

Support.com, Inc.
Form 10-Q
August 04, 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 June 30, 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 Incorporation or Organization) (I.R.S. Employer Identification No.)

900 Chesapeake Drive
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

o

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 Smaller reporting company
(Do not check if a 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, 2014, 53,941,907 shares of the Registrant’s Common Stock, \$0.0001 par value, were outstanding.

SUPPORT.COM, INC.
 FORM 10-Q
 QUARTERLY PERIOD ENDED JUNE 30, 2014
 INDEX

	Page
Part I. Financial Information	3
Item 1. <u>Financial Statements (Unaudited)</u>	3
<u>Condensed Consolidated Balance Sheets at June 30, 2014 and December 31, 2013</u>	3
<u>Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2014 and 2013</u>	4
<u>Condensed Consolidated Statements of Comprehensive Income (Loss) for the three and six months ended June 30, 2014 and 2013</u>	5
<u>Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 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
Part II. Other Information	
Item 1. <u>Legal Proceedings</u>	24
Item 1A. <u>Risk Factors</u>	24
Item 4. <u>Mine Safety Disclosures</u>	34
Item 6. <u>Exhibits</u>	34
<u>Signature</u>	35
<u>Exhibit Index</u>	36

Index

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SUPPORT.COM, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)

	June 30, 2014 (Unaudited)	December 31, 2013 (1)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 27,498	\$28,390
Short-term investments	48,083	43,967
Accounts receivable, net	13,105	13,993
Prepaid expenses and other current assets	853	1,322
Total current assets	89,539	87,672
Property and equipment, net	454	461
Goodwill	14,240	14,240
Intangible assets, net	2,909	3,454
Other assets	1,221	1,072
Total assets	\$ 108,363	\$ 106,899
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,143	\$860
Accrued compensation	2,141	2,157
Other accrued liabilities	3,855	3,359
Short-term deferred revenue	2,816	3,323
Total current liabilities	9,955	9,699
Long-term deferred revenue	54	50
Other long-term liabilities	1,906	1,754
Total Liabilities	11,915	11,503
Commitments and contingencies (Note 4)		
Stockholders' equity:		
Common stock; par value \$0.0001, 150,000,000 shares authorized; 55,058,464 issued and 53,865,866 outstanding at June 30, 2014; 54,474,594 issued and 53,281,996 outstanding at December 31, 2013	5	5
Additional paid-in capital	260,396	258,291
Treasury stock	(5,036)	(5,036)
Accumulated other comprehensive loss	(1,790)	(1,874)
Accumulated deficit	(157,127)	(155,990)
Total stockholders' equity	96,448	95,396
Total liabilities and stockholders' equity	\$ 108,363	\$ 106,899

(1) Derived from the December 31, 2013 audited Consolidated Financial Statements included in our Annual Report on Form 10-K, as filed with the Securities and Exchange Commission (“SEC”) on March 7, 2014.

See accompanying notes.

3

Index

SUPPORT.COM, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenue:				
Services	\$18,335	\$16,128	\$35,061	\$32,574
Software and other	1,843	3,996	3,730	7,752
Total revenue	20,178	20,124	38,791	40,326
Cost of revenue:				
Cost of services	14,531	8,838	27,493	18,148
Cost of software and other	228	271	467	578
Total cost of revenue	14,759	9,109	27,960	18,726
Gross profit	5,419	11,015	10,831	21,600
Operating expenses:				
Research and development	1,057	1,282	2,411	2,870
Sales and marketing	1,688	4,375	3,239	8,311
General and administrative	2,980	2,354	5,643	5,117
Amortization of intangible assets and other	273	335	546	670
Total operating expenses	5,998	8,346	11,839	16,968
Income (loss) from operations	(579)	2,669	(1,008)	4,632
Interest income and other, net	62	108	140	181
Income (loss) from continuing operations, before income taxes	(517)	2,777	(868)	4,813
Income tax provision	132	177	257	326
Income (loss) from continuing operations, after income taxes	(649)	2,600	(1,125)	4,487
Loss from discontinued operations, after income taxes	(6)	(5)	(12)	(10)
Net income (loss)	\$(655)	\$2,595	\$(1,137)	\$4,477
Basic and diluted earnings (loss) per share:				
Income (loss) from continuing operations	\$(0.01)	\$0.05	\$(0.02)	\$0.09
Loss from discontinued operations	(0.00)	(0.00)	(0.00)	(0.00)
Basic and diluted earnings (loss) per share	\$(0.01)	\$0.05	\$(0.02)	\$0.09
Shares used in computing per share amounts:				
Basic	53,798	50,792	53,557	50,476
Diluted	53,798	52,866	53,557	52,535

See accompanying notes.

Index

SUPPORT.COM, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands)

(Unaudited)

	Three Months Ended June 30, 2014		Six Months Ended June 30, 2014	
	2013		2013	
Net income (loss)	\$ (655)	\$ 2,595	\$ (1,137)	\$ 4,477
Other comprehensive income (loss):				
Change in foreign currency translation adjustment	15	(239)	84	(226)
Change in net unrealized gain (loss) on investments	(8)	(9)	—	(23)
Other comprehensive income (loss)	7	(248)	84	(249)
Comprehensive income (loss)	\$ (648)	\$ 2,347	\$ (1,053)	\$ 4,228

See accompanying notes.

5

Index

SUPPORT.COM, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	Six Months Ended June 30,	
	2014	2013
Operating Activities:		
Net income (loss)	\$(1,137)	\$4,477
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	145	179
Amortization of premiums and discounts on investments	384	294
Amortization of purchased technology	—	41
Amortization of intangible assets and other	546	670
Stock-based compensation	1,255	1,565
Changes in assets and liabilities:		
Accounts receivable, net	888	108
Prepaid expenses and other current assets	470	(339)
Other long-term assets	(133)	89
Accounts payable	284	224
Accrued compensation	(14)	(114)
Other accrued liabilities	499	1,453
Other long-term liabilities	103	140
Deferred revenue	(454)	(1,690)
Net cash provided by operating activities	2,836	7,097
Investing Activities:		
Purchases of property and equipment	(138)	(67)
Purchases of investments	(38,857)	(19,609)
Maturities of investments	34,356	14,517
Net cash used in investing activities	(4,639)	(5,159)
Financing Activities:		
Proceeds from issuances of common stock	850	6,212
Repurchase of common stock	—	(4,114)
Net cash provided by financing activities	850	2,098
Effect of exchange rate changes on cash and cash equivalents	61	(178)
Net increase (decrease) in cash and cash equivalents	(892)	3,858
Cash and cash equivalents at beginning of period	28,390	30,852
Cash and cash equivalents at end of period	\$27,498	\$34,710
Supplemental schedule of cash flow information:		
Income taxes paid	\$142	\$74

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 condensed consolidated financial statements include the accounts of Support.com, Inc. (the “Company” or “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 June 30, 2014 and the condensed consolidated statements of operations and comprehensive income (loss) for the three and six months ended June 30, 2014 and 2013 and the condensed consolidated statements of cash flows for the six months ended June 30, 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 consolidated 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 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 Securities and Exchange Commission 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 and medium business (“SMB”) 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.

We offer technology services to consumers and SMBs, 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 referral programs, 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.

7

Index

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 June 30, 2014 and 2013, services breakage revenue was approximately 1% of our total revenue. For the six months ended June 30, 2014 and 2013, services breakage revenue was approximately 2% 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”). Currently, revenues from implementation services are recognized ratably over the customer life which is estimated as the term of the arrangement once the Nexus 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. 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.

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.

8

Index

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. In such arrangements, customers receive a right to use our Nexus in their own technology support organizations. We license our Nexus 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 June 30, 2014 and 2013, revenue from licensing of our Nexus was approximately 2% and 1%, respectively, of our total revenue. For the six months ended June 30, 2014 and 2013, revenue from licensing of our Nexus 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 June 30, 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 June 30, 2014 and December 31, 2013, the fair value of cash, cash equivalents and investments was \$75.6 million and \$72.4 million, respectively.

The following is a summary of cash, cash equivalents and investments at June 30, 2014 and December 31, 2013 (in thousands):

	Amortized	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
As of June 30, 2014	Cost			
Cash	\$ 17,739	\$ —	\$ —	\$ 17,739
Money market funds	9,759	—	—	9,759

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Certificates of deposits	1,680	—	(1)	1,679
Commercial paper	10,198	—	—		10,198
Corporate notes and bonds	34,221	4	(20)	34,205
U.S. government agency securities	2,000	1	—		2,001
	\$ 75,597	\$ 5	\$ (21)	\$ 75,581

Classified as:

Cash and cash equivalents	\$ 27,498	\$ —	\$ —		\$ 27,498
Short-term investments	48,099	5	(21)	48,083
	\$ 75,597	\$ 5	\$ (21)	\$ 75,581

Index

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
As of December 31, 2013				
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):

	June 30, 2014	December 31, 2013
Due within one year	\$ 44,801	\$ 34,916
Due within two years	3,282	9,051
	\$ 48,083	\$ 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.

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, 2014 and December 31, 2013

(in thousands):

	Level		Level	
As of June 30, 2014	1	Level 2	3	Total
Money market funds	\$9,759	\$—	\$	—\$9,759
Certificates of deposits		1,679		— 1,679
Commercial paper	—	10,198	—	10,198
Corporate notes and bonds	—	34,205	—	34,205
U.S. government agency securities	—	2,001	—	2,001
Total	\$9,759	\$48,083	\$	—\$57,842

10

Index

As of December 31, 2013	Level			Total
	Level 1	Level 2	3	
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 June 30, 2014, Comcast (61%) and the combined Office Depot and OfficeMax organization (16%) accounted for 10% or more of our total revenue. For the three months ended June 30, 2013, Comcast (45%) accounted for 10% or more of our total revenue. For the six months ended June 30, 2014, Comcast (59%) and the combined Office Depot and OfficeMax organization (18%) accounted for 10% or more of our total revenue. For the six months ended June 30, 2013, Comcast (44%) and OfficeMax (11%) 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 and six months ended June 30, 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 June 30, 2014, Comcast (76%) and the combined Office Depot and OfficeMax organization (10%) 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 June 30, 2014 and December 31, 2013.

Trade Accounts Receivable and Allowance for Doubtful Accounts

Trade accounts receivable are recorded at the invoiced amount. Trade accounts receivable also include unbilled amounts for programs for which the billing periods are different than the Company's calendar reporting periods. Unbilled amounts as of June 30, 2014 and December 31, 2013 were \$1.4 million and \$853,000, respectively. 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 June 30, 2014 and December 31, 2013, we had an allowance for doubtful accounts of approximately \$4,000 and zero, respectively.

11

Index

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 June 30, 2014 and December 31, 2013, respectively, and accumulated unrealized losses on investments were (\$16,000) and (\$16,000) as of June 30, 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 and six months ended June 30, 2014 and 2013:

	Three Months Ended June 30, 2014		Six Months Ended June 30, 2013	
Stock Option Plan:				
Risk-free interest rate	1.61 %	0.6 %	1.61 %	0.6 %
Expected term	5.28 years	3.7 years	5.28 years	3.7 years
Volatility	57.30 %	56.7 %	57.30 %	56.7 %
Expected dividend	0 %	0 %	0 %	0 %
Weighted average fair value (per share)	\$1.20	\$1.68	\$1.20	\$1.71

	Three Months Ended June 30, 2014		Six Months Ended June 30, 2013	
Employee Stock Purchase Plan:				
Risk-free interest rate	0.05 %	0.09 %	0.05 %	0.09 %
Expected term	0.5 years	0.5 years	0.5 years	0.5 years
Volatility	61.07 %	42.8 %	61.07 %	42.8 %
Expected dividend	0 %	0 %	0 %	0 %
Weighted average fair value (per share)	\$0.72	\$1.18	\$0.72	\$1.18

We recorded the following stock-based compensation expense for the three and six months ended June 30, 2014 and 2013 (in thousands):

	Three Months Ended June 30,	Six Months Ended June 30,
--	--------------------------------------	------------------------------

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2014 2013 2014 2013

Stock-based compensation expense related to grants of:

Stock options	\$224	\$473	\$560	\$1,130
Employee Stock Purchase Plan (“ESPP”)	41	19	70	48
Restricted Stock Units (“RSU”)	368	276	625	387
	\$633	\$768	\$1,255	\$1,565

Stock-based compensation expense recognized in:

Cost of services	\$45	\$65	\$132	\$157
Cost of software and other	4	2	7	6
Research and development	(4)	129	163	338
Sales and marketing	94	74	171	182
General and administrative	494	498	782	882
	\$633	\$768	\$1,255	\$1,565

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. We excluded outstanding weighted average stock options of 5.1 million and 3.7 million for the three and six months ended June 30, 2014, and 1.7 million for the three and six months ended June 30, 2013, 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. Since we reported a net loss for the three and six months ended June 30, 2014, 66,000 and 260,000 outstanding options and RSUs were also excluded from the computation of diluted loss per share since their effect would have been anti-dilutive.

Pursuant to approval by the Company's Compensation Committee, the Company issued 725,000 RSUs to its corporate employees on August 5, 2013. These RSUs were not included in the computation of the basic and diluted earnings per share for the three and six months ended June 30, 2013 because they were not outstanding during either period.

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

	Three Months Ended June 30, 2014		Six Months Ended June 30, 2013	
Net income (loss)	\$(655)	\$2,595	\$(1,137)	\$4,477
Basic:				
Weighted-average shares of common stock outstanding	53,798	50,792	53,557	50,476
Shares used in computing basic earnings (loss) per share	53,798	50,792	53,557	50,476
Basic earnings (loss) per share	(0.01)	0.05	(0.02)	0.09
Diluted:				
Weighted-average shares of common stock outstanding	53,798	50,792	53,557	50,476
Add: Common equivalent shares outstanding	—	2,074	—	2,059
Shares used in computing diluted earnings (loss) per share	53,798	52,866	53,557	52,535
Diluted earnings (loss) per share	\$(0.01)	\$0.05	\$(0.02)	\$0.09

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 June 30, 2014, we were not required to make any payment

resulting from infringement claims asserted against our customers and have not recorded any related accruals.

13

Index

Recent Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (ASU 2014-09), which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP. The standard is effective for annual periods beginning after December 15, 2016, and interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). The Company is currently evaluating the impact of its pending adoption of ASU 2014-09 on its consolidated financial statements and has not yet determined the method by which it will adopt the standard in 2017.

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 were valued as they were earned, and the resulting value was recorded as a charge against revenue in the period in which the performance milestone was met and the warrant was 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%. 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 \$132,000 and \$257,000 for the three and six months ended June 30, 2014, respectively, and \$177,000 and \$326,000 for the three and six months ended June 30, 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 June 30, 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 June 30, 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 against a number of major software providers with similar allegations about those providers' products. On May 30, 2013, the Company received final court approval relating to the terms of a settlement of these actions. Under the terms of the settlement, the Company offered a one-time cash payment, covered by the Company's insurance provider, to qualified class-action members; the deadline to submit a claim form concluded on February 28, 2013. In addition, the Company offered a limited free subscription to one of its software products; the deadline for redemptions concluded on August 31, 2013. Therefore, the Company reversed a previous accrual of \$57,000 associated with these actions and recorded a benefit in the same amount within interest income and other, net in the consolidated statements of operations for the year ended December 31, 2013. 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. On June 30, 2014, the Company and LT Tech LLC executed a Settlement and License Agreement according to which the Company paid LT Tech LLC a total amount of \$150,000 which was recorded as a charge against earnings in cost of services in the second quarter of 2014. On July 8, 2014, the Company obtained a dismissal for the complaint filed by LT Tech LLC. The Company denies any wrongdoing or liability and entered into the settlement to minimize the costs of defense.

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 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. We incurred zero and immaterial costs as a result of such obligations during the three and six months ended June 30, 2013, respectively. No costs were incurred during the three and six months ended June 30, 2014. We have not accrued any liabilities related to such obligations in the condensed consolidated financial statements as of June 30, 2014 and December 31, 2013.

Note 5. Intangible Assets

Amortization expense and other related to intangible assets for the three and six months ended June 30, 2014 was \$273,000 and \$546,000, respectively. Amortization expense and other related to intangible assets for the three and six months ended June 30, 2013 was \$335,000 and \$670,000, respectively.

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

	Non- compete	Partner Relationships	Customer Base	Technology Rights	Tradenames	Indefinite Life Intangibles	Total
<u>As of June 30, 2014</u>							
Gross carrying value	\$ 593	\$ 145	\$ 641	\$ 5,330	\$ 760	\$ 250	\$7,719
Accumulated amortization	(502)	(145)	(407)	(3,135)	(621)	—	(4,810)
Net carrying value	\$ 91	\$ —	\$ 234	\$ 2,195	\$ 139	\$ 250	\$2,909
<u>As of December 31, 2013</u>							
Gross carrying value	\$593	\$145	\$641	\$5,330	\$760	\$250	\$7,719

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Accumulated amortization	(477)	(145)	(361)	(2,689)	(593)	—	(4,265)
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.

15

Index

The estimated future amortization expense of intangible assets, with the exception of the indefinite-life intangible assets as of June 30, 2014 is as follows (in thousands):

Fiscal Year	Amount
2014(July-December)	546
2015	1,069
2016	1,028
2017	16
Total	\$ 2,659
	2.47
Weighted average remaining useful life	years

Note 6. Other Accrued Liabilities

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

	As of June 30, 2014	As of December 31, 2013
Accrued expenses	\$3,336	\$ 2,135
Customer deposits	369	481
Restructuring expenses	—	431
Other accrued liabilities	150	312
Total other accrued liabilities	\$3,855	\$ 3,359

Note 7. Stockholder's Equity

Stock Options

The following table represents the stock option activity for the six months ended June 30, 2014:

	Number of Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (in thousands)
Outstanding options at December 31, 2013	5,382,391	\$ 3.55	3.66	\$ 4,039
Granted	1,310,750	\$ 2.23		
Exercised	(316,428)	\$ 2.31		
Forfeited	(793,913)	\$ 3.89		
Outstanding options at June 30, 2014	5,582,800	\$ 3.26	4.26	\$ 1,314
Options vested and expected to vest	5,376,222	\$ 3.28	4.06	\$ 1,236
Exercisable at June 30, 2014	3,567,845	\$ 3.42	1.67	\$ 655

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 June 30, 2014. This amount changes based on the fair market value of our stock. The aggregate intrinsic value of options exercised under our stock option plans was \$47,000 and \$54,000 during the three and six months ended June 30, 2014, respectively, and \$2.1 million and \$4.6

million during the three and six months ended June 30, 2013, respectively. Total fair value of options vested was \$175,000 and \$314,000 during the three and six months ended June 30, 2014, respectively, and \$756,000 and \$1.2 million during the three and six months ended June 30, 2013, respectively.

At June 30, 2014, there was \$2.3 million of unrecognized compensation cost related to existing stock options outstanding which is expected to be recognized over a weighted average period of 2.33 years.

On February 11, 2014, Joshua Pickus, the Company's former 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.

16

Index

During the second quarter of 2014, the Company's Compensation Committee approved the grant of (i) 750,000 market-based stock options to the Company's new President and Chief Executive Officer, and (ii) 112,500 market-based stock options to certain key executives. The market-based stock options shall only be exercisable, to the extent vested, upon the Company's achievement of specified stock price thresholds. In accordance with ASC 718, the Company estimated the grant-date fair values of its market-base stock options at \$1.27 - \$1.33 per share with derived service periods of 1.87 - 4.52 years using a Monte-Carlo simulation model.

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 six months ended June 30, 2014, 61,575 shares were granted under ESPP.

Restricted Stock Units

The following table represents RSU activity for the six months ended June 30, 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	664,731	\$ 2.36		
Released	(231,908)	\$ 4.08		