requirements, and collection risk and therefore we record the gross amount of revenue. We provide a 30-day money back guarantee for the majority of our end-user software products.

Index

For certain end-user software products, we sell perpetual licenses. We provide a limited amount of free technical support to customers. Since the cost of providing this free technical support is insignificant and free product enhancements are minimal and infrequent, we do not defer the recognition of revenue associated with sales of these products.

For certain of our end-user software products (principally SUPERAntiSpyware), we sell licenses for a fixed subscription period. We provide regular, significant updates over the subscription period and therefore recognize revenue for these products ratably over the subscription period.

Other revenue consists primarily of revenue generated through partners advertising to our customer base in various forms, including toolbar advertising, email marketing, and free trial offers. We recognize other revenue in the period in which our partners notify us that the revenue has been earned.

Software and other revenue also includes fees from licensing our Nexus Platform. In such arrangements, customers receive a right to use our platform in their own technology support organizations. We license the Nexus Platform using a software-as-a-service ("SaaS") model under which customers cannot take possession of the technology and pay us on a per-user per-month basis during the term of the arrangement. For the three months ended March 31, 2014 and 2013, revenue from licensing of our Nexus Platform was approximately 2% and 1%, respectively, of our total revenue.

Cash, Cash Equivalents and Investments

All liquid instruments with an original maturity at the date of purchase of 90 days or less are classified as cash equivalents. Cash equivalents and short-term investments consist primarily of money market funds, certificates of deposit, commercial paper, corporate and municipal bonds. Our interest income on cash, cash equivalents and investments is recorded monthly and reported as interest income and other in our condensed consolidated statements of operations.

Our cash equivalents and short-term investments are classified as available-for-sale, and are reported at fair value with unrealized gains/losses included in accumulated other comprehensive loss within stockholders' equity on the condensed consolidated balance sheets. We view our available-for-sale portfolio as available for use in our current operations, and therefore we present our marketable securities as short-term assets.

We monitor our investments for impairment on a quarterly basis and determine whether a decline in fair value is other-than-temporary by considering factors such as current economic and market conditions, the credit rating of the security's issuer, the length of time an investment's fair value has been below our carrying value, the Company's intent to sell the security and the Company's belief that it will not be required to sell the security before the recovery of its amortized cost. If an investment's decline in fair value is deemed to be other-than-temporary, we reduce its carrying value to its estimated fair value, as determined based on quoted market prices or liquidation values. Declines in value judged to be other-than-temporary, if any, are recorded in operations as incurred. At March 31, 2014, we evaluated our unrealized gains/losses on available-for-sale securities and determined them to be temporary. We currently do not intend to sell securities with unrealized losses and we concluded that we will not be required to sell these securities before the recovery of their amortized cost basis. At March 31, 2014 and December 31, 2013, the fair value of cash, cash equivalents and investments was \$75.5 million and \$72.4 million, respectively.

The following is a summary of cash, cash equivalents and investments at March 31, 2014 and December 31, 2013 (in thousands):

Amortized Cost	Gross Unrealized	Gross Unrealized	Fair Value
-------------------	---------------------	---------------------	---------------

Edgar Filing: Support.com, Inc. - Form 10-Q

As of March 31, 2014		Gains	Losses	
Cash	\$ 18,527	\$ -	\$ -	\$18,527
Money market funds	12,362	-	-	12,362
Certificates of deposits	4,080	-	(2)	4,078
Commercial paper	11,297	-	(2)	11,295
Corporate notes and bonds	29,291	7	(11)	29,287
	\$ 75,557	\$ 7	\$ (15)	\$75,549

Classified as:

Cash and cash equivalents	\$ 31,609	\$ -	\$ -	\$31,609
Short-term investments	43,948	7	(15)	43,940
	\$ 75,557	\$ 7	\$ (15)	\$75,549

Index

	Amortized	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
As of December 31, 2013	Cost			
Cash	\$ 15,660	\$ —	\$ —	\$15,660
Money market funds	11,771	—	—	11,771
Certificates of deposits	4,258	—	(2)	4,256
Commercial paper	7,298	—	—	7,298
Corporate notes and bonds	33,386	8	(22)	33,372
	\$ 72,373	\$ 8	\$ (24)	\$72,357

Classified as:

Cash and cash equivalents	\$ 28,390	\$ —	\$ —	\$28,390
Short-term investments	43,983	8	(24)	43,967
	\$ 72,373	\$ 8	\$ (24)	\$72,357

The following table summarizes the estimated fair value of our available-for-sale securities classified by the stated maturity date of the security (in thousands):

	March 31, 2014	December 31, 2013
Due within one year	\$41,564	\$ 34,916
Due within two years	2,376	9,051
	\$43,940	\$ 43,967

Fair Value Measurements

Accounting Standard Codification (“ASC”) 820, Fair Value Measurements and Disclosures, defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosures about fair value measurements. Fair value is defined under ASC 820 as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value ASC 820 must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value, which are the following:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Index

In accordance with ASC 820, the following table represents our fair value hierarchy for our financial assets (cash equivalents and investments) measured at fair value on a recurring basis as of March 31, 2014 and December 31, 2013 (in thousands):

	Level			
As of March 31, 2014	Level 1	Level 2	3	Total
Money market funds	\$12,362	\$—	\$	—\$12,362
Certificates of deposits	—	4,078	—	4,078
Commercial paper	—	11,295	—	11,295
Corporate notes and bonds	—	29,287	—	29,287
Municipal securities	—	—	—	—
U.S. government agency securities	—	—	—	—
Total	\$12,362	\$44,660	\$	—\$57,022

	Level			
As of December 31, 2013	Level 1	Level 2	3	Total
Money market funds	\$11,771	\$—	\$	—\$11,771
Certificates of deposits	4,256	—	—	4,256
Commercial paper	—	7,298	—	7,298
Corporate notes and bonds	—	33,372	—	33,372
Total	\$16,027	\$40,670	\$	—\$56,697

For marketable securities, measured at fair value using Level 2 inputs, we review trading activity and pricing for these investments as of the measurement date. When sufficient quoted pricing for identical securities is not available, we use market pricing and other observable market inputs for similar securities obtained from various third-party data providers. These inputs either represent quoted prices for similar assets in active markets or have been derived from observable market data. We transferred our investments in certificates of deposits from Level 1 to Level 2 during the three months ended March 31, 2014 as a result of a decrease in availability and reliability of the observable inputs utilized in the respective instruments' fair value measurement. Our policy is that the end of our quarterly reporting period determines when transfers of financial instruments between levels are recognized.

Concentrations of Credit Risk

Financial instruments that potentially subject us to concentrations of credit risk consist principally of cash equivalents, investments and trade accounts receivable. Our investment portfolio consists of investment grade securities. Except for obligations of the United States government and securities issued by agencies of the United States government, we diversify our investments by limiting our holdings with any individual issuer. We are exposed to credit risks in the event of default by the issuers to the extent of the amount recorded on the consolidated balance sheets. The credit risk in our trade accounts receivable is substantially mitigated by our evaluation of the customers' financial conditions at the time we enter into business and reasonably short payment terms.

For the three months ended March 31, 2014, Comcast (57%) and the combined Office Depot and OfficeMax organization (20%) accounted for 10% or more of our total revenue. For the three months ended March 31, 2013, Comcast (44%) and OfficeMax (12%) accounted for 10% or more of our total revenue. There were no other customers that accounted for 10% or more of total revenue for the three months ended March 31, 2014 and 2013.

The credit risk in our trade accounts receivable is substantially mitigated by our evaluation of the customers' financial conditions at the time we enter into business and reasonably short payment terms. As of March 31, 2014, Comcast (66%) and the combined Office Depot and OfficeMax organization (17%) accounted for 10% or more of our total accounts receivable. As of December 31, 2013, Comcast (78%) and the combined Office Depot and OfficeMax

organization (12%) accounted for 10% or more of our total accounts receivable. There were no other customers that accounted for 10% or more of our total accounts receivable as of March 31, 2014 and December 31, 2013.

11

Index

Trade Accounts Receivable and Allowance for Doubtful Accounts

Trade accounts receivable are recorded at the invoiced amount. We perform evaluations of our customers' financial condition and generally do not require collateral. We make judgments as to our ability to collect outstanding receivables and provide allowances for a portion of receivables when collection becomes doubtful. Reserves are made based on a specific review of all significant outstanding invoices. For those invoices not specifically provided for, reserves are recorded at differing rates, based on the age of the receivable. In determining these rates, we analyze our historical collection experience and current payment trends. The determination of past-due accounts is based on contractual terms. At March 31, 2014 and December 31, 2013, we had an allowance for doubtful accounts of \$3,000 and zero, respectively.

Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive loss relate entirely to accumulated foreign currency translation losses associated with our foreign subsidiaries and unrealized gains (losses) on investments. Accumulated currency translation losses were \$1.8 million and \$1.9 million as of March 31, 2014 and December 31, 2013, respectively, and accumulated unrealized losses on investments were \$8,000 and \$16,000 as of March 31, 2014 and December 31, 2013, respectively.

The amounts noted in the consolidated statements of comprehensive income (loss) are shown before taking into account the related income tax impact. The income tax effect allocated to each component of other comprehensive loss for each of the periods presented is not significant.

Stock-Based Compensation

We apply the provisions of ASC 718, Compensation - Stock Compensation, which requires the measurement and recognition of compensation expense for all stock-based payment awards, including grants of stock, restricted stock awards and options to purchase stock, made to employees and directors based on estimated fair values.

The fair value of our stock-based awards was estimated using the following weighted average assumptions for the three months ended March 31, 2014 and 2013:

	Stock Option Plan	Employee Stock Purchase Plan	Three Months Ended March 31,	
	2014	2013	2014	2013
Risk-free interest rate	— 0.6 %	0.1 %	0.1 %	0.1 %
Expected term (in years)	— 3.7	0.5	0.5	0.5
Volatility	— 56.5 %	53.7 %	53.6 %	53.6 %
Expected dividend	— 0 %	0 %	0 %	0 %
Weighted average grant-date fair value	—\$1.75	\$1.34	\$1.30	\$1.30

(1) The Company did not grant stock options to employees or directors during the three months ended March 31, 2014.

We recorded the following stock-based compensation expense for the three months ended March 31, 2014 and 2013 (in thousands):

	Three Months Ended March 31, 2014	2013
Stock-based compensation expense related to grants of:		
Stock options	\$336	\$657
Employee Stock Purchase Plan (“ESPP”)	29	28
Restricted stock units (“RSUs”)	257	111
	\$622	\$796
Stock-based compensation expense recognized in:		
Cost of service	\$87	\$92
Cost of software and other	3	3
Research and development	167	209
Sales and marketing	77	108
General and administrative	288	384
	\$622	\$796

12

Index

Earnings (Loss) Per Share

Basic earnings (loss) per share is computed using our net income (loss) and the weighted average number of common shares outstanding during the reporting period. Diluted earnings (loss) per share is computed using our net income (loss) and the weighted average number of common shares outstanding, including the effect of the potential issuance of common stock such as stock issuable pursuant to the exercise of stock options and vesting of RSUs using the treasury stock method when dilutive. Since we reported a net loss for the three months ended March 31, 2014, 371,000 outstanding options and RSUs were excluded from the computation of diluted loss per share since their effect would have been anti-dilutive. For the three months ended March 31, 2014 and 2013, we excluded 3.2 million and 2.6 million outstanding weighted average stock options and warrants, respectively, from the calculation of diluted earnings per common share because the exercise prices of these stock options were greater than or equal to the average market value of the common stock. These stock options could be included in the calculation in the future if the average market value of the common stock increases and is greater than the exercise price of these stock options.

The following table sets forth the computation of basic and diluted earnings (loss) per share (in thousands, except per share amounts):

	Three months ended March 31,	
	2014	2013
Net income (loss)	\$(482)	\$1,882
Basic:		
Weighted-average shares of common stock outstanding	53,313	50,085
Shares used in computing basic earnings (loss) per share	53,313	50,085
Basic earnings (loss) per share	\$(0.01)	\$0.04
Diluted:		
Weighted-average shares of common stock outstanding	53,313	50,085
Add: Common equivalent shares outstanding	-	2,056
Shares used in computing diluted earnings (loss) per share	53,313	52,141
Diluted earnings (loss) per share	\$(0.01)	\$0.04

Warranties and Indemnifications

We generally provide a refund period on sales, during which refunds may be granted to consumers under certain circumstances, including our inability to resolve certain support issues. For our partnerships, the refund period varies by partner, but is generally between 5-14 days. For referral programs and direct transactions, the refund period is generally 5 days. For the majority of our end-user software products, we provide a 30-day money back guarantee. For all channels, we recognize revenue net of refunds and cancellations during the period. Refunds and cancellations have not been material to date.

We generally agree to indemnify our customers against legal claims that our end-user software products infringe certain third-party intellectual property rights. As of March 31, 2014, we have not been required to make any payment resulting from infringement claims asserted against our customers and have not recorded any related accruals.

Recent Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2014-08 (ASU 2014-08), Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360):

Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. ASU 2014-08 raises the threshold for a disposal to qualify as a discontinued operation and requires new disclosures of both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. It is effective for annual periods beginning on or after December 15, 2014. Early adoption is permitted but only for disposals.

13

Index

Note 2. Warrants

On October 25, 2010, we entered into a Support Services Agreement (the “Customer Agreement”) with Comcast Cable Communications Management, LLC (“Comcast”) under which Support.com provides technology support services to customers of Comcast in exchange for fees. In connection with the Customer Agreement, Support.com and Comcast entered into a Warrant Agreement, under which Support.com agreed to issue to Comcast warrants to purchase up to 975,000 shares of Support.com common stock in the future in the event that Comcast meets specified sales milestones under the Customer Agreement. Each warrant, if issued, will have an exercise price per share of \$4.9498 and a term of three years from issuance. On September 27, 2011, the Company and Comcast amended the Warrant Agreement to extend the expiration date for the performance milestones while maintaining the previously agreed revenue thresholds. The warrants will be valued as they are earned, and the resulting value will be recorded as a charge against revenue in the period in which the performance milestone is met and the warrant is earned. During the third and fourth quarters of 2013, the performance milestones for the first and second tranche of warrants were met, respectively. Therefore, we issued to Comcast warrants to purchase a total of 490,000 shares of our common stock (warrants to purchase 166,000 shares were issued on September 30, 2013 and warrants to purchase 324,000 shares were issued on December 31, 2013) and recorded warrant-related charges of \$777,000 against revenue for the year ended December 31, 2013. The value of the first and second tranche of warrants was estimated using the following weighted-average assumptions: risk-free interest rate of 0.74%, expected term of 3 years, volatility of 59.12% and expected dividend of 0%. As of March 31, 2014, the performance milestones for the final tranche (warrants to purchase 485,000 shares) have not been met. Further, the right to receive this final tranche expired on March 31, 2014 due to the termination of the Customer Agreement on such date.

Note 3. Income Taxes

We recorded an income tax provision of \$125,000 and \$149,000 for the three months ended March 31, 2014 and 2013, respectively. The provision for income taxes is comprised of estimates of current taxes due in domestic and foreign jurisdictions. This provision reflects tax expense associated with state income tax, foreign taxes, and tax expense related to the recording of a deferred tax liability that results from the amortization for income tax purposes of acquisition-related goodwill.

When goodwill is amortizable for tax purposes, a deferred tax liability is recorded as the tax deduction is realized, which will not be reversed unless and until the goodwill is disposed of or impaired. We will continue to record an income tax expense related to the amortization of goodwill as part of the annual effective tax rate each quarter unless and until such disposition or impairment occurs.

As of March 31, 2014, our deferred tax assets are fully offset by a valuation allowance except in those jurisdictions where it is determined that a valuation allowance is not required. ASC 740, Income Taxes, provides for the recognition of deferred tax assets if realization of such assets is more likely than not. Based upon the weight of available evidence, which includes historical operating performance, reported cumulative net losses since inception and difficulty in accurately forecasting our future results, we provided a full valuation allowance against our net U.S. deferred tax assets and a partial valuation allowance against our foreign deferred tax assets. We reassess the need for our valuation allowance on a quarterly basis. If it is later determined that a portion or all of the valuation allowance is not required it generally will be a benefit to the income tax provision in the period such determination is made.

The Company does not anticipate a material change in the total amount or composition of its unrecognized tax benefits within 12 months of March 31, 2014.

Note 4. Commitments and Contingencies

Legal contingencies

On February 7, 2012, a lawsuit seeking class-action certification was filed against the Company in the United States District Court for the Northern District of California, No. 12-CV-00609, alleging that the design of one the Company's software products and the method of promotion to consumers constitute fraudulent inducement, breach of contract, breach of express and implied warranties, and unjust enrichment. On the same day the same plaintiffs' law firm filed another action in the United States District Court for the Southern District of New York, No. 12-CV-0963, involving similar allegations against a subsidiary of the Company and one of the Company's partners who distributes our software products, and that partner has requested indemnification under contract terms with the Company. The law firm representing the plaintiffs in both cases has filed unrelated class actions in the past year against a number of major software providers with similar allegations about those providers' products. On June 18, 2012, the Company entered into a settlement which remains subject to final court approval. Under the terms of the settlement, the Company would offer a one-time cash payment, which is covered by the Company's insurance provider, to qualified class-action members. In addition, the Company would offer a limited free subscription to one of its software products. In accordance with ASC 450, Contingencies, we have estimated and recorded a charge against earnings in general and administrative expense in the second quarter of 2012 of \$57,000 associated with the limited free software subscription. The Company denies any wrongdoing or liability and entered into the settlement to minimize the costs of defense.

Index

On April 3, 2014, LT Tech LLC filed a complaint against the Company in U.S. District Court for the Eastern District of Texas alleging infringement of United States Patent No. 6,177,932. LT Tech LLC is believed to be a non-practicing entity (“NPE”) and has filed several patent infringement lawsuits against other companies in U.S. District Court for the Eastern District of Texas and elsewhere. The Company has retained defense counsel and intends to defend against this claim. At this time, the Company believes a loss is neither probable nor estimable and based on available information regarding this litigation, the Company is unable to determine an estimate, or a range of estimates, of potential losses.

We are also subject to other routine legal proceedings, as well as demands, claims and threatened litigation, that arise in the normal course of our business, potentially including assertions that we may be infringing patents or other intellectual property rights of others. We currently do not believe that the ultimate amount of liability, if any, for such routine legal proceedings (alone or combined) will materially affect our financial position, results of operations or cash flows. The ultimate outcome of any litigation is uncertain, however, and unfavorable outcomes could have a material negative impact on our financial condition and operating results. Regardless of outcome, litigation can have an adverse impact on us because of defense costs, negative publicity, diversion of management resources and other factors.

Guarantees

We have identified guarantees in accordance with ASC 450, Contingencies. This guidance stipulates that an entity must recognize an initial liability for the fair value, or market value, of the obligation it assumes under the guarantee at the time it issues such a guarantee, and must disclose that information in its interim and annual financial statements. We have entered into various service level agreements with our partners, in which we may guarantee the maintenance of certain service level thresholds. Under some circumstances, if we do not meet these thresholds, we may be liable for certain financial costs. We evaluate costs for such guarantees under the provisions of ASC 450. We consider such factors as the degree of probability that we would be required to satisfy the liability associated with the guarantee and the ability to make a reasonable estimate of the resulting cost. During the three months ended March 31, 2014, we incurred immaterial costs as a result of such obligations. We have not accrued any liabilities related to such obligations in the condensed consolidated financial statements as of March 31, 2014 and December 31, 2013.

Note 5. Intangible Assets

Amortization of intangible assets and other for the three months ended March 31, 2014 and 2013 were \$273,000 and \$335,000, respectively.

The following table summarizes the components of intangible assets (in thousands):

	Non-competes	Partner Relationships	Customer Base	Technology Rights	Tradenames	Indefinite Life Intangibles	Total
<u>As of March 31, 2014</u>							
Gross carrying value	\$ 593	\$ 145	\$ 641	\$ 5,330	\$ 760	\$ 250	\$7,719
Accumulated amortization	(490)	(145)	(384)	(2,912)	(607)	—	(4,538)
Net carrying value	\$ 103	\$ —	\$ 257	\$ 2,418	\$ 153	\$ 250	\$3,181
<u>As of December 31, 2013</u>							
Gross carrying value	\$ 593	\$ 145	\$ 641	\$ 5,330	\$ 760	\$ 250	\$7,719
Accumulated amortization	(477)	(145)	(361)	(2,689)	(593)	—	(4,265)

Edgar Filing: Support.com, Inc. - Form 10-Q

Net carrying value	\$ 116	\$ —	\$ 280	\$ 2,641	\$ 167	\$ 250	\$3,454
--------------------	--------	------	--------	----------	--------	--------	---------

In December 2006, we acquired the use of a toll-free telephone number for cash consideration of \$250,000. This asset has an indefinite useful life.

The estimated future amortization expense of intangible assets, with the exception of the indefinite-life intangible assets as of March 31, 2014 is as follows (in thousands):

<u>Fiscal Year</u>	<u>Amount</u>
2014 (April-December)	\$ 818
2015	1,069
2016	1,028
2017	16
Total	\$ 2,931
	2.72
Weighted average remaining useful life	years

Index

Note 6. Other Accrued Liabilities

Other accrued liabilities consist of the following (in thousands):

	March 31, 2014	December 31, 2013
Accrued expenses	\$2,332	\$ 2,135
Customer deposits	370	481
Restructuring expenses	-	431
Other accrued liabilities	259	312
Total other accrued liabilities	\$2,961	\$ 3,359

Note 7. Stockholder's Equity

Stock Options

The following table represents the stock option activity for the three months ended March 31, 2014:

	Number of Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding options at December 31, 2013	5,382,391	\$ 3.55	3.66	\$ 4,039
Granted	-	\$ -		
Exercised	(25,454)	\$ 2.34		
Forfeited	(218,405)	\$ 4.21		
Outstanding options at March 31, 2014	5,138,532	\$ 3.53	2.61	\$ 455
Options vested and expected to vest	5,069,321	\$ 3.51	2.54	\$ 454
Exercisable at March 31, 2014	4,093,028	\$ 3.32	1.62	\$ 418

Index

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value that would have been received by the option holders had they all exercised their options on March 31, 2014. This amount changes based on the fair market value of our stock. During the three months ended March 31, 2014 and 2013, the aggregate intrinsic value of options exercised under our stock option plans was \$6,000 and \$2.4 million, respectively. Total fair value of options vested during the three months ended March 31, 2014 and 2013 was \$207,000 and \$471,000, respectively.

At March 31, 2014, there was \$1.5 million of unrecognized compensation cost related to existing options outstanding which is expected to be recognized over a weighted average period of 2.4 years.

On February 11, 2014, Joshua Pickus, the Company's President and Chief Executive Officer submitted his written resignation effective April 1, 2014. Also effective April 1, 2014, Mr. Pickus resigned as a member of the Company's Board of Directors. In connection with Mr. Pickus' resignation the Compensation Committee of the Board of Directors, considering all relevant factors and the best interest of the Company's stockholders, approved the extension of the post-termination exercise period for the vested portions of each of Mr. Pickus' outstanding stock option grants from 90 days following termination to December 31, 2014, in order to permit the orderly exercise and disposition of shares under his vested grants prior to their expiration. No other terms of the stock options were modified. As part of the modification of the stock options, the Company recorded an incremental stock-based compensation expense of approximately \$193,000 in the three months ended March 31, 2014.

In addition, as a result of Mr. Pickus' resignation during the three months ended March 31, 2014, the Company reversed approximately \$505,000 of previously recorded stock-based compensation expenses for his unvested performance-based equity awards.

Employee Stock Purchase Plan

In the second quarter of 2011, to advance the interests of the Company and its stockholders by providing an incentive to attract, retain and reward eligible employees and by motivating such persons to contribute to the growth and profitability of the Company, the Company's Board of Directors and stockholders approved an ESPP and reserved 1,000,000 shares of our common stock for issuance effective as of May 15, 2011. The ESPP continues in effect for ten (10) years from its effective date unless terminated earlier by the Company. The ESPP consists of six-month offering periods during which employees may enroll in the plan. The purchase price on each purchase date shall not be less than eighty five percent (85%) of the lesser of (a) the fair market value of a share of stock on the offering date of the offering period or (b) the fair market value of a share of stock on the purchase date. During the three months ended March 31, 2014, no shares were purchased under ESPP.

Restricted Stock Units

The following table represents RSU activity for the three months ended March 31, 2014:

	Number of Shares	Weighted Average Grant-Date Fair Value per Share	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding RSUs at December 31, 2013	1,658,846	\$ 5.09	1.57	\$ 6,287
Awarded	92,130	\$ 2.96		
Released	(170,895)	\$ 4.15		
Forfeited	(428,075)	\$ 4.55		
Outstanding RSUs at March 31, 2014	1,152,006	\$ 5.25	1.55	\$ 2,968

On August 5, 2013, pursuant to approval by the Company's Compensation Committee, the Company issued 725,000 RSUs to its corporate employees. These RSUs vest annually in three equal tranches over three years.

On May 23, 2013, the Board of Directors of the Company approved, based on recommendations of the Compensation Committee, a grant of 48,851 RSUs to non-employee directors based on a fair market value of \$4.70 per share which represents the closing price of the Company's common stock on the Nasdaq Global Select Market ("Nasdaq") on May 23, 2013. These RSUs vest upon the first anniversary of the grant date.

17

Index

During the first quarter of 2013, the Company's Compensation Committee approved the grant of RSUs to certain key executives. The RSUs granted to these executives included (i) 249,750 time-based RSUs that vest over a required service period of three years, and (ii) 399,750 performance-based RSUs contingent upon a required service period of three years and as well as the Company's achievement of specified annual performance targets for fiscal year 2013. We measured the grant-date fair value of the performance-based RSUs based upon the closing price of the Company's common stock on the Nasdaq as of the grant date. We expense the fair value of the performance-based RSUs that are probable of being earned based on our forecasted annual performance for fiscal year 2013.

At March 31, 2014, there was \$4.2 million of unrecognized compensation cost related to RSUs which is expected to be recognized over a weighted average period of 2.64 years.

Stock Repurchase Program

On April 27, 2005, our Board of Directors authorized the repurchase of up to 2,000,000 outstanding shares of our common stock. As of March 31, 2014 the maximum number of shares remaining that can be repurchased under this program was 1,807,402. The Company does not intend to repurchase shares without a further approval from its Board of Directors.

Repurchase of Shares

On February 19, 2013, the Company entered into an agreement with Joshua Pickus, the Company's former President and Chief Executive Officer, pursuant to which Mr. Pickus sold directly to the Company on that day an aggregate 1,000,000 shares of its common stock acquired by him in a same-day exercise of fully vested options which were due to expire at the end of their seven-year term on April 6, 2013. Under the agreement, the purchase price per share was established as an amount equal to the lesser of (a) the closing price of the Company's common stock in regular trading hours on the day of the sale as reported by Nasdaq less 5%, or (b) the thirty-day simple moving average price of the Company's common stock on the day of the sale. This formula produced a purchase price per share of \$4.114, less the aggregate strike price due on exercise of the options underlying the repurchased shares of \$2.32 per share, which then resulted in a net cash outlay by the Company to acquire the shares of approximately \$1.8 million (or \$1.794 per share). The agreement was approved by the independent members of the Company's Board of Directors. The share repurchase amounted to \$4.1 million and is classified under treasury stock within stockholders' equity of the condensed consolidated balance sheets.

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

The following discussion of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and the related notes included elsewhere in this Form 10-Q (the "Report") and the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2013. The following discussion includes forward-looking statements. Please see "Risk Factors" in Item 1A of this Report for important information to consider when evaluating these statements.

Overview

Support.com is a leading provider of cloud-based services and software that enable technology support for a connected world. Our service programs help leading brands create new revenue streams and deepen customer relationships. Our cloud-based Nexus Service Platform ("Nexus Platform") enables companies to resolve connected technology issues quickly, boost their support productivity, and dramatically improve their customer experience. We offer turnkey solutions including technology and labor and we also provide the Nexus Platform separately on a

software-as-a-service ("SaaS") basis. Support.com is the choice of leading communications providers, top retailers, and other important brands in software and connected technology.

Total revenue for the first quarter of 2014 decreased 8% year-over-year. Revenue from services increased 2% year-over-year. Revenue from software and other decreased 50% year-over-year due to a decision to discontinue our largest advertising placements in the second half of 2013 because they no longer yielded positive results, with revenue from end-user software products declining and revenue from licensing of our Nexus Platform growing.

18

Index

Cost of services for the first quarter of 2014 increased 39% year-over-year primarily as a result of the hiring of additional technology specialists for our home networking support bundle program with Comcast. Cost of software and other for the first quarter of 2014 decreased 22% year-over-year due to lower sales of end-user software products driven by our decision to discontinue our largest advertising placements in the second half of 2013. Total gross margin declined from 52% to 29% year-over-year due to a higher percentage of revenues generated by the lower margin home networking support bundle program with Comcast which replaced the higher margin Xfinity signature support program with Comcast at the end of 2013.

Operating expenses for the three months ended March 31, 2014 decreased 32% from the same period in 2013, primarily driven by lower sales and marketing expense related to end-user software products as a result of our decision to discontinue our largest advertising placements in the second half of 2013.

We intend the following discussion of our financial condition and results of operations to provide information that will assist in understanding our consolidated financial statements, the changes in certain key items in those consolidated financial statements from year to year, and the primary factors that accounted for those changes, as well as how certain accounting principles, policies and estimates affect our consolidated financial statements.

Critical Accounting Policies and Estimates

In preparing our interim condensed consolidated financial statements, we make estimates, assumptions and judgments that can have a significant impact on our net revenue, operating income or loss and net income or loss, as well as on the value of certain assets and liabilities on our condensed consolidated balance sheet. We believe that the estimates, assumptions and judgments involved in the accounting policies described in Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2013 have the greatest potential impact on our interim condensed consolidated financial statements, so we consider them to be our critical accounting policies and estimates. There have been no significant changes in these critical accounting policies and estimates during the three months ended March 31, 2014.

RESULTS OF OPERATIONS

The following table sets forth the results of operations for the three months ended March 31, 2014 and 2013 expressed as a percentage of total revenue:

	Three Months Ended March 31, 2014 2013	
Revenue:		
Services	90 %	81 %
Software and other	10	19
Total revenue	100	100
Costs of revenue:		
Cost of services	70	46
Cost of software and other	1	2
Total cost of revenue	71	48
Gross profit	29	52
Operating expenses:		
Research and development	7	8

Edgar Filing: Support.com, Inc. - Form 10-Q

Sales and marketing	8	19
General and administrative	14	14
Amortization of intangible assets and other	1	2
Total operating expenses	30	43
Income (loss) from operations	(2)	10
Interest income and other, net	—	—
Income (loss) from continuing operations, before income taxes	(2)	10
Income tax provision	1	1
Income (loss) from continuing operations, after income taxes	(3)	9
Income from discontinued operations, after income taxes	—	—
Net income (loss)	(3)%	9 %
19		

Index

Three Months Ended March 31, 2014 and 2013

REVENUE

	Three Months Ended March 31,		\$	%	
In thousands, except percentages	2014	2013	Change	Change	
Services	\$16,726	\$16,446	\$280	2	%
Software and other	1,887	3,756	(1,869)	(50)	%
Total revenue	\$18,613	\$20,202	\$(1,589)	(8)	%

Services. Services revenue consists primarily of fees for technology services generated from our partners. We provide these services remotely, generally using service delivery personnel who utilize our proprietary technology to deliver the services. Services revenue for the three months ended March 31, 2014 increased by \$280,000 from the same period in 2013. For the three months ended March 31, 2014, services revenue generated from our partnerships was \$15.6 million compared to \$15.6 million for the same period in 2013. Direct services revenue was \$1.1 million for the three months ended March 31, 2014 compared to \$850,000 for the same period in 2013.

Software and other. Software and other revenue is comprised primarily of fees for end-user software products provided through direct customer downloads, and, to a lesser extent, through the sale of this software via partners and licensing of our Nexus platform. Software and other revenue declined by 50% for the first quarter of 2014 compared to same quarter in 2013 due to a decision to discontinue our largest advertising placements in the second half of 2013. For the three months ended March 31, 2014, revenue from software and other generated from our direct sales was \$1.1 million compared to \$2.2 million for the same period in 2013. Software revenue and other generated from our partnerships was \$733,000 for the three months ended March 31, 2014 compared to \$1.5 million for the same period in 2013.

COSTS OF REVENUE

	Three Months Ended March 31,		\$	%	
In thousands, except percentages	2014	2013	Change	Change	
Cost of services	\$12,962	\$9,310	\$3,652	39	%
Cost of software and other	239	307	(68)	(22)	%
Total cost of revenue	\$13,201	\$9,617	\$3,584	37	%

Cost of services. Cost of services consists primarily of compensation and related costs of personnel and contractors providing services, and technology and telecommunication expenses associated with the delivery of services. The increase of \$3.7 million in cost of services for the three months ended March 31, 2014 compared to the same period in 2013 was mainly driven by the hiring of additional technology specialists for our home networking support bundle program with Comcast.

Index

Cost of software and other. Cost of software and other consists primarily of third-party royalty fees for our end-user software products, as well as hosting infrastructure for our Nexus Platform. Certain of these end-user software products were developed using third-party research and development resources, and the third party receives royalty payments on sales of products it developed. The decrease for the three months ended March 2014 compared to the same period in 2013 was primarily due to lower sales of end-user software products driven by our decision to discontinue our largest advertising placements in the second half of 2013.

OPERATING EXPENSES

	Three Months Ended March 31,		\$	%
In thousands, except percentages	2014	2013	Change	Change
Research and development	\$1,354	\$1,588	\$(234)	(15)%
Sales and marketing	\$1,551	\$3,936	\$(2,385	(61)%
General and administrative	\$2,663	\$2,763	\$(100	(4)%

Research and development. Research and development expense consists primarily of compensation costs, third-party consulting expenses and related overhead costs for research and development personnel. Research and development costs are expensed as they are incurred. The decrease of \$234,000 for the three months ended March 31, 2014 as compared to the same period in 2013 resulted from a decrease in compensation costs.

Sales and marketing. Sales and marketing expense consists primarily of compensation costs of business development, program management and marketing personnel, as well as expenses for lead generation and promotional activities, including public relations, advertising and marketing. The decrease of \$2.4 million in sales and marketing expense for the three months ended March 31, 2014 compared to for the same period in 2013 resulted from our decision to discontinue our largest advertising placements in the second half of 2013.

General and administrative. General and administrative expense consists primarily of compensation costs and related overhead costs for administrative personnel and professional fees for legal, accounting and other professional services. The decrease of \$100,000 in general and administrative expense for three months ended March 31, 2014 compared to the same period in 2013 was primarily related to lower stock-based compensation expense due to the resignation of the Company's President and Chief Executive Officer during the three months ended March 31, 2014.

Amortization of Intangible Assets and Other

	Three Months Ended March 31,		\$	%
In thousands, except percentages	2014	2013	Change	Change
Amortization of intangible assets and other	\$273	\$335	\$(62)	(19)%

Amortization of intangible assets and other. The decrease of \$62,000 in amortization of intangibles assets and other for the three months ended March 31, 2014 compared to the same period in 2013 was due to certain intangible assets becoming fully amortized as of the end of 2013.

INTEREST INCOME AND OTHER, NET

	Three				
	Months				
	Ended				
	March 31,	\$		%	
In thousands, except percentages	2014 2013	Change	Change		
Interest and other, net	\$78 \$ 73	\$ 5	7	%	

21

Index

INCOME TAX PROVISION

	Three Months Ended March 31,				
	2014	2013	Change		%
In thousands, except percentages					
Income tax provision	\$125	\$149	\$ (24)	(16)	%

The provision for income taxes is comprised of estimates of current taxes due in domestic and foreign jurisdictions. For the three months ended March 31, 2014 and 2013, income tax provision primarily consisted of state income tax, foreign taxes, and tax expense related to the recording of a deferred tax liability that results from the amortization for income tax purposes of acquisition-related goodwill. The decrease in the income tax provision from 2013 to 2014 was primarily due to lower domestic and foreign income.

LIQUIDITY AND CAPITAL RESOURCES

Total cash, cash equivalents and investments at March 31, 2014 and December 31, 2013 were \$75.5 million and \$72.4 million, respectively. The increase in cash, cash equivalents and investments was primarily due to cash generated from operating activities.

Operating Activities

Net cash provided by operating activities was \$3.4 million and \$4.4 million for the three months ended March 31, 2014 and 2013, respectively. Net cash provided by operating activities primarily reflected the net income (loss) for the period, adjusted for non-cash items such as depreciation, amortization of premiums and discounts on investments, stock-based compensation expense and amortization of intangible assets and changes in operating assets and liabilities. The sum of these non-cash items totaled \$1.2 million and \$1.4 million in the three months ended March 31, 2014 and 2013, respectively. Net cash provided by operating activities during the three months ended March 31, 2014 was the result of a net loss of \$482,000, non-cash items of \$1.2 million and a decrease in accounts receivable of \$2.0 million and an increase in accrued compensation of \$1.1 million. Net cash provided by operating activities during the three months ended March 31, 2013 was the result of net income of \$1.9 million, non-cash items of \$1.4 million and increases in accrued compensation of \$744,000 and other accrued liabilities of \$815,000.

Investing Activities

Net cash used in investing activities was \$238,000 and \$4.4 million for the three months ended March 31, 2014 and 2013, respectively. For the three months ended March 31, 2014, net cash used in investing activities was primarily due to the purchase of marketable securities for \$15.3 million offset by maturities of \$15.1 million and \$34,000 for purchases of property and equipment. Net cash used in investing activities for the three months ended March 31, 2013 was primarily due to the purchase of marketable securities for \$10.9 million offset by maturities of \$6.5 million and \$38,000 for purchases of property and equipment.

Financing Activities

Net cash provided by (used in) financing activities was \$59,000 and \$(1.0) million for the three months ended March 31, 2014 and 2013, respectively. Net cash provided by financing activities for the three months ended March 31, 2014 was due to the proceeds from exercise of employee stock options of \$59,000. Net cash used in financing activities for the three months ended March 31, 2013 was from the proceeds of exercises of employee stock options of \$3.1 million

offset by the repurchase of shares of \$4.1 million (net repurchase of \$1.8 million after considering proceeds from the exercise of stock options that resulted in shares that were repurchased).

22

Index

Working Capital and Capital Expenditure Requirements

At March 31, 2014, we had stockholders' equity of \$95.7 million and working capital of \$78.6 million. We believe that our existing cash balances will be sufficient to meet our working capital requirements, as well as our planned capital expenditures for at least the next 12 months.

If we require additional capital resources to grow our business internally or to acquire complementary technologies and businesses at any time in the future, we may seek to sell additional equity or debt securities. The sale of additional equity could result in dilution to our existing stockholders.

We plan to continue to make investments in our business during 2014. We believe these investments are essential to creating sustainable growth in our business in the future. Additionally, we may choose to acquire other businesses or complimentary technologies to enhance our product capabilities and such acquisitions would likely require the use of cash.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate and Market Risk

The value and liquidity of the securities in which we invest could deteriorate rapidly and the issuers of such securities could be subject to credit rating downgrades. We actively monitor market conditions and developments specific to the securities and security classes in which we invest. While we believe we take prudent measures to mitigate investment related risks, such risks cannot be fully eliminated, as there are circumstances outside of our control.

The primary objective of our investment activities is to preserve principal while at the same time maximizing the income we receive from our investments without significantly increasing risk. To achieve this objective, we invest our excess cash in a variety of securities, including U.S. government agency securities, corporate notes and bonds, commercial paper and money market funds. These securities are classified as available-for-sale. Consequently, our available-for-sale securities are recorded on the consolidated balance sheets at fair value with unrealized gains or losses reported as a separate component of accumulated other comprehensive loss within stockholder's equity. Our holdings of the securities of any one issuer, except government agencies, do not exceed 10% of our portfolio. We do not utilize derivative financial instruments to manage our interest rate risks.

As of March 31, 2014, we held \$43.9 million in short-term investments (excluding cash and cash equivalents), which consisted primarily of government debt securities, corporate notes and bonds, and commercial paper. The weighted average interest rate of our portfolio was approximately 0.21% at March 31, 2014. A decline in interest rates over time would reduce our interest income from our investments. A hypothetical 10% increase or decrease in interest rates, however, would not have a material impact adverse effect on our financial condition.

Impact of Foreign Currency Rate Changes

The functional currencies of our international operating subsidiaries are the local currencies. We translate the assets and liabilities of our foreign subsidiaries at the exchange rates in effect on the balance sheet date. We translate their income and expenses at the average rates of exchange in effect during the period. We include translation gains and losses in the stockholders' equity section of our consolidated balance sheets. We include net gains and losses resulting from foreign exchange transactions in interest income and other in our consolidated statements of operations. Since we translate foreign currencies (primarily Canadian dollars and Indian rupees) into U.S. dollars for a small portion of our operations, currency fluctuations have had an immaterial impact on our consolidated statements of operations. We have both revenue and expenses that are denominated in foreign currencies. Neither a weaker or stronger U.S. dollar environment would have a material impact on our consolidated statement of operations. The historical impact of

currency fluctuations on our consolidated statements of operations has generally been immaterial. As of March 31, 2014, we did not engage in foreign currency hedging activities.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain “disclosure controls and procedures,” as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the “Exchange Act”), that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Our disclosure controls and procedures have been designed to meet, and management believes they meet, reasonable assurance standards. Additionally, in designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

23

Index

Our Chief Executive Officer and our Chief Financial Officer, after evaluating the effectiveness of our “disclosure controls and procedures” as of the end of the period covered by this quarterly report, have concluded that our disclosure controls and procedures are effective based on their evaluation of these controls and procedures required by paragraph (b) of Exchange Act Rules 13a-15 or 15d-15.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended March 31, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See Note 4, Commitments and Contingencies, to the interim condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for a description of legal proceedings.

ITEM 1A. RISK FACTORS.

This report contains forward-looking statements regarding our business and expected future performance as well as assumptions underlying or relating to such statements of expectation, all of which are “forward looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. We are subject to many risks and uncertainties that may materially affect our business and future performance and cause those forward-looking statements to be inaccurate. Words such as “expects,” “anticipates,” “intends,” “plans,” “believes,” “forecasts,” “estimates,” “seeks,” “may result in,” “focused on,” “continue to,” and similar expressions often identify forward-looking statements. In this report, forward-looking statements include, without limitation, statements regarding the following:

Our expectations and beliefs regarding future financial results;

Our expectations regarding partners, renewal of contracts with these partners and the anticipated timing and magnitude of revenue from programs with these partners;

Our ability to successfully license, implement and support our Nexus Platform independent of our services;

Our expectations regarding sales of our end-user software products, and our ability to source, develop and distribute enhanced versions of these products;

Our ability to successfully monetize customers who receive free versions of our end-user software products;

Our ability to expand and diversify our customer base;

Our ability to execute effectively in the small business market;

Our ability to offer subscriptions to our services in a profitable manner;

Index

Our expectations regarding our ability to deliver technology services efficiently and through arrangements that are profitable, including both in SKU-based and time-based pricing models and other pricing models we may employ;

Our ability to attract and retain qualified management and employees;

Our ability to hire, train, manage and retain technology specialists in a home-based model in quantities sufficient to meet forecast requirements, and our ability to continue to enhance the flexibility of our staffing model;

Our ability to match staffing levels with service volume in a cost-effective manner;

Our ability to manage contract labor as a component of our workforce;

Our ability to operate successfully in a time-based billing model;

Our ability to adapt to changes in the market for premium technology services;

Our ability to manage sales costs in programs where we are responsible for sales;

Our ability to successfully manage advertising costs associated with our end-user software products;

Our beliefs and expectations regarding the introduction of new services and products, including additional software products and service offerings for devices beyond computers and routers;

Our expectations regarding revenues, cash flows and expenses, including cost of revenue, sales and marketing, research and development efforts, and administrative expenses;

Our assessment of seasonality, mix of revenue, and other trends for our business and the business of our partners;

Our ability to deliver projected levels of profitability;

Our expectations regarding the costs and other effects of acquisition and disposition transactions;

Our expectations regarding unit volumes, pricing and other factors in the market for computers and other technology devices, and the effects of such factors on our business;

Our ability to successfully operate in markets that are subject to extensive regulation;

Our expectations regarding the results of pending, threatened or future litigation;

The assumptions underlying our Critical Accounting Policies and Estimates, including our assumptions regarding revenue recognition; assumptions used to estimate the fair value of stock-based compensation; assumptions regarding the impairment of goodwill and intangible assets; and expected accounting for income taxes; and

The expected effects of the adoption of new accounting standards.

An investment in our stock involves risk, and we caution investors that forward-looking statements are only predictions based on our current expectations about future events and are not guarantees of future performance. We encourage you to read carefully all information provided in this report and in our other filings with the SEC before deciding to invest in our stock or to maintain or change your investment. Forward-looking statements are based on

information as of the filing date of this report, and we undertake no obligation to publicly revise or update any forward-looking statement for any reason.

Because forward-looking statements involve risks and uncertainties, there are important factors that may cause actual results to differ materially from our stated expectations. A number of these factors are described below; provided, however that this list does not include all risks that could affect our business. If these or any other risks or uncertainties materialize, or if our underlying assumptions prove to be inaccurate, actual results could differ materially from past results and from our expected future results.

25

Index

Until recently, our business has been profitable but may not achieve profitability in future periods.

Through the fourth quarter of 2013, we delivered six consecutive quarters of profitability. Since then we have sustained significant changes in our largest partner program that materially affect our revenue and margins. We intend to make significant investments in support of our business, and expect to experience periods of losses in the future notwithstanding our efforts to maintain profitability. If we fail to achieve revenue growth as a result of our additional investments and efforts, or if such revenue growth does not result in achieving profitability, the market price of our common stock could further decline. A period of losses would result in usage of cash to fund our operating activities and a corresponding reduction in our cash balance.

Our business is based on a relatively new and evolving business model.

We are executing a plan to grow our business by providing premium technology services, licensing our Nexus Platform and providing end-user software products. We may not be able to offer these services and software products successfully. Our technology specialists are generally home-based, which requires a high degree of coordination and quality control of employees working from diverse and remote locations. Until recently, we have experienced financial losses in our business and we may use cash and incur losses in the future to support our growth initiatives. Our investments, which typically are made in advance of revenue, may not yield increased revenue to offset these expenses. As a result of these factors, the future revenue and income potential of our business is uncertain. Any evaluation of our business and our prospects must be considered in light of these factors and the risks and uncertainties often encountered by companies in our early stage of development. Some of these risks and uncertainties relate to our ability to do the following:

- Maintain our current relationships and programs, and develop new relationships, with partners and licensees of our Nexus Platform on acceptable terms or at all;
- Reach prospective customers for our end-user software in a cost-effective fashion;
- Reduce our dependence on a limited number of partners for a substantial majority of our revenue;
 - Successfully license our Nexus Platform;
- Attract and retain qualified management and employees;
- Hire, train, manage and retain our home-based technology specialists and enhance the flexibility of our staffing model in a cost-effective fashion and in quantities sufficient to meet forecast requirements;
- Manage substantial headcount changes over short periods of time;
- Manage contract labor efficiently and effectively;
- Meet revenue targets;
- Maintain gross and operating margins;
- Match staffing levels with demand for services and forecast requirements;
- Obtain bonuses and avoid penalties in contractual arrangements;
- Operate successfully in a time-based pricing model;
- Operate effectively in the small business market;
- Offer subscriptions to our services in a profitable manner;
- Successfully introduce new, and adapt our existing, services and products for consumers and small businesses;
- Respond effectively to changes in the market for premium technology services;
- Respond effectively to changes in the online advertising markets in which we participate;
- Respond effectively to competition;
 - Respond to changes in macroeconomic conditions as they affect our and our partners' operations;
- Realize benefits of any acquisitions we make;

Adapt to changes in the markets we serve, including the decline in sales of personal computers, the proliferation of tablets and other mobile devices and the introduction of new devices into the connected home;

Adapt to changes in our industry, including consolidation;

Respond to government regulations relating to our current and future business;

Manage and respond to present, threatened, and future litigation; and

Manage our expanding operations and implement and improve our operational, financial and management controls.

If we are unable to address these risks, our business, results of operations and prospects could suffer.

Index

Our quarterly results have in the past, and may in the future, fluctuate significantly.

Our quarterly revenue and operating results have in the past and may in the future fluctuate from quarter to quarter. As a result, we believe that quarter-to-quarter and year-to-year comparisons of our revenue and operating results may not be accurate indicators of future performance.

Several factors that have contributed or may in the future contribute to fluctuations in our operating results include:

- Demand for our services and products;
- The performance of our partners;
- Change in or discontinuance of our principal programs with partners;
- Our reliance on a small number of partners for a substantial majority of our revenue;
- Instability or decline in the global macroeconomic climate and its effect on our and our partners' operations;
- Our ability to successfully license our Nexus Platform;
- The availability and cost-effectiveness of advertising placements for our software products and our ability to respond to changes in the online advertising markets in which we participate;
- Our ability to serve the small business market;
 - Our ability to attract and retain qualified management and employees;
- The efficiency of our technology specialists;
- Our ability to effectively match staffing levels with service volumes on a cost-effective basis;
- Our ability to manage contract labor;
- Our ability to hire, train, manage and retain our home-based technology specialists and enhance the flexibility of our staffing model in a cost-effective fashion and in quantities sufficient to meet forecast requirements;
- Our ability to manage substantial headcount changes over short periods of time;
- Our ability to manage sales costs in programs where we are responsible for sales;
- Our ability to operate successfully in a time-based pricing model;
- Our ability to attract and retain partners;
- The price and mix of products and services we or our competitors offer;
- Pricing levels and structures in the market for premium technology services;
- Our ability to successfully monetize customers who receive free versions of our software;
- Usage rates on the subscriptions we offer;
- The rate of expansion of our offerings and our investments therein;
- Changes in the markets for computers and other technology devices relating to unit volume, pricing and other factors, including changes driven by declines in sales of personal computers and the growing popularity of tablets, and other mobile devices and the introduction of new devices into the connected home;
- Our ability to adapt to our customers' needs in a market space defined by frequent technological change;
 - The amount and timing of operating costs and capital expenditures in our business;
- Diversion of management's attention from other business concerns and disruption of our ongoing business activities as a result of acquisitions or divestitures by us;
- Costs related to the defense and settlement of litigation which can also have an additional adverse impact on us because of negative publicity, diversion of management resources and other factors;
- Potential losses on investments, or other losses from financial instruments we may hold that are exposed to market risk; and
- The exercise of judgment by our management in making accounting decisions in accordance with our accounting policies.

Index

Our inability to meet future financial performance targets that we announce or that are published by research analysts could cause the market price of our common stock to decline.

From time to time, we provide guidance related to our future financial performance. In addition, financial analysts may publish their own expectations of our future financial performance. Because our quarterly revenue and our operating results fluctuate and are difficult to predict, future financial performance is difficult to predict. We have in the past failed to meet our guidance for a particular period or analyst expectations for our guidance for future periods and our stock price has declined. Generally, the market prices of technology companies have been extremely volatile. Stock prices of many technology companies have often fluctuated in a manner unrelated or disproportionate to the operating performance of such companies. In the past, following periods of market volatility, stockholders have often initiated securities class action litigation relating to the stock trading and price volatility of the technology company in question. Any securities litigation we may become involved in could result in our incurring substantial defense costs and diverting resources and the attention of management from our business.

Because a small number of partners have historically accounted for, and for the foreseeable future will account for, the substantial majority of our revenue, under-performance of specific programs or loss of certain partners or programs could decrease our revenue substantially.

For the three months ended March 31, 2014, Comcast (57%) and the combined Office Depot and OfficeMax organization (20%) accounted for 10% or more of our total revenue. The loss of these or other significant relationships, the worsening of the terms or terminations of our arrangements with any of these firms, the reduction or discontinuance of programs with any of these firms, or the failure of any of these firms to achieve their targets could adversely affect our business. Generally, the agreements with our partners do not require them to conduct any minimum amount of business with us, and therefore they have decided in the past and could decide at any time in the future to reduce or eliminate their programs or the use of our services in such programs. They may also enter into multi-sourcing arrangements with other vendors for services previously provided exclusively by us. Further, we may not successfully obtain new partners or customers. There is also the risk that, once established, our programs with these and other partners may take longer than we expect to produce revenue or may not produce revenue at all, and the revenue produced may not be profitable if the costs of performing under the program are greater than anticipated or the program terminates before up-front investments can be recouped. One or more of our key partners may also choose not to renew their relationship with us, discontinue certain programs (as recently occurred at Comcast), offer them only on a limited basis or devote insufficient time and attention to promoting them to their customers. Some of our key partners may prefer not to work with us if we also partner with their competitors. If any of these key partners merge with one of their competitors (as recently occurred at Office Depot and OfficeMax), all of these risks could be exacerbated.

Each of these risks could reduce our sales and have a material adverse effect on our operating results. Further risks associated with the loss or decline in a significant partner are detailed in “Our failure to establish and expand successful partnerships to sell our services and products would harm our operating results” below.

Our failure to establish and expand successful partnerships to sell our services and products would harm our operating results.

Our current business model requires us to establish and maintain relationships with partners who market and sell our services and products. Failure to establish or maintain such relationships could materially and adversely affect the success of our business. We sell to numerous customers through each of these partners, and therefore a delay in the launch or rollout of our services or the reduction or discontinuance of a program with even one of these partners could cause us to miss revenue or other financial targets. The process of establishing a relationship with a partner can be complex and time consuming, and we must pass multiple levels of review in order to be selected. If we are unable to establish a sufficient number of new partners on a timely basis our sales will suffer.

Our Nexus Platform license offering is in its early stages and failure to market, sell and develop the offering effectively and competitively could result in a lack of growth.

A number of competitive offerings exist in the market, providing various feature sets that may overlap with our Nexus Platform today or in the future. Some competitors in this market far exceed our spending on sales and marketing activities and benefit from greater existing brand awareness, channel relationships and existing customer relationships. We may not be able to reach the market effectively and adequately or convey our differentiation as needed to grow our customer base. To reach our target market effectively, we may be required to invest substantial resources in sales and marketing and research and development activities, which could have a material adverse effect on our financial results. In addition, if we fail to develop and maintain competitive features, deliver high-quality products and satisfy existing customers, our Nexus Platform license offering could fail to grow. Growth in Nexus Platform license revenue also depends on scaling our multi-tenant technology platform flexibly and cost-effectively to meet changing customer demand. Disruptions in infrastructure operations as described below could impair our ability to deliver our Nexus Platform to customers, thereby affecting our reputation with existing and prospective customers and possibly resulting in monetary penalties or financial losses.

28

Index

Our end-user software revenues are dependent on online traffic patterns and the availability and cost of online advertising in certain key placements.

Some of our software revenue stream is obtained through advertising placements in certain key online media placements. From time to time a trend or a change in a key advertising placement will impact us, decreasing traffic or significantly increasing the cost or effectiveness of online advertising and therefore compromising our ability to purchase a desired volume and placement of advertisements at profitable rates. If such a change were to continue to occur, as it did in 2013 and on several occasions in the past, we may be unable to attract desired amounts of traffic, our costs for advertising may further increase beyond our forecasts and our software revenues may further decrease. As a result, our operating results would be negatively impacted.

Our business depends on our ability to attract and retain talented employees.

Our business is based on successfully attracting and retaining talented employees. The market for highly skilled workers and leaders in our industry is extremely competitive. If we are not successful in our recruiting efforts, or if we are unable to retain key employees, our ability to develop and deliver successful products and services may be adversely affected. Effective succession planning is also important to our long-term success. Failure to ensure effective transfer of knowledge and smooth transitions involving key employees could hinder our strategic planning and execution. In February 2014, Joshua Pickus submitted his written resignation as President and Chief Executive Officer effective April 1, 2014. Our ability to execute our business strategies and retain key executives may be adversely affected by uncertainty associated with the transition to a successor Chief Executive Officer.

If we fail to attract, train and manage our technology specialists in a manner that meets forecast requirements and provides an adequate level of support for our customers, our reputation and financial performance could be harmed.

Our business depends in part on our ability to attract, manage and retain our technology specialists and other support personnel. If we are unable to attract, train and manage in a cost-effective manner adequate numbers of competent technology specialists and other support personnel to be available as service volumes vary, particularly as we seek to expand the breadth and flexibility of our staffing model, our service levels could decline, which could harm our reputation, result in financial losses under contract terms, cause us to lose customers and partners, and otherwise adversely affect our financial performance. Our ability to meet our need for support personnel while controlling our labor costs is subject to numerous external factors, including the availability of a sufficient number of qualified persons in the workforce, unemployment levels, prevailing wage rates, changing demographics, health and other insurance costs and the cost of compliance with labor and wage laws and regulations. In the case of programs with time-based pricing models, the impact of failing to attract, train and manage such personnel could directly and adversely affect our revenue and profitability. Although our service delivery and communications infrastructure enables us to monitor and manage technology specialists remotely, because they are typically home-based and geographically dispersed we could experience difficulties meeting services levels and effectively managing the costs, performance and compliance of these technology specialists and other support personnel. Any problems we encounter in effectively attracting, managing and retaining our technology specialists and other support personnel could seriously jeopardize our service delivery operations and our financial results.

Changes in the market for computers and other consumer electronics and in the premium technology services market could adversely affect our business.

Reductions in unit volumes of sales for computers and other devices we support, or in the prices of such equipment, could adversely affect our business. We offer both services that are attached to the sales of new computers and other devices, and services designed to fix existing computers and other devices. Declines in the unit volumes sold of these devices or declines in the pricing of such devices could adversely affect demand for our services or our revenue mix, either of which would harm our operating results. Further, we do not support all types of computers and devices,

meaning that we must select and focus on certain operating systems and technology standards for computers, tablets, smart phones, and other devices. We may not be successful in supporting new devices in the connected home, and consumers and small businesses may prefer equipment we do not support, which may decrease the market for our services and products if customers migrate away from platforms we support. In addition, the structures and pricing models for programs in the premium technology services market may change in ways that reduce our revenues and our margins.

29

Index

Our failure to effectively manage third-party service providers would harm our operating results.

We enter into relationships with third parties to provide certain elements of our service offerings. We may be less able to manage the quality of services provided by third-party service providers as directly as we would our own employees. In addition, providing these services may be more costly. We also face the risk that disruptions or delays in the communications and information technology infrastructure of these third parties could cause lengthy interruptions in the availability of our services. Any of these risks could harm our operating results.

Disruptions in our information technology and service delivery infrastructure and operations, including interruptions or delays in service from third-party web hosting providers, could impair the delivery of our services and harm our business.

We depend on the continuing operation of our information technology and communication systems and those of our third-party service providers. Any damage to or failure of those systems could result in interruptions in our service, which could reduce our revenues and damage our reputation. The technology we use to serve partners and the Nexus platform we license are hosted at a third-party facility located in the United States, and we use a separate, independent third-party facility in the United States for emergency back-up and failover services in support of the hosted site. These two facilities are operated by unrelated publicly held companies specializing in operating such facilities, and we do not control the operation of these facilities. These facilities may experience unplanned outages and other technical difficulties in the future, and are vulnerable to damage or interruption from fires, floods, earthquakes, telecommunications and connectivity failures, power failures, and similar events. These facilities are also subject to risks from vandalism, break-ins, intrusion, and other malicious attacks. Despite substantial precautions taken, such as disaster recovery planning and back-up procedures, a natural disaster, act of terrorism or other unanticipated problem could cause a loss of information and data and lengthy interruptions in the availability of our services and technology platform offerings, as our backup systems may not be able to meet our needs for an extended period of time. We rely on hosted systems maintained by third-party providers to deliver technology services and our Nexus platform to customers, including taking customer orders, handling telecommunications for customer calls, tracking sales and service delivery and making platform functionality available to customers. Any interruption or failure of our internal or external systems could prevent us or our service providers from accepting orders and delivering services, or cause company and consumer data to be unintentionally disclosed. Our continuing efforts to upgrade and enhance the security and reliability of our information technology and communications infrastructure could be very costly, and we may have to expend significant resources to remedy problems such as a security breach or service interruption. Interruptions in our services resulting from labor disputes, telephone or Internet failures, power or service outages, natural disasters or other events, or a security breach could reduce our revenue, increase our costs, cause customers and partners and licensees to fail to renew or to terminate their use of our offerings, and harm our reputation and our ability to attract new customers. We maintain insurance programs with highly rated carriers using policies that are designed for businesses in the technology sector and that expressly address, among other things, cyber-attacks and potential harm resulting from incidents such as data privacy breaches; but depending on the type of damages, the amount, and the cause, all or part of any financial losses experienced may be excluded by the policies resulting in material financial losses for us.

We must compete successfully in the markets in which we operate or our business will suffer.

We compete in markets that are highly competitive, subject to rapid change and significantly affected by new product introductions and other market activities of industry participants. We compete with a number of companies in the markets for technology services, end-user software products and technology support software. In addition, our partners may develop similar offerings internally.

Index

The markets for our services and software products are still rapidly evolving, and we may not be able to compete successfully against current and potential competitors. Our ability to expand our business will depend on our ability to maintain our technological advantage, introduce timely enhanced products and services to meet growing support needs, deliver on-going value to our customers, scale our business cost-effectively, and develop complimentary relationships with other companies providing services or products to our partners. Competition in our markets could reduce our market share or require us to reduce the price of products and services, which could harm our business, financial condition and operating results.

The competitors in our markets for services and software can have some or all of the following comparative advantages: longer operating histories, greater economies of scale, greater financial resources, greater engineering and technical resources, greater sales and marketing resources, stronger strategic alliances and distribution channels, lower labor costs, larger user bases, products with different functions and feature sets and greater brand recognition than we have. We expect new competitors to continue to enter the markets in which we operate.

Our future service and product offerings may not achieve market acceptance.

If we fail to develop new and enhanced versions of our services and products in a timely manner or to provide services and products that achieve rapid and broad market acceptance, we may not maintain or expand our market share. We may fail to identify new service and product opportunities for our current market or new markets. In addition, our existing services and products may become obsolete if we fail to introduce new services and products that meet new customer demands or support new standards. While we are developing new services and products, there can be no assurance that they will be timely released or ever be completed, and if they are, that they will gain market acceptance or generate material revenue for us. We have limited control over factors that affect market acceptance of our services and products, including the willingness of partners to offer our services and products and customer preferences for competitor services, products and delivery models.

We may make acquisitions that deplete our resources and do not prove successful.

We have made acquisitions in the past and may make additional acquisitions in the future. We may not be able to identify suitable acquisition candidates at prices we consider appropriate. If we do identify an appropriate acquisition candidate, we may not be able to successfully negotiate the terms of the acquisition. Our management may not be able to effectively implement our acquisition program and internal growth strategy simultaneously. The integration of acquisitions involves a number of risks and presents financial, managerial and operational challenges. We may have difficulty, and may incur unanticipated expenses related to, integrating management and personnel from these acquired entities with our management and personnel. Our failure to identify, consummate or integrate suitable acquisitions could adversely affect our business and results of operations. We cannot readily predict the timing, size or success of our future acquisitions. Even successful acquisitions could have the effect of reducing our cash balances. Acquisitions could involve a number of other potential risks to our business, including the following, any of which could harm our business results:

- Unanticipated costs and liabilities and unforeseen accounting charges or fluctuations;
- Delays and difficulties in delivery of services and products;
- Failure to effectively integrate or separate management information systems, personnel, research and development, marketing, sales and support operations;
- Loss of key employees;
- Economic dilution to gross and operating profit;
- Diversion of management's attention from other business concerns and disruption of our ongoing business;
- Difficulty in maintaining controls and procedures;
- Uncertainty on the part of our existing customers about our ability to operate after a transaction;
- Loss of customers;

Loss of partnerships;

Inability to execute our growth plans;

Declines in revenue and increases in losses;

Failure to realize the potential financial or strategic benefits of the acquisition or divestiture; and

Failure to successfully further develop the combined or remaining technology, resulting in the impairment of amounts recorded as goodwill or other intangible assets.

31

Index

Our systems collect, access, use, and store personal customer information and enable customer transactions, which poses security risks, requires us to invest significant resources to prevent or correct problems caused by security breaches, and may harm our business.

A fundamental requirement for online communications, transactions and support is the secure collection, storage and transmission of confidential information. Our systems collect and store confidential and personal information of our individual customers as well as our partners and their customers' users, including credit card information, and our employees and contractors may access and use that information in the course of providing services. In addition, we collect and retain personal information of our employees in the ordinary course of our business. We and our third-party contractors use commercially available technologies to secure this information. Despite these measures, parties may attempt to breach the security of our data or that of our customers. In addition, errors in the storage or transmission of data could breach the security of that information. We may be liable to our customers for any breach in security and any breach could subject us to governmental or administrative proceedings or monetary penalties, damage our relationships with partners and harm our business and reputation. Also, computers are vulnerable to computer viruses, physical or electronic break-ins and similar disruptions, which could lead to interruptions, delays or loss of data. We may be required to expend significant capital and other resources to comply with mandatory privacy and security standards required by law, industry standard, or contract, and to further protect against security breaches or to correct problems caused by any security breach.

We are exposed to risks associated with credit card and payment fraud and with credit card processing.

Certain of our customers use credit cards to pay for our services and products. We may suffer losses as a result of orders placed with fraudulent credit cards or other payment data. Our failure to detect or control payment fraud could have an adverse effect on our results of operations. We are also subject to payment card association operating standards and requirements, as in effect from time to time. Compliance with those standards requires us to invest in network and systems infrastructure and processes. Failure to comply with these rules or requirements may subject us to fines, potential contractual liabilities, and other costs, resulting in harm to our business and results of operations.

Privacy concerns and laws or other domestic or foreign regulations may require us to incur significant costs and may reduce the effectiveness of our solutions, and our failure to comply with those laws or regulations may harm our business and cause us to lose customers.

Our software contains features that allow our technology specialists and other personnel to access, control, monitor and collect information from computers running our software. Federal, state and foreign government bodies and agencies, however, have adopted or are considering adopting laws and regulations restricting or otherwise regulating the collection, use and disclosure of personal information obtained from consumers and individuals. Those regulations could require costly compliance measures, could reduce the efficiency of our operations, or could require us to modify or cease to provide our systems or services. Liability for violation of, costs of compliance with, and other burdens imposed by such laws and regulations may limit the use and adoption of our services and reduce overall demand for them. Even the perception of privacy concerns, whether or not valid, may harm our reputation and inhibit adoption of our solutions by current and future customers. In addition, we may face claims about invasion of privacy or inappropriate disclosure, use, storage, or loss of information obtained from our customers. Any imposition of liability could harm our reputation, cause us to lose customers and cause our operating results to suffer.

We rely on third-party technologies in providing certain of our services and software. Our inability to use, retain or integrate third-party technologies and relationships could delay service or software development and could harm our business.

We license technologies from third parties, which are integrated into our services, technology platform and end user software. Our use of commercial technologies licensed on a non-exclusive basis from third parties poses certain risks.

Some of the third-party technologies we license may be provided under “open source” licenses, which may have terms that require us to make generally available our modifications or derivative works based on such open source code. Our inability to obtain or integrate third-party technologies with our own technology could delay service development until equivalent compatible technology can be identified, licensed and integrated. These third-party technologies may not continue to be available to us on commercially reasonable terms or at all. If our relationship with third parties were to deteriorate, or if such third parties were unable to develop innovative and saleable products, or component features of our products, we could be forced to identify a new developer and our future revenue could suffer. We may fail to successfully integrate any licensed technology into our services or software, or maintain it through our own development work, which would harm our business and operating results. Third-party licenses also expose us to increased risks that include:

Risks of product malfunction after new technology is integrated;

Risks that we may be unable to obtain or continue to obtain support, maintenance and updates from the technology supplier;

The diversion of resources from the development of our own proprietary technology; and

Our inability to generate revenue from new technology sufficient to offset associated acquisition and maintenance costs.

Index

Our business operates in regulated industries.

Our current and anticipated service offerings operate in industries, such as home security, that are subject to various federal, state, provincial and local laws and regulations in the markets in which we operate. In certain jurisdictions, we may be required to obtain licenses or permits in order to comply with standards governing employee selection and training and to meet certain standards or licensing requirements in the conduct of our business. The loss of such licenses or permits or the imposition of conditions to the granting or retention of such licenses or permits could have a material adverse effect on us.

Changes in laws or regulations could require us to change the way we operate or to utilize resources to maintain compliance, which could increase costs or otherwise disrupt operations. In addition, failure to comply with any applicable laws or regulations could result in substantial fines or revocation of our operating permits and licenses for us or our partners. If laws and regulations were to change, or if we or our products and services we deemed not to comply with them, our business, financial condition, results of operations and cash flows could be materially and adversely affected.

In some cases we are exposed to greater risks of liability for employee acts or omissions or system failure, than may be typical in other businesses.

We expect to support, among other programs, partners offering home security services. Because these services related to programs intended to help protect the lives and property, real and personal, of consumers, we may have greater exposure to liability and litigation risks than businesses that provide support for other consumer and small business products and services. Our ability to limit our liability for the acts or omissions of our employees in our contract terms with partners and consumers in relation to such programs may be substantially less than in other markets we serve, which is to say, we may have much greater inherent legal liability exposure in such programs than is customarily seen in programs for markets we have offered historically. In the event of litigation with respect to such matters, it is possible that our risk-mitigation provisions in contracts may be deemed not applicable or unenforceable exposing us to substantial liability exposure, and, regardless of the ultimate outcome, we may incur significant costs of defense that could materially and adversely affect our business, financial condition, results of operations and cash flows.

We rely on intellectual property laws to protect our proprietary rights, and if these rights are not sufficiently protected or we are not able to obtain sufficient protection for our technology, it could harm our ability to compete and to generate revenue.

We rely on a combination of laws, such as those applicable to patents, copyrights, trademarks and trade secrets, and contractual restrictions, such as confidentiality agreements and licenses, to establish and protect our proprietary rights. Our ability to compete and grow our business could suffer if these rights are not adequately protected. Our proprietary rights may not be adequately protected because:

Laws and contractual restrictions may not adequately prevent infringement of our proprietary rights and misappropriation of our technologies or deter others from developing similar technologies; and
Policing infringement of our patents, trademarks and copyrights, misappropriation of our trade secrets, and unauthorized use of our products is difficult, expensive and time-consuming, and we may be unable to determine the existence or extent of this infringement or unauthorized use.

Index

Intellectual property litigation is expensive and time-consuming and could divert management's attention from our business. The outcome of any litigation is uncertain and could significantly impact our financial results. Also, the laws of other countries in which we market our products may offer little or no protection of our proprietary technologies. Reverse engineering, unauthorized copying or other misappropriation of our proprietary technologies could enable third parties to benefit from our technologies without paying us for them, which would harm our competitive position and market share.

Our success and ability to compete depend to a significant degree on the protection of our solutions and other proprietary technology. It is possible that:

- We may not be issued patents we may seek to protect our technology;
- Competitors may independently develop similar technologies or design around any of our patents;
- Patents issued to us may not be broad enough to protect our proprietary rights; and
- Our issued patents could be successfully challenged.

We may face intellectual property infringement claims that could be costly to defend and result in our loss of significant rights.

Our business relies on the use and licensing of technology. Other parties may assert intellectual property infringement claims against us or our customers, and our products may infringe the intellectual property rights of third parties. For example, our products may infringe patents issued to third parties. In addition, as is increasingly common in the technology sector, we may be confronted with the aggressive enforcement of patents by companies whose primary business activity is to acquire patents for the purpose of offensively asserting them against other companies. From time to time, we have received allegations of intellectual property infringement, and we may receive more claims in the future. We may also be required to pursue litigation to protect our intellectual property rights or defend against allegations of infringement. Intellectual property litigation is expensive and time-consuming and could divert management's attention from our business. The outcome of any litigation is uncertain and could significantly impact our financial results. If there is a successful claim of infringement, we may be required to develop non-infringing technology or enter into royalty or license agreements, which may not be available on acceptable terms, if at all. Our failure to develop non-infringing technologies or license proprietary rights on a timely basis would harm our business.

We may face consumer class actions and similar claims that could be costly to defend or settle and result in negative publicity and diversion of management resources.

Our business involves direct sale and licensing of services and software to consumers and small businesses, and we typically include customary indemnification provisions in favor of our partners in our agreements for the distribution of our services and software. As a result we can be subject to consumer litigation and legal proceedings related to our services and software, including putative class action claims and similar legal actions. Such litigation can be expensive and time-consuming regardless of the merits of any action, and could divert management's attention from our business. The cost of defense can be large as can any settlement or judgment in an action. The outcome of any litigation is uncertain and could significantly impact our financial results. Regardless of outcome, litigation can have an adverse impact on us because of defense costs, negative publicity, diversion of management resources and other factors.

We have recorded long-lived assets, and our results of operations would be adversely affected if their value becomes impaired.

Goodwill and identifiable intangible assets were recorded in part due to our acquisition of substantially all of the assets and liabilities of YourTechOnline.com in May 2008, our acquisition of substantially all of the assets of Xeriton Corporation in December 2009, our acquisition of certain assets and assumed liabilities of SUPERAntiSpyware in

June 2011 and our acquisition of certain assets and assumed liabilities of RightHand IT Corporation in January 2012. We also have certain intangible assets with indefinite lives. We assess the impairment of goodwill and indefinite lived intangible assets annually or more often if events or changes in circumstances indicate that the carrying value may not be recoverable. We assess the impairment of acquired product rights and other finite lived intangible assets whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. Our results of operations would be adversely affected if impairment of our goodwill or intangible assets occurred.

34

Index

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 6. EXHIBITS

Exhibits.

10.1 Change Management Form Number 2 under Statement of Work Number 1 to Master Services Agreement Call Handling Services between Comcast and Support.com, effective as of February 27, 2014(1)

10.2 Change Management Form Number 3 under Statement of Work Number 1 to Master Services Agreement Call Handling Services between Comcast and Support.com, effective as of March 4, 2014(1)

10.3 Statement of Work Number 3 to Master Services Agreement Call Handling Services between Comcast and Support.com, effective as of March 21, 2014(1)

31.1 Chief Executive Officer Section 302 Certification

31.2 Chief Financial Officer Section 302 Certification

32.1 Statement of the Chief Executive Officer under 18 U.S.C. § 1350(2)

32.2 Statement of the Chief Financial Officer under 18 U.S.C. § 1350(2)

(1) Confidential treatment has been requested for portions of this exhibit.

The certifications filed as Exhibits 32.1 and 32.2 are not deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934 and are not to be incorporated by reference into any filing of the Company under the Securities Exchange Act of 1933 or the Securities Exchange Act of 1934, whether made before or after the date hereof irrespective of any general incorporation by reference language contained in any such filing, except to the extent that the registrant specifically incorporates it by reference.

35

Index

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

May 8, 2014 SUPPORT.COM, INC.

By: /s/ ROOP K. LAKKARAJU

Roop K. Lakkaraju

Executive Vice President, Chief Financial Officer and

Officer and Chief Operating Officer

Index

EXHIBIT INDEX TO SUPPORT.COM, INC.

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTER ENDED MARCH 31, 2014

10.1 Change Management Form Number 2 under Statement of Work Number 1 to Master Services Agreement Call Handling Services between Comcast and Support.com, effective as of February 27, 2014(1)

10.2 Change Management Form Number 3 under Statement of Work Number 1 to Master Services Agreement Call Handling Services between Comcast and Support.com, effective as of March 4, 2014(1)

10.3 Statement of Work Number 3 to Master Services Agreement Call Handling Services between Comcast and Support.com, effective as of March 21, 2014(1)

31.1 Chief Executive Officer Section 302 Certification

31.2 Chief Financial Officer Section 302 Certification

32.1 Statement of the Chief Executive Officer under 18 U.S.C. § 1350(2)

32.2 Statement of the Chief Financial Officer under 18 U.S.C. § 1350(2)

(1) Confidential treatment has been requested for portions of this exhibit.

The certifications filed as Exhibits 32.1 and 32.2 are not deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934 and are not to be incorporated by reference into any filing of the Company under the Securities Exchange Act of 1933 or the Securities Exchange Act of 1934, whether made before or after the date hereof irrespective of any general incorporation by reference language contained in any such filing, except to the extent that the registrant specifically incorporates it by reference.