

Support.com, Inc.  
Form 10-Q  
August 08, 2011

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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 June 30, 2011  
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  
(State or Other Jurisdiction of Incorporation or  
Organization)

94-3282005  
(I.R.S. Employer Identification No.)

1900 Seaport Boulevard, 3rd 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 ☐

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

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

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐  
(Do not check if a smaller  
reporting company)

Smaller reporting  
company ☐

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

On July 31, 2011, 48,511,241 shares of the Registrant’s Common Stock, \$0.0001 par value, were outstanding.

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

SUPPORT.COM, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(in thousands)

|                                               | June 30,<br>2011<br>(Unaudited) | December 31,<br>2010<br>(1) |
|-----------------------------------------------|---------------------------------|-----------------------------|
| <b>ASSETS</b>                                 |                                 |                             |
| Current assets:                               |                                 |                             |
| Cash and cash equivalents                     | \$ 7,541                        | \$ 18,561                   |
| Short-term investments                        | 52,490                          | 53,007                      |
| Accounts receivable, net                      | 5,925                           | 5,133                       |
| Prepaid expenses and other current assets     | 1,246                           | 1,617                       |
| Total current assets                          | 67,202                          | 78,318                      |
| Long-term investments                         | 2,659                           | 2,667                       |
| Property and equipment, net                   | 599                             | 623                         |
| Goodwill                                      | 13,621                          | 10,181                      |
| Purchased technology, net                     | 185                             | 226                         |
| Intangible assets, net                        | 6,331                           | 1,076                       |
| Other assets                                  | 623                             | 648                         |
| Total assets                                  | \$ 91,220                       | \$ 93,739                   |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                                 |                             |
| Current liabilities:                          |                                 |                             |
| Accounts payable                              | \$ 659                          | \$ 536                      |
| Accrued compensation                          | 1,438                           | 1,248                       |
| Other accrued liabilities                     | 3,994                           | 3,575                       |
| Deferred revenue                              | 3,211                           | 1,574                       |
| Total current liabilities                     | 9,302                           | 6,933                       |
| Other long-term liabilities                   | 835                             | 749                         |
| Total Liabilities                             | 10,137                          | 7,682                       |
| <b>Commitments and contingencies (Note 4)</b> |                                 |                             |
| <b>Stockholders' equity:</b>                  |                                 |                             |
| Common stock                                  | 5                               | 5                           |
| Additional paid-in capital                    | 231,984                         | 229,692                     |
| Accumulated other comprehensive loss          | (1,416 )                        | (1,331 )                    |
| Accumulated deficit                           | (149,490 )                      | (142,309 )                  |
| Total stockholders' equity                    | 81,083                          | 86,057                      |
| Total liabilities and stockholders' equity    | \$ 91,220                       | \$ 93,739                   |

(1) Derived from the December 31, 2010 audited Consolidated Financial Statements included in our Annual Report on Form 10-K, as filed with the Securities and Exchange Commission ("SEC") on March 11, 2011.

See accompanying notes.

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SUPPORT.COM, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(in thousands, except per share amounts)  
(Unaudited)

|                                                                | Three Months Ended<br>June 30, |          | Six Months Ended<br>June 30, |           |
|----------------------------------------------------------------|--------------------------------|----------|------------------------------|-----------|
|                                                                | 2011                           | 2010     | 2011                         | 2010      |
| Revenue:                                                       |                                |          |                              |           |
| Services                                                       | \$8,442                        | \$6,882  | \$17,592                     | \$13,612  |
| Software and other                                             | 5,012                          | 3,004    | 8,892                        | 6,133     |
| Total revenue                                                  | 13,454                         | 9,886    | 26,484                       | 19,745    |
| Cost of revenue:                                               |                                |          |                              |           |
| Cost of services                                               | 6,601                          | 7,346    | 13,418                       | 12,830    |
| Cost of software and other                                     | 433                            | 335      | 837                          | 683       |
| Total cost of revenue                                          | 7,034                          | 7,681    | 14,255                       | 13,513    |
| Gross profit                                                   | 6,420                          | 2,205    | 12,229                       | 6,232     |
| Operating expenses:                                            |                                |          |                              |           |
| Research and development                                       | 1,433                          | 1,281    | 2,881                        | 2,624     |
| Sales and marketing                                            | 5,543                          | 4,320    | 10,328                       | 8,291     |
| General and administrative                                     | 3,439                          | 2,887    | 6,225                        | 5,839     |
| Amortization of intangible assets                              | 122                            | 93       | 205                          | 181       |
| Total operating expenses                                       | 10,537                         | 8,581    | 19,639                       | 16,935    |
| Loss from operations                                           | (4,117 )                       | (6,376 ) | (7,410 )                     | (10,703 ) |
| Interest income and other, net                                 | 125                            | 149      | 275                          | 335       |
| Loss from continuing operations, before income taxes           | (3,992 )                       | (6,227 ) | (7,135 )                     | (10,368 ) |
| Income tax provision                                           | 29                             | 10       | 31                           | 22        |
| Loss from continuing operations, after income taxes            | (4,021 )                       | (6,237 ) | (7,166 )                     | (10,390 ) |
| Income (loss) from discontinued operations, after income taxes | (18 )                          | 2        | (15 )                        | (3 )      |
| Net loss                                                       | (4,039 )                       | (6,235 ) | (7,181 )                     | (10,393 ) |
| Earnings (loss) per share:                                     |                                |          |                              |           |
| Basic and diluted earnings per share                           |                                |          |                              |           |
| Loss from continuing operations                                | (0.08 )                        | (0.13 )  | (0.15 )                      | (0.22 )   |
| Income (loss) from discontinued operations                     | 0.00                           | 0.00     | (0.00 )                      | (0.00 )   |
| Net loss per share                                             | \$(0.08 )                      | (0.13 )  | (0.15 )                      | (0.22 )   |
| Shares used in computing per share amounts:                    |                                |          |                              |           |
| Basic                                                          | 48,293                         | 46,534   | 48,237                       | 46,503    |
| Diluted                                                        | 48,293                         | 46,534   | 48,237                       | 46,503    |

See accompanying notes.



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SUPPORT.COM, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(in thousands)  
(Unaudited)

|                                                                             | Six Months Ended<br>June 30, |             |
|-----------------------------------------------------------------------------|------------------------------|-------------|
|                                                                             | 2011                         | 2010        |
| Operating Activities:                                                       |                              |             |
| Net loss                                                                    | \$(7,181 )                   | \$(10,393 ) |
| Adjustments to reconcile net loss to net cash used in operating activities: |                              |             |
| Depreciation                                                                | 207                          | 157         |
| Realized gain on investments                                                | —                            | (10 )       |
| Amortization of premiums and discounts on investments                       | 860                          | 434         |
| Amortization of purchased technology                                        | 41                           | 41          |
| Amortization of intangible assets                                           | 205                          | 181         |
| Realized loss on put option re-valuation                                    | —                            | 1,289       |
| Realized gain on auction-rate securities                                    | —                            | (1,289 )    |
| Stock-based compensation                                                    | 1,874                        | 1,888       |
| Changes in assets and liabilities:                                          |                              |             |
| Accounts receivable, net                                                    | (787 )                       | (138 )      |
| Prepaid expenses and other current assets                                   | 367                          | (928 )      |
| Other long-term assets                                                      | (7 )                         | (172 )      |
| Accounts payable                                                            | 121                          | 1,024       |
| Accrued compensation                                                        | 181                          | 1,540       |
| Other accrued liabilities                                                   | 411                          | 799         |
| Other long-term liabilities                                                 | 59                           | (89 )       |
| Deferred revenue                                                            | 1,146                        | 224         |
| Net cash used in operating activities                                       | (2,503 )                     | (5,442 )    |
| Investing Activities:                                                       |                              |             |
| Purchases of property and equipment                                         | (183 )                       | (181 )      |
| Acquisition of business, net of cash acquired                               | (8,419 )                     | —           |
| Purchases of investments                                                    | (34,285 )                    | (24,318 )   |
| Sales of investments                                                        | 10,998                       | 17,473      |
| Maturities of investments                                                   | 22,946                       | 21,054      |
| Net cash provided by (used in) investing activities                         | (8,943 )                     | 14,028      |
| Financing Activities:                                                       |                              |             |
| Proceeds from issuances of common stock                                     | 418                          | 365         |
| Net cash provided by financing activities                                   | 418                          | 365         |
| Effect of exchange rate changes on cash and cash equivalents                | 8                            | (12 )       |
| Net increase (decrease) in cash and cash equivalents                        | (11,020 )                    | 8,939       |
| Cash and cash equivalents at beginning of period                            | 18,561                       | 23,547      |
| Cash and cash equivalents at end of period                                  | \$7,541                      | \$32,486    |



Supplemental schedule of cash flow information:

|                   |      |      |
|-------------------|------|------|
| Income taxes paid | \$35 | \$61 |
|-------------------|------|------|

See accompanying notes.

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SUPPORT.COM, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

Note 1. Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of Support.com, Inc. (the “Company” or “Support.com”, “we” or “us”) and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated. The balance sheet as of June 30, 2011 and the statements of operations for the three and six months ended June 30, 2011 and 2010 and cash flows for the six months ended June 30, 2011 and 2010 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, 2010 is derived from audited financial statements as of that date. These unaudited interim condensed consolidated financial statements should be read with the consolidated financial statements and related notes included in the Company’s Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 11, 2011.

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 and subjective judgments include accounting for revenue recognition, fair value measurements, fair value estimates – auction-rate securities (“ARS”) put option, business combinations – purchase accounting, accounting for goodwill and other intangible assets, stock-based compensation and accounting for income taxes. 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.

Services Revenue

Services revenue is comprised primarily of fees for technology support services, including the set-up, protection, optimization and repair of new and existing computers as well as other technology devices. We provide these services remotely, using work-from-home Personal Technology Experts who utilize our proprietary technology to deliver the services.

We provide services to consumers and small business, either through our channel partners (which include brick and mortar and online retailers, anti-virus providers, PC/consumer electronics (“PC/CE”) manufacturers, internet service providers (“ISP’s”), and others) or directly via our website (www.support.com). We transact with customers via reseller programs, referral programs and direct transactions. In reseller programs, the channel partner generally executes the financial transactions with the consumer and pays a fee to us which we recognize as revenue when the service is provided. In referral programs, we transact with the consumer directly and pay a referral fee to the referring party. Referral fees are expensed in the period in which the customer was acquired. In such instances, since we are the transacting party and bear substantially all risks associated with the transaction, we record the gross amount of revenue. In direct-to-consumer transactions, we sell directly to the consumer at the retail price.

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Our services are of three types for revenue recognition purposes:

- **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.
- **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.
- **Service Cards / Gift Cards**—Customers purchase a service card and/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.

For certain direct and channel partnerships, 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 upon 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. Beginning in the second quarter of 2010, we therefore recognized non-subscription deferred revenue balances older than 90 days as services revenue. For the three and six months ended June 30, 2011, services breakage revenue was immaterial, and accounted for approximately one percent of revenue.

Channel partners are generally invoiced monthly. Fees from consumers 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.

We generally provide a refund period on services, during which refunds may be granted to consumers under certain circumstances, including inability to resolve certain support issues. For our channel sales, the refund period varies by partner, but is generally between 5 and 10 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 software products provided through direct consumer downloads and, to a lesser extent, through the sale of this software via channel partners. Our software is generally sold to consumers either as a perpetual license or a fixed-period license. We act as the primary obligor and generally control fulfillment, pricing, product requirements, and collection risk and therefore we recognize revenues using the gross method in the period in which the software products were sold for these products. We generally provide a limited amount of free technical support to customers and therefore do not defer the recognition of revenue associated with sales of these products, since the cost of providing the free technical support is insignificant. Such technical support is generally provided within one year after the associated revenue is recognized and free product enhancements are minimal and infrequent. For certain of our software products for which we provide more technical support or other regular software updates, we recognize revenue ratably over the expected life of the product. 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.

## Cash, Cash Equivalents and Investments

All liquid instruments with an original maturity at the date of purchase of ninety days or less are classified as cash equivalents. Cash equivalents and short-term investments consist primarily of money market funds, commercial paper and 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.

Long-term investments consist of auction-rate securities ("ARS"). Our cash equivalents, short-term and long-term investments are classified as available-for-sale, and are reported at fair value with unrealized gains/losses (when deemed to be temporary) included in accumulated other comprehensive loss within stockholders' equity in the condensed consolidated balance sheets. We recorded net unrealized losses on our available-for-sale securities of \$133,000 and \$127,000 at June 30, 2011 and December 31, 2010, respectively.

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Prior to June 30, 2010 we held certain ARS with UBS. On June 30, 2010 we exercised our Rights Agreement (“the “ARS put option”) with UBS and settled the ARS for cash on June 30 and July 1, 2010. The ARS held with UBS were classified as trading securities and reported at fair value with realized gains/losses included in interest income and other, net in the condensed consolidated statements of operations. Furthermore, we carried the ARS put option at fair value and re-measured the fair value each reporting period with gains/losses included in interest income and other, net. The impact of the re-measurement of the ARS put option substantially offset changes in the fair value of the ARS held by UBS. For the three and six months ended June 30, 2011, we recorded zero realized gains/losses as a result of ARS held by UBS that were settled in 2010. For the three months ended June 30, 2010, we recorded a realized loss of \$817,000 on re-valuation of the ARS put option, offset with a realized gain of \$817,000 on the ARS held by UBS, for a net realized gain (loss) of zero. For the six months ended June 30, 2010, we recorded a realized loss of \$1.3 million on re-valuation of the ARS put option, offset with a realized gain of \$1.3 million on the ARS held by UBS, for a net realized gain (loss) of zero.

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, our intent to sell the security and our belief that we will not be required to sell the security before the recovery of our 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 June 30, 2011, we evaluated our unrealized gains/losses on available-for-sale securities, the majority of which are from the long-term ARS, and determined them to be temporary. The long-term investment has been in continuous unrealized loss position for more than 12 months. We currently do not intend to sell these securities with unrealized losses and we concluded that we will not be required to sell these securities before the recovery of our amortized cost basis.

The following is a summary of cash, cash equivalents and investments at June 30, 2011 and December 31, 2010 (in thousands):

| As of June 30, 2011     | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair Value |
|-------------------------|-------------------|------------------------------|-------------------------------|------------|
| Cash                    | \$4,520           | \$—                          | \$—                           | \$4,520    |
| Money market fund       | 3,021             | —                            | —                             | 3,021      |
| Commercial paper        | 2,000             | —                            | —                             | 2,000      |
| Corporate bonds         | 27,085            | 20                           | (15 )                         | 27,090     |
| Corporate notes         | 13,397            | 9                            | (6 )                          | 13,400     |
| Treasuries              | 10,000            | 3                            | (3 )                          | 10,000     |
| Auction-rate securities | 2,800             | —                            | (141 )                        | 2,659      |
|                         | \$62,823          | \$32                         | \$(165 )                      | \$62,690   |

Classified as:

|                           |          |      |          |          |
|---------------------------|----------|------|----------|----------|
| Cash and cash equivalents | \$7,541  | \$—  | \$—      | \$7,541  |
| Short-term investments    | 52,482   | 32   | (24 )    | 52,490   |
| Long-term investments     | 2,800    | —    | (141 )   | 2,659    |
|                           | \$62,823 | \$32 | \$(165 ) | \$62,690 |



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| As of December 31, 2010   | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair Value |
|---------------------------|-------------------|------------------------------|-------------------------------|------------|
| Cash                      | \$2,340           | \$—                          | \$—                           | \$2,340    |
| Money market fund         | 14,221            | —                            | —                             | 14,221     |
| Commercial paper          | 6,992             | —                            | (2 )                          | 6,990      |
| Corporate bonds           | 22,013            | 19                           | (20 )                         | 22,012     |
| Corporate notes           | 20,997            | 25                           | (14 )                         | 21,008     |
| Treasuries                | 4,999             | —                            | (2 )                          | 4,997      |
| Auction-rate securities   | 2,800             | —                            | (133 )                        | 2,667      |
|                           | \$74,362          | \$44                         | \$(171 )                      | \$74,235   |
| Classified as:            |                   |                              |                               |            |
| Cash and cash equivalents | \$18,561          | \$—                          | \$—                           | \$18,561   |
| Short-term investments    | 53,001            | 44                           | (38 )                         | 53,007     |
| Long-term investments     | 2,800             | —                            | (133 )                        | 2,667      |
|                           | \$74,362          | \$44                         | \$(171 )                      | \$74,235   |

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):

|                       | June 30,<br>2011 | December<br>31,<br>2010 |
|-----------------------|------------------|-------------------------|
| Due within one year   | \$37,996         | \$50,350                |
| Due within two years  | 14,494           | 4,657                   |
| Due after three years | 2,659            | 2,667                   |
|                       | \$55,149         | \$57,674                |

At June 30, 2011 and December 31, 2010 we had investments in AAA-rated ARS with various state student loan authorities with estimated fair values aggregating \$2.7 million and \$2.7 million, respectively. The student loans made by these authorities are substantially guaranteed by the federal government through the Federal Family Education Loan Program (FFELP). ARS are long-term floating rate bonds tied to short-term interest rates. After the initial issuance of the securities, the interest rate on the securities is reset periodically, at intervals established at the time of issuance (e.g., every seven days, twenty-eight days, thirty-five days, or every six months), based on market demand, if the auctions are successful. ARS are bought and sold in the marketplace through a competitive bidding process often referred to as a “Dutch auction.” If there is insufficient interest in the securities at the time of an auction, the auction may not be completed and the ARS then pays a default interest rate. Following such a failed auction, we cannot access our funds that are invested in the corresponding ARS until a future auction of these investments is successful, new buyers express interest in purchasing these securities in between reset dates, issuers establish a different form of financing to replace these securities or final payments become due according to contractual maturities. Commencing in February 2008, conditions in the global credit markets resulted in failed auctions for all of the ARS we held. In the near term, our ability to liquidate our investments in ARS or fully recover the carrying values may be limited or not exist.

Fair value for all ARS, including both the UBS securities classified as trading securities and the other ARS classified as available-for-sale, was based on a discounted cash flow valuation that takes into account a number of factors including the weighted average remaining term (WART) of the underlying securities, the expected return, and the discount rate. The actual WART from servicing reports was used where available. For securities where the actual



WART was not available an estimate based on other securities held was used. The expected return was calculated based on the last twelve months average for the 91 day U.S., treasury bill plus a spread. The discount rate was calculated using the 3-month LIBOR rate plus adjustments for the security type. Changes in any of the above estimates, especially the weighted average remaining term or the discount rate, could result in a material change to the fair value. At June 30, 2011, all ARS were classified as Level 3 assets. Presently we have determined the decline in value for the available-for-sale ARS to be temporary because i) we have no current intent to sell these securities, and we believe that we will not be required to sell these securities before the recovery of its amortized cost due to our current cash, cash equivalents, and other investment balances; ii) through June 30, 2011 all of the securities have maintained AAA credit ratings; and iii) loans made by the issuers are backed by the federal government.

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However, if circumstances change, we may be required to record an other-than-temporary impairment charge on the available-for-sale ARS. We may similarly be required to record other-than-temporary impairment charges if the ratings on any of these securities are reduced or if any of the issuers default on their obligations. In addition to impairment charges, any of these events could cause us to lose part or all of our investment in these securities. Any of these events could materially affect our results of operations and our financial condition. We currently believe these securities are not significantly impaired for the reasons described above; however, it could take until the final maturity of the underlying notes (up to 30 years) to realize our investments' recorded value.

## Fair Value Measurements

Fair value is defined under ASC 820, Fair Value Measurements and Disclosures, 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.

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 June 30, 2011 and December 31, 2010 (in thousands):

| As of June 30, 2011     | Level 1 | Level 2  | Level 3 | Total    |
|-------------------------|---------|----------|---------|----------|
| Money market funds      | \$3,021 | \$—      | \$—     | \$3,021  |
| Commercial Paper        | —       | 2,000    | —       | 2,000    |
| Corporate Bonds         | —       | 27,090   | —       | 27,090   |
| Corporate Notes         | —       | 13,400   | —       | 13,400   |
| Treasuries              | —       | 10,000   | —       | 10,000   |
| Auction-rate Securities | —       | —        | 2,659   | 2,659    |
| Total                   | \$3,021 | \$52,490 | \$2,659 | \$58,170 |

| As of December 31, 2010 | Level 1  | Level 2  | Level 3 | Total    |
|-------------------------|----------|----------|---------|----------|
| Money market funds      | \$14,221 | \$—      | \$—     | \$14,221 |
| Commercial paper        | —        | 6,990    | —       | 6,990    |
| Corporate bonds         | —        | 22,012   | —       | 22,012   |
| Corporate notes         | —        | 21,008   | —       | 21,008   |
| Treasuries              | —        | 4,997    | —       | 4,997    |
| Auction-rate securities | —        | —        | 2,667   | 2,667    |
| Total                   | \$14,221 | \$55,007 | \$2,667 | \$71,895 |



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Level 2 securities are priced using quoted market prices for similar instruments, nonbinding market prices that are corroborated by observable market data, or discounted cash flow techniques. There have been no transfers between Level 1 and Level 2 measurements during the six months ended June 30, 2011.

Level 3 assets consist of ARS with various state student loan authorities. Beginning in February 2008, all auctions for the ARS have failed. Based on the continued failure of these auctions and the underlying maturities of the securities, we continue to classify our ARS holdings as long-term assets. The fair value of the auction-rate securities as of June 30, 2011 and December 31, 2010 was estimated by management.

The following table provides a summary of changes in fair value of our Level 3 financial assets as of June 30, 2011 and 2010 (in thousands):

|                                                      | Three Months Ended June<br>30, 2011 |                                          | Three Months Ended June<br>30, 2010 |                                          |
|------------------------------------------------------|-------------------------------------|------------------------------------------|-------------------------------------|------------------------------------------|
|                                                      | Auction-Rate<br>Securities          | Auction-Rate<br>Securities<br>Put Option | Auction-Rate<br>Securities          | Auction-Rate<br>Securities<br>Put Option |
| Beginning balance at March 31                        | \$2,598                             | \$ —                                     | \$22,805                            | \$ 817                                   |
| Transfer into Level 3                                | —                                   | —                                        | —                                   | —                                        |
| Sales                                                | —                                   | —                                        | (11,500 )                           | —                                        |
| Total gains/(losses):                                |                                     |                                          |                                     |                                          |
| Included in interest income (expense) and other, net | —                                   | —                                        | 817                                 | (817 )                                   |
| Included in other comprehensive income               | 61                                  | —                                        | (68 )                               | —                                        |
| Ending balance at June 30                            | \$2,659                             | \$ —                                     | \$12,054                            | \$ —                                     |

  

|                                                      | Six Months Ended June<br>30, 2011 |                                          | Six Months Ended June 30,<br>2010 |                                          |
|------------------------------------------------------|-----------------------------------|------------------------------------------|-----------------------------------|------------------------------------------|
|                                                      | Auction-Rate<br>Securities        | Auction-Rate<br>Securities<br>Put Option | Auction-Rate<br>Securities        | Auction-Rate<br>Securities<br>Put Option |
| Beginning balance at December 31                     | \$2,667                           | \$ —                                     | \$22,655                          | \$ 1,289                                 |
| Transfer into Level 3                                | —                                 | —                                        | —                                 | —                                        |
| Sales                                                | —                                 | —                                        | (11,800 )                         | —                                        |
| Total gains/(losses):                                |                                   |                                          |                                   |                                          |
| Included in interest income (expense) and other, net | —                                 | —                                        | 1,289                             | (1,289 )                                 |
| Included in other comprehensive income               | (8 )                              | —                                        | (90 )                             | —                                        |
| Ending balance at June 30                            | \$2,659                           | \$ —                                     | \$12,054                          | \$ —                                     |

## 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 balance sheet. At June 30, 2011, we held approximately \$2.7 million of AAA-rated student loan auction-rate debt securities. See the Cash, Cash Equivalents and Investments section of this Note 1 to the condensed consolidated financial statements for more information.

For the three months ended June 30, 2011, Customer A and Customer B accounted for 24% and 16%, respectively, of our total revenue. There were no other customers that accounted for 10% or more of total revenue. For the three months ended June 30, 2010, Customer A and Customer B accounted for 42% and 13%, respectively, of our total revenue. There were no other customers that accounted for 10% or more of total revenue. For the six months ended June 30, 2011, Customer A and Customer B accounted for 27% and 18%, respectively, of our total revenue. There were no other customers that accounted for 10% or more of total revenue. For the six months ended June 30, 2010, Customer A accounted for 47% of our total revenue. There were no other customers that accounted for 10% or more of total revenue.

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The credit risk in our trade accounts receivable is mitigated by our credit evaluation process and reasonably short payment terms. At June 30, 2011, Customer A, Customer B and Customer C accounted for 25%, 25% and 21%, respectively, of our total accounts receivable. No other customers accounted for 10% or more of our total accounts receivable. At December 31, 2010, Customer A, Customer B and Customer D accounted for 57%, 21% and 12% of our total accounts receivable. No other customers accounted for 10% or over of our total accounts receivable.

### 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 upon a specific review of all significant outstanding invoices. For those invoices not specifically provided for, reserves are recorded at differing rates, based upon 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 June 30, 2011 and December 31, 2010, we had an allowance for doubtful accounts of \$9,000 and \$43,000, respectively.

### Property and Equipment

Property and equipment is stated at cost, less accumulated depreciation which is determined using the straight-line method over the estimated useful lives of 2 years for computer equipment and software, 3 years for furniture and fixtures, and the shorter of the estimated useful lives or the lease term for leasehold improvements. Repairs and maintenance costs are expensed as incurred.

### Business Combinations - Purchase Accounting

Under the purchase method of accounting, we allocate the purchase price of acquired companies to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values. We record the excess of purchase price over the aggregate fair values as goodwill. We determine the fair values of assets acquired and liabilities assumed. These valuations require us to make significant estimates and assumptions, especially with respect to intangible assets. Such estimates include assumptions regarding future revenue streams, market performance, customer base, and various vendor relationships. We estimate the economic lives of certain acquired assets and these lives are used to calculate depreciation and amortization expenses. We estimate the future cash flows to be derived from such assets, and these estimates are used to determine the fair value of the assets. If any of these estimates change, depreciation or amortization expenses could be changed and/or the value of our intangible assets could be impaired.

### Purchased Technology and Internal Use Software

We capitalize costs related to software that we license and incorporate into our product and service offerings or develop for internal use. In July 2009, we licensed source code for technology associated with remote computer access in the amount of \$350,000. For the three and six months ended June 30, 2011, we recorded amortization expense related to this technology of \$21,000 and \$41,000, respectively. In addition, as of June 30, 2011, we are carrying \$70,000 of capitalized costs incurred during the development of software for internal use. This software is not yet implemented. We will amortize this cost over the useful life of this software once it is placed into service.

### Accounting for Goodwill and Other Intangible Assets

As of June 30, 2011, goodwill increased \$3.4 million, as compared with December 31, 2010, to \$13.6 million as a result of our acquisition of SUPERAntiSpyware on June 15, 2011 (see also Note 7, Business combination).

We assess the impairment of goodwill annually or more often if events or changes in circumstances indicate that the carrying value may not be recoverable. We perform our annual impairment test on September 30 each year. An impairment loss would be recognized if the fair value of the reporting unit is less than the carrying value of the reporting unit's net assets on the date of the evaluation. We determine the fair value of the reporting unit utilizing an estimate of future cash flows. The estimate of cash flow is based upon, among other things, certain assumptions about expected future operating performance and an appropriate discount rate determined by our management. Our estimates of discounted cash flows may differ from actual cash flows due to, among other things, economic conditions, changes to the business model or changes in operating performance. If our estimates were to change, our assessment of goodwill impairment could change and could result in write-downs of goodwill, which would be reflected by charges to our operating results for any period presented.

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We assess the impairment of identifiable intangible assets whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss would be recognized when the sum of the undiscounted future net cash flows expected to result from the use of the asset and its eventual disposition is less than its carrying amount. If our estimates regarding future cash flows derived from such assets were to change, we may record an impairment to the value of these assets. Such impairment loss would be measured as the difference between the carrying amount of the asset and its fair value.

## Stock-Based Compensation

In the second quarter of 2009, the Company terminated the Support.com Employee Stock Purchase Plan (the "ESPP") when we sold our enterprise business. During 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 the Support.com ESPP and reserved 1,000,000 shares of Support.com common stock, for issuance under the ESPP, 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.

We comply with ASC 718, Compensation - Stock Compensation, which requires the measurement and recognition of compensation expense for all stock-based payment awards, including employee stock options and employee stock purchases, made to employees and directors based on estimated fair values.

For the three and six months ended June 30, 2011, options to acquire 150,000 shares and 1,171,000 shares of our common stock were granted. For the three and six months ended June 30, 2010, options to acquire 513,000 shares and 1,079,000 shares of our common stock were granted. The fair value of our stock options granted to employees and employee stock purchases for the three and six months ended June 30, 2011 and 2010 was estimated using the following assumptions:

|                                         | Three Months Ended June 30, |   |           |   | Six Months Ended June 30, |   |           |   |
|-----------------------------------------|-----------------------------|---|-----------|---|---------------------------|---|-----------|---|
|                                         | 2011                        |   | 2010      |   | 2011                      |   | 2010      |   |
| Stock Option Plan:                      |                             |   |           |   |                           |   |           |   |
| Risk-free interest rate                 | 1.0                         | % | 1.5       | % | 1.6                       | % | 1.8       | % |
| Expected term                           | 3.6 years                   |   | 3.6 years |   | 3.6 years                 |   | 3.6 years |   |
| Volatility                              | 56.7                        | % | 66.9      | % | 61.0                      | % | 67.7      | % |
| Expected dividend                       | 0                           | % | 0         | % | 0                         | % | 0         | % |
| Weighted average fair value (per share) | \$1.92                      |   | \$1.75    |   | \$2.69                    |   | \$1.53    |   |

|                               | Three Months Ended June 30, |   |      |  | Six Months Ended June 30, |   |      |  |
|-------------------------------|-----------------------------|---|------|--|---------------------------|---|------|--|
|                               | 2011                        |   | 2010 |  | 2011                      |   | 2010 |  |
| Employee Stock Purchase Plan: |                             |   |      |  |                           |   |      |  |
| Risk-free interest rate       | 0.1                         | % | —    |  | 0.1                       | % | —    |  |
| Expected term                 | 0.5 years                   |   | —    |  | 0.5 years                 |   | —    |  |
| Volatility                    | 45.9                        | % | —    |  | 45.9                      | % | —    |  |
| Expected dividend             | 0                           | % | —    |  | 0                         | % | —    |  |



|                                         |         |      |         |      |
|-----------------------------------------|---------|------|---------|------|
| Weighted average fair value (per share) | \$ 1.20 | \$ — | \$ 1.20 | \$ — |
|-----------------------------------------|---------|------|---------|------|

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We recorded the following stock-based compensation expense for the three and six months ended June 30, 2011 and 2010 (in thousands):

|                                                                          | Three Months Ended June<br>30, |         | Six Months Ended June<br>30, |         |
|--------------------------------------------------------------------------|--------------------------------|---------|------------------------------|---------|
|                                                                          | 2011                           | 2010    | 2011                         | 2010    |
| Stock option compensation expense recognized in:                         |                                |         |                              |         |
| Cost of services                                                         | \$50                           | \$40    | \$105                        | \$79    |
| Cost of software and other                                               | 5                              | -       | 5                            | 1       |
| Research and development                                                 | 180                            | 149     | 341                          | 298     |
| Sales and marketing                                                      | 149                            | 291     | 301                          | 442     |
| General and administrative                                               | 677                            | 552     | 1,114                        | 1,068   |
|                                                                          | \$1,061                        | \$1,032 | \$1,866                      | \$1,888 |
| ESPP compensation expense recognized in:                                 |                                |         |                              |         |
| Cost of services                                                         | \$4                            | \$—     | \$4                          | \$—     |
| Cost of software and other                                               | —                              | —       | —                            | —       |
| Research and development                                                 | 2                              | —       | 2                            | —       |
| Sales and marketing                                                      | 1                              | —       | 1                            | —       |
| General and administrative                                               | 1                              | —       | 1                            | —       |
|                                                                          | \$8                            | \$—     | \$8                          | \$—     |
| Stock-based compensation expense included in total costs<br>and expenses |                                |         |                              |         |
|                                                                          | \$1,069                        | \$1,032 | \$1,874                      | \$1,888 |

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The following table represents stock option activity for the six months ended June 30, 2011:

|                                                    | Number of<br>Shares | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Term<br>(years) | Aggregate<br>Intrinsic<br>Value<br>(in '000's) |
|----------------------------------------------------|---------------------|------------------------------------------|--------------------------------------------------------------------|------------------------------------------------|
| Outstanding options at the beginning of the period | 9,586,364           | \$2.83                                   | 4.48                                                               | \$35,074                                       |
| Granted                                            | 1,170,550           | 4.57                                     |                                                                    |                                                |
| Exercised                                          | (176,498 )          | 2.36                                     |                                                                    |                                                |
| Forfeited                                          |                     |                                          |                                                                    |                                                |