

Support.com, Inc.
Form 10-K
March 08, 2019

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

FORM 10-K
(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2018

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

For the Transition Period from _____ to _____
Commission File 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.)

1521 Concord Pike (US 202), Suite 301, Wilmington, DE 19803

(Address of Registrant's Principal Executive Offices) (Zip Code)

Registrant's telephone number including area code: (650) 556-9440

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, \$.0001 par value	The NASDAQ Global Select Market
Preferred Stock Purchase Rights	The NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark if registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

SUPPORT.COM, INC.
 FORM 10-K
 FOR FISCAL YEAR ENDED DECEMBER 31, 2018
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FORWARD LOOKING STATEMENTS AND PRESENTATION OF FINANCIAL AND OTHER INFORMATION

This Annual Report on Form 10-K (the “Form 10-K”) contains forward-looking statements that involve risks and uncertainties. Please see the section entitled “Risk Factors” in Item 1A of this Report for important information to consider when evaluating these statements.

In this Form 10-K, unless the context indicates otherwise, the terms “we,” “us,” “Support.com,” “the Company” and “our” refer to Support.com, Inc., a Delaware corporation, and its subsidiaries. References to “\$” are to United States dollars.

We have compiled the market size and growth data in this Form 10-K using statistics and other data obtained from several third-party sources. Some market and statistical data are also based on our good faith estimates, which are derived from our review of internal surveys, as well as the third-party sources referred to. This information may prove to be inaccurate because of the method by which the data is obtained or because this information cannot be verified with complete certainty due to the limits on the availability and reliability of raw data, the voluntary nature of the data gathering process and other limitations and uncertainties. As a result, although we believe this information is reliable, we have not independently verified the third-party data and cannot guarantee the accuracy and completeness of this information.

Various amounts and percentages used in this Form 10-K have been rounded and, accordingly, they may not total 100%.

We own or otherwise have rights to the trademarks and trade names, including those mentioned in this Form 10-K, used in conjunction with the marketing and sale of our products.

PART I

ITEM 1. BUSINESS

Overview

Technology has become an essential feature of the modern life. Personal computers, printers, tablets, smartphones, digital cameras, connected entertainment systems, intelligent virtual assistants, home automation systems, and smart home appliances have become ubiquitous. Each year, these products become more feature-rich, offering many new capabilities. Consumers and small and medium-sized businesses (“SMBs”) now depend on such technology for “must-have” information, communication, and entertainment as well as for tasks and activities in their daily lives.

Technology has also become increasingly connected, with networks commonplace in the home as well as the office, and with the Internet of Things (“IoT”) adding a diverse array of devices that monitor, track and automate the physical world. At the same time, technology has become increasingly mobile, with anytime/anywhere access to voice, data, video and applications becoming commonplace.

The complexity of this environment creates challenges for customer support organizations. It results in more difficult problems to solve, often including the need to support third-party products. The growth in the number and range of connected devices, the increasingly inter-connected nature of these devices, and the related complex ecosystem compels customer support organizations to use expert agents, smart, integrated tools, and analytics to fundamentally transform how support is delivered.

Moreover, consumers aspire to get the most out of their technology and are often frustrated with the growing number of connected devices and the related inter-operability challenges. They need assistance with selectively installing, maintaining, and troubleshooting their devices, and they need support anytime, anywhere, and delivered any way they want it – self-support or live agent, desktop or mobile.

Support.com is a full spectrum leader in technical support solutions for businesses and consumers, helping people get the most out of their tech. Support.com offers outsourced call center tech support services, and cloud-based call center software to businesses that sell, manufacture, or maintain PCs, Macs, mobile devices, and other connected devices. Our skilled US-based workforce delivers high quality, turnkey support solutions, including presale and post-sale support across all devices in the connected home. Our customers include retailers, Internet Service Providers/MSO’s, original equipment manufacturers (“OEMs”), and warranty providers. We’re the power behind major brands, helping them grow revenue, reduce costs, and delight their customers. In addition, our expert tech support agents and desktop software solutions are also available to help individuals and small businesses install, maintain, and troubleshoot their PCs, Macs, mobile devices, and connected devices — 24/7, 365 days a year.

Support.com is the leading technology support company offering a full “Spectrum of Support,” ranging from intuitive self-help diagnostic and solution tools known as “Guided Paths®”, to chats or calls with live, professionally trained U.S. based technology support agents. Guided Paths® help consumers solve the most common technology issues on their own, and are ideal for consumers that prefer accessing curated easy to find and follow self-help before contacting a support agent. For problems requiring additional assistance, our platform enables consumers to immediately reach an agent via chat or phone call. By including robust and effective self-help in our turnkey support programs, we are able to offer our customers a lower-cost solution to customer support than models based entirely off of personal agent

interaction, while simultaneously improving the consumer support experience.

Our objective is to become the leading technology support provider utilizing innovative self-help through the ongoing creation and refinement of our Guided Paths®, the software included in our Support.com Cloud offering and the service of professionally trained U.S.-based agents. We offer our turnkey, outsourced support services for service providers, retailers, OEMs, and warranty providers, IoT solution providers and other technology companies. Our customer support services programs are designed for both the consumer and SMB markets, and include pre-purchased concierge advice, device set-up, trouble shooting, security and support, virus and malware removal, wireless network set-up, and home security and automation system support. Most of our customer support specialists work from their homes rather than in brick-and-mortar facilities.

In addition to providing our services directly to customers, we also make our software and services available to other companies. Our Support.com Cloud offering is a software-as-a-service (“SaaS”) solution for companies to optimize support interactions with their customers using their own or third party support personnel. The solution enables companies to quickly resolve complex technology issues for their customers, boosting support agent productivity, providing ease of use for customer self-service, and dramatically improving the customer support experience.

Our Support Service Programs

Support.com® support services are distributed through partners, using the partner’s brand or in referral programs using the Support.com® brand. Partners include broadband providers, retailers, OEMs, software providers, internet services providers and warranty providers. The services programs include access to our library of Guided Paths®; one-time services (“incidents”), subscriptions, and bundled components of broader offerings.

For connected home technology and automation systems, we offer a complete range of services to help customers select, set up, configure and use new systems, including helping consumers personalize system settings to meet specific lifestyle needs.

We offer a variety of troubleshooting, installation, set-up and enablement services for computers, peripherals, mobile devices and gaming systems and their connectivity. We identify, diagnose and repair technical problems, including issues associated with viruses, spyware, and other forms of malware, connectivity issues, and issues with software applications. We create new user accounts, configure automatic system updates, remove unnecessary trial software, connect devices to the cloud, find and install applications, and synchronize data among devices. These services cover a wide variety of devices, regardless of manufacturer. Support is provided for devices including personal computer, laptops, tablets, mobile devices, gaming systems and other connected devices. Our smartphone and tablet services include configuring mobile devices for wireless network (WiFi) access, setting up email, and educating customers on how to browse the Internet and install apps. We secure and repair problems with wireless networks. We configure, connect and establish secure connections among computers, the wireless network and supported devices. We provide outsourced IT services to SMBs including technology assessments, equipment and service selection, procurement, installation, monitoring and ongoing support for customer’s networking, backup, mobile, telephony, server, software, license management and other technology needs.

We deliver our services using our proprietary agent facing and consumer self-help diagnostic tools known as Guided Paths® and technology support specialists who work from their homes rather than in brick and mortar facilities. Our library of Guided Paths® is constantly growing and under refinement as new devices and systems enter the market or receive software updates. Our technology specialists are recruited, tested, hired and trained on a virtual basis using proprietary methods and remote technology.

Our Support.com Cloud Offering

Our cloud-based software is the Company's offering in the Support Interaction Optimization (SIO) space. Support.com Cloud is a SaaS offering that provides significant levels of automation and analytics that enable companies to deliver superior customer support issue resolution while improving both the customer experience and operational performance. Based on insights from supporting millions of connected technology transactions annually, our software architecture is designed to enable resolving problems in a consistent manner by using proprietary, automated workflow while capturing rich data for service delivery optimization. Flexible architecture means that companies can take advantage of additional functionality as their business requirements change, and can add richer analytics, marketing and subscription management, and third-party applications to resolve issues.

Key features of our Support.com Cloud offering include:

Smart Guidance. Guided Paths® codify the organization’s best practices and ensures that agents and customers get the right guidance at the right time to help resolve customer problems. Guided Paths go beyond knowledge articles and decision trees. Guided paths are configured to gather contextual information and pertinent device data and to automate time-consuming, multi-step activities in ways that lead to effective and consistent problem resolution and satisfied customers.

Blended Support Capability. A context engine tracks and analyzes information about what the end-customer is trying to achieve and about what activities they have already taken to help themselves. This context is maintained across support channels – for instance, if the customer escalates from self-service to assisted support - and leads to a seamless blended support experience and reduced customer effort, overcoming one of the most frequent customer complaints about customer support experiences.

Remote Support Tools. A set of advanced tools including remote access, screen co-browsing, on-screen assistance, and SeeSupport - remote video support using the customer’s smart phone as a camera - is available to support representatives enabling them to quickly and effectively troubleshoot technical problems.

Data and Analytics. Our cloud-based data architecture can bring “Big Data” benefits to technology support, delivering business insights from rich data captured during service delivery and enabling organizations to track program performance and identify potential issues and inefficiencies.

Web-based Application Programming Interfaces (APIs). Open APIs enable integration with other contact center applications (such as ticketing systems, CRM platforms or knowledge bases) so that our Support.com Cloud applications can be fully integrated into the agent-customer interaction. The open API’s allow for data transfer and sharing between applications.

Our End-User Software Products

Our end-user software products are designed to maintain, optimize and secure computers and mobile devices. Certain software products are licensed on a perpetual basis while others are offered on a subscription basis.

Our principal software products include products designed for malware protection and removal (SUPERAntiSpyware®) and personal computer, smartphone and tablet maintenance and optimization (Cosmos®).

Sales and Marketing

Technology Support Services. We sell our services principally through partners. Our partners include leading communication providers, retailers, warranty providers and technology companies. We acquire partners through our business development organization, and we support partners through our account management organization. Our partnerships typically begin with a pilot phase and can take several weeks to more than a year to progress to a broader roll-out. We typically provide wholesale services to our partners on a per-incident, per-subscription or labor rate basis and our partners bundle our services with their own to their customers – consumers and SMBs. In these partnerships, the services are generally sold under the partner’s brand.

Support.com Cloud Offering. We license Support.com Cloud applications separately from support services provided by our customer support specialists. In such an arrangement, customers receive the right to use our cloud-based software in their own support organization, using a SaaS model under which customers pay us on a per-user or a per-session basis during the term of the arrangement. We also provide implementation services to customers, typically covering integration of our software with other customer’s systems. We charge for these services on a time-and-materials basis or as part of a fixed-fee package.

We acquire Support.com Cloud customers through our direct sales channel, which uses a variety of Internet-based lead generation strategies and industry presence marketing to drive demand. We also acquire customers through our partner channels.

End-User Software Products. We license our end-user software products directly to customers and through partners. To date, a majority of our end-user software revenue has come through direct sales to customers. Online advertising allows customers to click through to our software offerings where they can order and download our products on demand. In addition to fully featured software products available for a license fee, a substantial percentage of our end-user software revenue arises from customers who download free trial versions of our software or free versions of our software with limited functionality before making a purchase decision.

Research and Development

We maintain dedicated research and development teams in Sunnyvale, California, and Eugene, Oregon. Research and development expense was \$2.8 million in 2018 and \$3.0 million in 2017.

We develop, maintain, and continue to improve proprietary, market-leading, cloud-based technologies that are essential to our business. We focus our investment in research and development across the following major areas: the creation and refinement of our Guided Paths® library; solutions for support interaction optimization; endpoint applications and other extensions to gather data to assist support interactions and allow remote support when necessary; business analytics and reporting; open application interfaces; and internal service delivery management tools.

Our SaaS technology includes Guided Paths® automated workflows, remote control of customer devices, automated device and systems data collection, and business analytics.

The service delivery management tools used by our agents for technology support services include our own Support.com cloud-based software capabilities and other contact center applications such as customer relationship management (“CRM”), ticketing, ordering, methods of payment, and telephony, which are all integrated into highly effective and efficient application for our technology specialists.

For business analytics and reporting, we build and maintain a data warehouse that securely aggregates and restructures data from all of our applications to create a comprehensive view of the service delivery lifecycle, as well as data about the disposition of support interactions. This rich data set provides visibility into sales conversion effectiveness, service delivery efficiency, service level performance, subscription utilization, partner program performance and many other aspects of running and optimizing our business. Our partners also receive reports and analytic information from the warehouse for their programs on a regular basis via secure data feeds.

Open application interfaces of our Support.com Cloud enable integration with CRM, ticketing systems, and other contact center applications.

Intellectual Property

We own the registered trademarks SUPPORT.COM®, GUIDED PATHS®, PERSONAL TECHNOLOGY EXPERTS®, BUSINESS TECHNOLOGY EXPERTS® and NEXUS® in the United States for specified support services and software, and we have registrations and common law rights for several related trademarks in the U.S. and certain other countries. We own the domain name Support.com and additional other domain names. We also retain exclusive rights to our proprietary services technology, and our end user software products. In addition, we hold non-exclusive rights to sell and distribute certain other software products.

We own two U.S. patents related to our business and have a number of pending patent applications covering certain advanced technology. Our issued patents include U.S. Patent No. 8,020,190 (“Enhanced Browser Security”) and U.S. Patent No. 6,754,707 (“Secure Computer Support System”). However, we do not know if our current patent applications or any future patent application will result in a patent being issued with the scope of the claims we seek, if at all. Also, we do not know whether any patents we have or may receive will be challenged or invalidated. It is difficult to monitor unauthorized use of technology, particularly in foreign countries where the laws may not protect our proprietary rights as fully as they do in the United States, and our competitors may develop technology that competes with ours but nevertheless does not infringe our intellectual property rights.

We rely on a combination of copyright, trade secret, trademark and contractual protection to establish and protect our proprietary rights that are not protected by patents. We also enter into confidentiality agreements with our employees and consultants involved in product development. We generally require our employees, customers and potential business partners to enter into confidentiality agreements before we will disclose any sensitive aspects of our business. Also, we generally require employees and contractors to agree to assign and surrender to us any proprietary information, inventions or other intellectual property they generate while working for us in the scope of employment. These precautions, and our efforts to register and protect our intellectual property, may not prevent misappropriation or infringement of our intellectual property.

Competition

We are active in markets that are highly competitive and subject to rapid change. Although we do not believe there is one principal competitor for all aspects of our offerings, we do compete with a number of other vendors.

With respect to partnerships for our technology support services, our competitors include privately-held companies focused on premium technology services, providers of electronics warranties, emerging IoT technology support providers, global business process outsourcing providers or contact centers focused on technical support and other companies who offer technical support through partners. We believe the principal competitive factors in our services market include: pricing; breadth and depth of service offerings; quality of the customer experience; proprietary technology; time to market; account management; vendor reputation; scale; and financial resources.

With respect to licenses of our Support.com Cloud offering, our competitors include companies focused on service desk, knowledge management, remote support and IT process automation. We believe the principal competitive factors in the Support Interaction Optimization (“SIO”) space include breadth and depth of functionality; ease of implementation; performance; scalability; pricing; vendor reputation; financial resources; and customer support. We believe that our Support.com Cloud offering can compete favorably because it provides an integrated solution for SIO that covers different areas of functionality required by customers.

In the market for our end-user software products, we face direct competition from software vendors, application providers, operating system providers, network equipment manufacturers, and other OEMs that may provide similar solutions and function in their products, and from individuals and groups who offer “free” and open source utilities online.

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

For additional information related to competition, see Item 1A, Risk Factors.

Employees

As of December 31, 2018, we had 2,035 employees, of whom 1,942 were work-from-home agents and 93 were corporate employees. In addition to our work-from-home employees, we also use contract labor. None of our employees are covered by collective bargaining agreements.

Securities and Exchange Commission (“SEC”) Filings and Other Available Information

We were incorporated in Delaware in December 1997. We file reports with the SEC, including without limitation annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (the “Exchange Act”). The public may read and copy any materials we file with the SEC at the SEC’s Public Reference Room at 100 F Street, N.E., Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at (202) 551-8090. In addition, we are an electronic filer. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers, including us, that file electronically with the SEC at the website address located at www.sec.gov.

Our telephone number is 650-556-9440 and our website address is www.support.com. The information contained on our website does not form any part of this Annual Report on Form 10-K. However, we make available, free of charge through our website, our annual reports on Form 10-K, our quarterly reports on Form 10-Q and our current reports on Form 8-K filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after we electronically file this material with, or furnish it to, the SEC. In addition, we also make available on [https://www.support.com/about-us/investor-relations/corporate-governance/our Code of Ethics and Business Conduct for Employees, Officers and Directors](https://www.support.com/about-us/investor-relations/corporate-governance/our-code-of-ethics-and-business-conduct-for-employees-officers-and-directors). This Code is also available in print without charge to any person who requests it emailing us at IR@Support.com.

ITEM 1A. RISK FACTORS

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

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

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

Our ability to successfully license, implement and support our Support.com Cloud and other product and service offerings;

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

The market appeal and efficacy of our Guided Paths® self-help solution and diagnostic tools;

Our ability to expand and diversify our customer base;

Our ability to attract and retain qualified management and employees;

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

Our ability to adapt to changes in the market for customer support services;

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

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

Our expectations regarding the results of pending, threatened or future government investigations and audits, including, without limitation, those investigations and audits described in Item 3 Legal Proceedings of this report;

An investment in our stock involves risk, and we caution investors that forward-looking statements are only predictions based on our current expectations about future events and are not guarantees of future performance. We encourage you to read carefully all information provided in this report and in our other filings with the SEC before deciding to invest in our stock or to maintain or change your investment. Forward-looking statements are based on information as of the filing date of this report, and we undertake no obligation to publicly revise or update any forward-looking statement for any reason.

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

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

For the three months and twelve months ended December 31, 2018, Comcast accounted for 67% and 69% of our total revenue, respectively, and Cox Communications accounted for 19% and 15% of our total revenue, respectively. The loss of these or other significant relationships, the change of the terms or terminations of our arrangements with any of these firms, the reduction or discontinuance of programs with any of these firms, or the failure of any of these firms to achieve their targets has in the past adversely affected, and could in the future adversely affect our business. Generally, the agreements with our partners do not require them to conduct any minimum amount of business with us, and therefore they have decided in the past and could decide at any time in the future to reduce or eliminate their programs or the use of our services in such programs. They may also enter into multi-sourcing arrangements with other vendors for services previously provided exclusively by us. In addition, our top customers' purchasing power has, in some cases, given them the ability to make greater demands on us with regard to pricing and contractual terms in general. We expect this trend to continue, which may adversely affect our business and, should we fail to comply with such terms, might also result in substantial liability that could harm our business, financial condition and results of operations. Further, we may not successfully obtain new partners or customers. There is also the risk that, once established, our programs with these and other partners may take longer than we expect to produce revenue or may not produce revenue at all, and the revenue produced may not be profitable if the costs of performing under the program are greater than anticipated or the program terminates before up-front investments can be recouped. One or more of our key partners may also choose not to renew their relationship with us, discontinue certain programs, offer them only on a limited basis or devote insufficient time and attention to promoting them to their customers. Some of our key partners may prefer not to work with us if we also partner with their competitors. If any of these key partners merge with one of their competitors, all of these risks could be exacerbated.

Each of these risks could reduce our sales and have a material adverse effect on our operating results.

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

We are executing a plan to grow our business by providing customer support services, creating a robust, timely and innovative library of Guided Path® self-support tools, licensing our Support.com Cloud application, and providing end-user consumer software products. We may not be able to offer these services and software products successfully. Our customer support specialists are generally home-based, which requires a high degree of coordination and quality control of employees working from diverse and remote locations. We expect to invest cash generated from our existing business to support our growth initiatives. Our investments, which typically are made in advance of revenue, may not yield increased revenue to offset these expenses. As a result of these factors, the future revenue and income

potential of our business is uncertain. Any evaluation of our business and our prospects must be considered in light of these factors and the risks and uncertainties often encountered by companies in our stage of development. Some of these risks and uncertainties relate to our ability to do the following:

Maintain our current relationships and service programs, and develop new relationships, with service partners and licensees of our Support.com Cloud offering on acceptable terms or at all;

Reach prospective customers for our software products in a cost-effective fashion;

Reduce our dependence on a limited number of partners for a substantial majority of our revenue;

Successfully license and grow our revenue related to our Support.com Cloud offering;

Manage our employees and contract labor efficiently and effectively;

Maintain gross and operating margins;

Match staffing levels with demand for services and forecast requirements;

Obtain bonuses and avoid penalties in contractual arrangements;

Operate successfully in a time-based pricing model;

Operate effectively in the SMB market;

Successfully introduce new, and adapt our existing, services and products for consumers and businesses;

Respond effectively to changes in the market for customer support services;

Realize benefits of any acquisitions we make;

Adapt to changes in the markets we serve;

Adapt to changes in our industry, including consolidation;

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

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

Manage and respond to present, threatened or future government investigations and audits, including, without limitation, those audits and investigations described in Item 3 Legal Proceedings of this report.

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

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

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

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

The performance of our partners;

Change, or reduction in or discontinuance of our principal programs with partners;

Our reliance on a small number of partners for a substantial majority of our revenue;

Our ability to successfully license and grow revenue related to our SAS software, Guided Paths®, Support.com Cloud and our service offerings;

The timing and ability to sell;

The availability and cost-effectiveness of advertising placements for our software products and services and our ability to respond to changes in the advertising markets in which we participate;

The efficiency and effectiveness of our technology specialists;

Our ability to effectively match staffing levels with service volumes on a cost-effective basis;

Our ability to manage contract labor;

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

Our ability to manage costs under our self-funded health insurance program;

Usage rates on the subscriptions we offer;

The rate of expansion of our offerings and our investments therein;

Changes in the markets for computers and other technology devices relating to unit volume, pricing and other factors, including changes driven by declines in sales of personal computers and the growing popularity of tablets, and other mobile devices and the introduction of new devices into the connected home;

Our ability to adapt to our customers' needs in a market space defined by frequent technological change;

The amount and timing of operating costs and capital expenditures in our business;

Diversion of management's attention from other business concerns, incurrence of costs and disruption of our ongoing business activities as a result of acquisitions or divestitures by us;

Costs related to the defense and settlement of litigation which can also have an additional adverse impact on us because of negative publicity, diversion of management resources and other factors;

Costs related to the defense and settlement of government investigations and audits which can also have an additional adverse impact on us because of negative publicity, diversion of management resources and other factors, including, without limitation, those audits and investigations described in Item 3 Legal Proceedings of this report; and

Potential losses on investments, or other losses from financial instruments we may hold that are exposed to market risk.

Our Support.com product and service offerings are in their early stages and failure to market, sell and develop the offerings effectively and competitively could result in a lack of growth.

A number of competitive offerings exist in the market, providing various features that may overlap with our Support.com offerings today or in the future. Some competitors in these markets far exceed our spending on sales and marketing activities and benefit from greater existing brand awareness, channel relationships and existing customer relationships. We may not be able to reach the market effectively and adequately or convey our differentiation as needed to grow our customer base. To reach our target market effectively, we may be required to continue to invest substantial resources in sales and marketing and research and development activities, which could have a material adverse effect on our financial results. In addition, if we fail to develop and maintain competitive features, deliver high-quality products and satisfy existing customers, our Support.com offerings could fail to grow. Disruptions in infrastructure operations as described below could impair our ability to deliver Support.com offerings to customers, thereby affecting our reputation with existing and prospective customers and possibly resulting in monetary penalties or financial losses.

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

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

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

Our business is based on successfully attracting and retaining talented employees. The market for highly skilled workers and leaders in our industry is extremely competitive. If we are not successful in our recruiting efforts, or if we are unable to retain key employees and executive management, our ability to develop and deliver successful products and services may be adversely affected.

Our success depends upon our ability to attract, develop and retain highly qualified employees while also controlling our labor costs in a competitive labor market.

Our customers expect a high level of customer service and product knowledge from our employees. To meet the needs and expectations of our customers, we must attract, develop and retain a large number of highly qualified employees while at the same time control labor costs. Our ability to control labor costs is subject to numerous external factors, including prevailing wage rates and health and other insurance costs, as well as the impact of legislation or regulations governing labor relations, minimum wage, or healthcare benefits. An inability to provide wages and/or benefits that are competitive within the markets in which we operate could adversely affect our ability to retain and attract employees. Likewise, changes in market compensation rates may adversely affect our labor costs. In addition, we compete with other retail businesses for many of our employees in hourly positions, and we invest significant resources in training and motivating them to maintain a high level of job satisfaction. These positions have historically had high turnover rates, which can lead to increased training and retention costs, particularly in a competitive labor market. Effective succession planning is also important to our long-term success. Failure to ensure effective transfer of knowledge and smooth transitions involving key employees and executive management could hinder our strategic planning and execution. There is no assurance that we will be able to attract or retain highly qualified employees in

the future. As such, our ability to develop and deliver successful products and services may be adversely affected.

Our business would be adversely affected by the departure of existing members of our senior management team.

Our business would be adversely affected by the departure of existing members of our senior management team. Our success depends, in large part, on the continued contributions of our senior management team. Effective succession planning is also important for our long-term success. Failure to ensure effective transfers of knowledge and smooth transitions involving senior management could hinder our strategic planning and execution. We do not currently maintain key person life insurance covering our senior management. The loss of any of our senior management could harm our ability to implement our business strategy and respond to the rapidly changing market conditions in which we operate.

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

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

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

Reductions in unit volumes of sales for computers and other devices we support, or in the prices of such equipment, could adversely affect our business. We offer both services that are attached to the sales of new computers and other devices, and services designed to fix existing computers and other devices. Declines in the unit volumes sold of these devices or declines in the pricing of such devices could adversely affect demand for our services or our revenue mix, either of which would harm our operating results. Further, we do not support all types of computers and devices, meaning that we must select and focus on certain operating systems and technology standards for computers, tablets, smart phones, and other devices. We may not be successful in supporting new devices in the connected home and “Internet of Things,” and consumers and SMBs may prefer equipment we do not support, which may decrease the market for our services and products if customers migrate away from platforms we support. In addition, the structures and pricing models for programs in the technology support services market may change in ways that reduce our revenues and our margins.

Disruptions in our information technology and service delivery infrastructure and operations could impair the delivery of our services and harm our business.

We depend on the continuing operation of our information technology and communication systems and those of our third-party service providers. Any interruption or failure of our internal or external systems could prevent us or our service providers from accepting orders and delivering services, or cause company and consumer data to be unintentionally disclosed. Our continuing efforts to upgrade and enhance the security and reliability of our information technology and communications infrastructure could be very costly, and we may have to expend significant resources to remedy problems such as a security breach or service interruption. Interruptions in our services resulting from labor disputes, telephone or Internet failures, power or service outages, natural disasters or other events, or a security breach could reduce our revenue, increase our costs, cause customers and partners and licensees to fail to renew or to terminate their use of our offerings, and harm our reputation and our ability to attract new customers.

We may engage in the acquisition of other companies, joint ventures and strategic alliances outside of our current line of business, which may have an adverse material effect on our existing business.

We may engage in the acquisition of other companies, joint ventures and strategic alliances outside of our current line of business to design and develop new technologies and products, to strengthen competitiveness by scaling up and to expand our existing business line into new regions. Such transactions, especially in new lines of business, inherently involve risk due to the difficulties in integrating operations, technologies, products and personnel. Integration issues are complex, time-consuming and expensive and, without proper planning and implementation, may adversely affect our existing business. Furthermore, we may incur significant acquisition, administrative and other costs in connection with these transactions, including costs related to integration or restructuring of acquired businesses. There can be no assurance that these transactions will be beneficial to our business or financial condition. Even assuming these transactions are beneficial, there can be no assurance that we will be able to successfully integrate the new business lines acquired or achieve all or any of the initial objectives of these transactions.

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

We have made acquisitions in the past and may make additional acquisitions in the future. Our management may not be able to effectively implement our acquisition program and internal growth strategy simultaneously. The integration of acquisitions involves a number of risks and presents financial, managerial and operational challenges. We may have difficulty, and may incur unanticipated expenses related to, integrating management and personnel from these acquired entities with our management and personnel. Our failure to identify, consummate or integrate suitable acquisitions could adversely affect our business and results of operations. We cannot readily predict the timing, size or success of our future acquisitions. Even successful acquisitions could have the effect of reducing our cash balances.

We may pursue investments, joint ventures and dispositions, which could adversely affect our results of operations.

We may invest in businesses that offer complementary products, services and technologies, augment our market coverage, or enhance our technological capabilities. We may also enter into strategic alliances or joint ventures to achieve these goals. We may not be able to identify suitable investment, alliance, or joint venture opportunities, or to consummate any such transactions. In addition, our original estimates and assumptions used in assessing any transaction may be inaccurate and we may not realize the expected financial or strategic benefits of any such transaction.

We may also seek to divest or wind down portions of our business, either acquired or otherwise, each of which could materially affect our cash flows and results of operations. Any future dispositions we may make could involve risks and uncertainties, including our ability to sell such businesses on terms acceptable to us, or at all. In addition, any such dispositions could result in disruption to other parts of our business, potential loss of employees or customers, or exposure to unanticipated liabilities or ongoing obligations to us following any such dispositions. For example, in connection with such dispositions, we may agree to provide certain indemnities to the purchaser, which may result in additional expenses and may adversely affect our financial condition and results of operations. In addition, dispositions may include the transfer of technology and/or the licensing of certain IP rights to third-party purchasers, which could limit our ability to utilize such IP rights or assert these rights against such third-party purchasers or other third parties.

Our provision for income taxes is subject to volatility and could be adversely affected by a number of factors.

Our overall tax provisions and accruals are affected by a number of factors, including any potential reorganization or restructuring of our businesses, including tangible and intangible assets, the resulting tax effects of differing tax rates in different state jurisdictions, changes in transfer pricing rules or methods of applying these rules, and changes in tax

laws in various jurisdictions. While we believe our tax estimates are reasonable, there is no assurance that the final determination of our income tax liability will not be materially different than what is reflected in our income tax provisions and accruals. Significant judgment is required to determine the recognition and measurement of tax liabilities prescribed in the relevant accounting guidance for uncertainty in income taxes. The accounting guidance for uncertainty in income taxes applies to all income tax positions, which, if resolved unfavorably, could adversely impact our provision for income taxes and our payment obligation with respect to any such taxes.

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

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

A breach of our security systems may have a material adverse effect on our business.

Our security systems are designed to maintain the physical security of our facilities and protect our customers' and employees' confidential information, as well as our own proprietary information. However, we are also dependent on a number of third-party cloud-based and other service providers of critical corporate infrastructure services relating to, among other things, human resources, electronic communication services and certain finance functions, and we are, of necessity, dependent on the security systems of these providers. Accidental or willful security breaches or other unauthorized access by third parties or our employees or contractors of our facilities, our information systems or the systems of our cloud-based or other service providers, or the existence of computer viruses or malware in our or their data or software could expose us to a risk of information loss and misappropriation of proprietary and confidential information, including information relating to our products or customers and the personal information of our employees. In addition, we have, from time to time, also been subject to unauthorized network intrusions and malware on our own IT networks. Any theft or misuse of confidential, personal or proprietary information as a result of such activities could result in, among other things, unfavorable publicity, damage to our reputation, loss of our trade secrets and other competitive information, difficulty in marketing our products, allegations by our customers that we have not performed our contractual obligations, litigation by affected parties and possible financial obligations for liabilities and damages related to the theft or misuse of such information, as well as fines and other sanctions resulting from any related breaches of data privacy regulations, any of which could have a material adverse effect on our reputation, business, profitability and financial condition. Since the techniques used to obtain unauthorized access or to sabotage systems change frequently and are often not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures.

Data privacy regulations are expanding and compliance with, and any violations of, these regulations may cause us to incur significant expenses.

Privacy legislation, enforcement and policy activity in this area are expanding rapidly in many jurisdictions and creating a complex regulatory compliance environment. Costs to comply with and implement these privacy-related and data protection measures could be significant. In addition, even our inadvertent failure to comply with federal, state or international privacy-related or data protection laws and regulations could result in proceedings against us by governmental entities or others, and substantial fines and damages. The theft, loss or misuse of personal data

collected, used, stored or transferred by us to run our business could result in significantly increased business and security costs or costs related to defending legal claims.

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

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

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

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

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

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

Our business operates in regulated industries.

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

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

If our services are used to commit fraud or other similar intentional or illegal acts, we may incur significant liabilities, our services may be perceived as not secure and customers may curtail or stop using our services.

Certain software and services we provide, including our Support.com Cloud applications, enable remote access to and control of third-party computer systems and devices. We generally are not able to control how such access may be used or misused by licensees of our SaaS offerings. If our software is used by others to commit fraud or other illegal acts, including, but not limited to, violating data privacy laws, proliferating computer files that contain a virus or other harmful elements, interfering or disrupting third-party networks, infringing any third party’s copyright, patent, trademark, trade secret or other rights, transmitting any unlawful, harassing, libelous, abusive, threatening, vulgar, obscene or otherwise objectionable material, or committing unauthorized access to computers, devices, or protected information, third parties may seek to hold us legally liable. As a result, defending such claims could be expensive and time-consuming regardless of the merits, and we could incur significant liability or be required to undertake expensive preventive or remedial actions. As a result, our operating results may suffer and our reputation may be damaged.

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

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

If we are unable to protect or enforce our intellectual property rights, or we lose our ability to utilize the intellectual property of others, our business could be adversely affected.

Our success depends, in part, upon our ability to obtain intellectual property protection for our proprietary processes, software and other solutions. We rely upon confidentiality policies, nondisclosure and other contractual arrangements, and patent, trade secret, copyright and trademark laws to protect our intellectual property rights. These laws are subject to change at any time and could further limit our ability to obtain or maintain intellectual property protection. There is uncertainty concerning the scope of patent and other intellectual property protection for software and business methods, which are fields in which we rely on intellectual property laws to protect our rights. Even where we obtain intellectual property protection, our intellectual property rights may not prevent or deter competitors, former employees, or other third parties from reverse engineering our solutions or software. Further, the steps we take in this regard might not be adequate to prevent or deter infringement or other misappropriation of our intellectual property by competitors, former employees or other third parties, and we may not be able to detect unauthorized use of, or take appropriate and timely steps to enforce, our intellectual property rights. Enforcing our rights might also require considerable time, money and oversight, and we may not be successful. Further, we rely on third-party software in providing some of our services and solutions. If we lose our ability to continue using any such software for any reason, including because it is found to infringe the rights of others, we will need to obtain substitute software or find alternative means of obtaining the technology necessary to continue to provide our solutions. Our inability to replace such software, or to replace such software in a timely or cost-effective manner, could materially adversely affect our results of operations

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

Our business involves direct sale and licensing of services and software to consumers and SMBs, and we typically include customary indemnification provisions in favor of our partners in our agreements for the distribution of our services and software. As a result, we can be subject to consumer litigation and legal proceedings related to our services and software, including putative class action claims and similar legal actions, including, but not limited to, consumer litigation and legal proceedings that may arise related to the FTC and DOL investigations described in Note 3 Legal Proceedings in this report. We can also be subject to employee litigation and legal proceedings related to our employment practices attempted on a class or representative basis. Such litigation can be expensive and time-consuming regardless of the merits of any action and could divert management's attention from our business. The cost of defense can be large as can any settlement or judgment in an action. The outcome of any litigation is

uncertain and could significantly impact our financial results. Regardless of outcome, litigation can have an adverse impact on us because of defense costs, negative publicity, diversion of management resources and other factors.

Delaware law and our certificate of incorporation and bylaws contain anti-takeover provisions, and our Board adopted a Section 382 Tax Benefits Preservation Plan, any of which could delay or discourage takeover attempts that some stockholders may consider favorable.

Delaware law and our certificate of incorporation and amended and restated bylaws contain certain provisions, any of which could render more difficult, or discourage a merger, tender offer, or assumption of control of the Company that is not approved by our Board of Directors that some stockholders may consider favorable. In addition, on April 20, 2016, our Board acted to preserve the potential benefits of our NOLs from being limited pursuant to Section 382 of the Code by adopting a Section 382 Tax Benefits Preservation Plan (the “Section 382 Tax Benefits Preservation Plan”). The principal reason our Board adopted the Section 382 Tax Benefits Preservation Plan is that we believe that the NOLs are a potentially valuable asset and the Board believes it is in the Company’s best interests to attempt to protect this asset by preventing the imposition of limitations on their use. While the Section 382 Tax Benefits Preservation Plan is not principally intended to prevent a takeover, it does have a potential anti-takeover effect because an “acquiring person” thereunder may be diluted upon the occurrence of a triggering event. Accordingly, the overall effects of the Section 382 Tax Benefits Preservation Plan may be to render more difficult, or discourage a merger, tender offer, or assumption of control by a substantial holder of our securities. The Section 382 Tax Benefits Preservation Plan, however, should not interfere with any merger or other business combination approved by the Board.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

Not applicable.

ITEM 2. PROPERTIES.

Administrative and engineering activities are conducted in Sunnyvale, California. On March 23, 2018, we entered into a two-year lease agreement with an effective date of April 1, 2018 for our Sunnyvale, CA office facility, covering approximately 6,283 square feet with the monthly rent of \$14,000. The lease is scheduled to expire on March 31, 2020. We also lease office facilities in Eugene, Oregon for which the lease agreement expired on December 31, 2018 and we have renewed the 3-year term from January 1, 2018 to December 31, 2020. We also lease an office in Louisville, Colorado for which the lease agreement expired on January 31, 2017 and afterward the lease term is autorenewal every 12 months. We recently signed a one-year lease in Louisville, Colorado from February 1, 2019 to January 31, 2020. In addition, we lease office space in Manila, Philippines for which the lease expired on May 15, 2018 and converted to a month-to-month basis. On January 8, 2019, we signed a new lease for the office in Manila, Philippines and the lease term is on a month to month basis.

ITEM 3. LEGAL PROCEEDINGS.

Federal Trade Commission Consent Order

As previously disclosed, on December 20, 2016 the Federal Trade Commission (“FTC”) issued a confidential Civil Investigative Demand, or CID, to the Company requiring the Company to produce certain documents and materials and to answer certain interrogatories relating to PC Healthcheck, an obsolete software program that the Company developed on behalf of a third party for their use with their customers. The investigation relates to the Company providing software like PC Healthcheck to third parties for their use prior to December 31, 2016, when the Company was under management of the previous Board and executive team. Since issuing the CID, the FTC has sought additional written and testimonial evidence from the Company. We have cooperated fully with the FTC’s investigation and provided all requested information. In addition, the Company has not used PC Healthcheck nor provided it to any customers since December 2016.

On March 9, 2018, the FTC notified the Company that the FTC was willing to engage in settlement discussions. On November 6, 2018, the Company and the FTC entered into a proposed Stipulation to Entry of Order for Permanent Injunction and Monetary Judgment, or the Consent Order. The Consent Order is expected to be approved by the Commission and lodged with the U.S. District Court for the Southern District of Florida. Upon final entry by the Court, the Consent Order resolves the FTC’s multi-year investigation of the Company.

Pursuant to the Consent Order, under which the Company neither admitted nor denied the FTC’s allegations (except as to the Court having jurisdiction over the matter), the FTC has agreed to accept a payment of \$10 million in settlement of the \$35 million judgement, subject to the factual accuracy of the information the Company has provided as part of our financial representations. The \$10 million payment will be made within seven (7) days of the entry of the Consent Order in the Southern District of Florida and is recognized in operating expenses within the Company’s consolidated statements of operations for the year ended December 31, 2018.

Additionally, pursuant to the Consent Order, the Company has agreed to implement certain new procedures and enhance certain existing procedures. For example, the Consent Order necessitates that the Company cooperate with representatives of the Commission on associated investigations if needed; imposes requirements on the Company regarding obtaining acknowledgements of the Consent Order and compliance certification, including record creation and maintenance; and prohibits the Company from making misrepresentations and misleading claims or providing the

means for others to make such claims regarding, among other things, detection of security or performance issues on consumer's Electronic Devices. Electronic Devices include, but are not limited to, cell phones, tablets and computers. The Company intends to monitor the impact of the Consent Order regularly and, while the Company currently does not expect the settlement to have a long-term and materially adverse impact on its business, the Company's business may be negatively impacted as the Company adjusts to some of the changes. If the Company is unable to comply with the Consent Order, then this could result in a material and adverse impact to the Company's results of operations and financial condition.

Other Proceedings

On October 11, 2016 the Wage and Hour Division of the U.S. Department of Labor (“DOL”) notified the Company that it would be conducting an audit of the Company relating to compliance with the Fair Labor Standards Act (“FLSA”). The DOL indicated that the focus of the audit is directed to compliance with overtime requirements related to our customer support specialists who work from home providing customer support services. The audit commenced on October 20, 2016 and was resolved by settlement agreement on January 18, 2018. Pursuant to the settlement agreement, as of December 31, 2017, the Company accrued \$30,000 in back wages and related liquidated damages to some of our current and former employees. These payments were completed during the quarter ended March 31, 2018.

On January 17, 2017 the Consumer Protection Division of the Office of Attorney General, State of Washington (“Washington AG”), issued a Civil Investigative Demand to the Company requiring the Company to produce certain documents and materials and to answer certain interrogatories relating to PC Healthcheck. The Washington AG has not alleged a factual basis underlying the issuance of the Civil Investigative Demand. On May 30, 2017, the Consumer Protection Division of the Office of Attorney General, State of Texas (“Texas AG”), issued a Civil Investigative Demand to the Company requiring the Company to produce certain documents and materials and to answer certain interrogatories relating to PC Healthcheck. The Texas AG has not alleged a factual basis underlying the issuance of the Civil Investigative Demand. Accordingly, the Company has responded to both the Washington AG Civil Investigative Demand and the Texas AG Civil Investigative Demand. To date, the Company has not received any follow-up communications from either state’s AG with respect to these matters.

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

Guarantees

We have identified guarantees in accordance with ASC 450, Contingencies. This guidance stipulates that an entity must recognize an initial liability for the fair value, or market value, of the obligation it assumes under the guarantee at the time it issues such a guarantee and must disclose that information in its interim and annual financial statements. We have entered into various service level agreements with our partners, in which we may guarantee the maintenance of certain service level thresholds. Under some circumstances, if we do not meet these thresholds, we may be liable for certain financial costs. We evaluate costs for such guarantees under the provisions of ASC 450. We consider such factors as the degree of probability that we would be required to satisfy the liability associated with the guarantee and the ability to make a reasonable estimate of the resulting cost. We incurred zero costs as a result of such obligations during the years ended December 31, 2018 and 2017. We have not accrued any liabilities related to such obligations in the consolidated financial statements as of December 31, 2018 and 2017.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Market of Common Stock

Our common stock has been traded publicly on the Nasdaq Global Select Market ("Nasdaq") under the symbol "SPRT" since July 19, 2000. Before July 19, 2000, there was no public market for our common stock. The following table sets forth the highest and lowest sale price of our common stock for the quarters indicated:

	Low	High
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Fiscal Year 2018:

First Quarter	\$2.41	\$2.99
Second Quarter	\$2.56	\$3.15
Third Quarter	\$2.63	\$3.01
Fourth Quarter	\$2.29	\$3.03

Fiscal Year 2017:

First Quarter	\$1.89	\$2.64
Second Quarter	\$2.07	\$2.63
Third Quarter	\$2.01	\$2.48
Fourth Quarter	\$2.22	\$2.61

Holders of Record

As of February 28, 2019, there were approximately 82 holders of record of our common stock (not including beneficial holders of stock held in street name).

Dividend Policy

We have not declared or paid any cash dividends on our capital stock since our inception and do not expect to do so in the foreseeable future. We currently anticipate that all future earnings, if any, generated from operations will be retained by us to develop and expand our business. Any future determination with respect to the payment of dividends will be at the discretion of the Board of Directors and will depend on, among other things, our operating results, financial condition and capital requirements, the terms of then-existing indebtedness, general business conditions and such other factors as the Board of Directors deems relevant.

Securities Authorized for Issuance Under Equity Compensation Plans

Information regarding the securities authorized for issuance under our equity compensation plans can be found under Item 12 of Part III of this Report.

Stock Price Performance Graph

The following graph illustrates a comparison of the cumulative total stockholder return (change in stock price plus reinvested dividends) of the Company's Common Stock and the CRSP Total Return Index for the Nasdaq U.S. Stocks (the "Nasdaq Composite Index") and Nasdaq Computer and Data Processing Services Index from December 31, 2011 through December 31, 2018. The graph assumes that \$100 was invested on December 31, 2011 in us, the Nasdaq Composite Index and the Nasdaq Computer and Data Processing Services Index and that all dividends were reinvested. No cash dividends have been declared or paid on our common stock. Our common stock has been traded on the Nasdaq since July 19, 2000. The comparisons in the table are required by the SEC and are not intended to forecast or be indicative of possible future performance of our common stock.

COMPARISON OF CUMULATIVE TOTAL RETURN AMONG
SUPPORT.COM, INC.,
THE NASDAQ COMPOSITE INDEX, AND
THE NASDAQ COMPUTER INDEX

CUMULATIVE TOTAL RETURN AT PERIOD END

	12/31/2011	12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018
Support.com, Inc.	\$100.00	\$185.33	\$168.44	\$93.78	\$44.89	\$38.22	\$35.85	\$36.44
Nasdaq Composite Index	\$100.00	\$115.91	\$160.32	\$181.80	\$192.21	\$206.63	\$264.99	\$254.70
Nasdaq Computer Index	\$100.00	\$112.48	\$148.41	\$177.91	\$189.02	\$212.21	\$294.48	\$283.64

The information presented above in the stock performance graph shall not be deemed to be "soliciting material" or to be "filed" with the Securities and Exchange Commission or subject to Regulation 14A or 14C, except to the extent that we subsequently specifically request that such information be treated as soliciting material or specifically incorporate it by reference into a filing under the Securities Act of 1933 or Exchange Act.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA.

Support.com is a leading provider of customer support services, end user software, and cloud-based software. In June 2009, we sold our legacy Enterprise software business to Consona Corporation and focused our efforts purely on the consumer and SMB markets for technology services, and our Support.com Cloud offering. Therefore, our audited consolidated financial statements, accompanying notes and other information provided in this Form 10-K reflect the Enterprise business as a discontinued operation for all periods presented in accordance with ASC 360, Accounting for the Impairment or Disposal of Long-Lived Assets. The discontinued operation was removed during Year 2016. The Company currently reports its operations as a single operating segment.

The information set forth below is not necessarily indicative of results of future operations and should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the consolidated financial statements and related notes included in Items 7 and 8 of Part II of this Report.

Year Ended December 31,

2018 2017 2016

Consolidated Statements of Operations Data:

Revenue:

Services	\$64,476	\$54,670	\$56,311
Software and other	5,073	5,451	5,349
Total revenue	69,549	60,121	61,660
Cost of revenue:			
Cost of services	57,396	47,101	50,245
Cost of software and other	208	287	486
Total cost of revenue	57,604	47,388	50,731
Gross profit	11,945	12,733	10,929
Operating expenses:			
Research and development	2,780	3,033	5,577
Sales and marketing	1,823	2,425	6,671
General and administrative	7,408	8,696	12,958
Amortization of intangible assets and other	—	16	1,028
Legal settlement	10,000	—	—
Restructuring	—	128	1,146
Total operating expenses	22,011	14,298	27,380
Income (loss) from operations	(10,066)	(1,565)	(16,451)
Interest income and other, net	965	643	518
Income (loss) from continuing operations, before income taxes	(9,101)	(922)	(15,933)
Income tax benefit (provision)	1	(604)	(307)

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Income (loss) from continuing operations, after income taxes	(9,100)	(1,526)	(16,240)
Income from discontinued operations, after income taxes	—	—	284
Net loss	\$(9,100)	\$(1,526)	\$(15,956)
Basic earnings (loss) per share:			
Continuing operations, after income taxes	\$(0.48)	\$(0.08)	\$(0.88)
Discontinued operations, after income taxes	0.00	0.00	0.01
Basic and diluted net loss per share	\$(0.48)	\$(0.08)	\$(0.87)
Shares used in computing per share amounts:			
Basic and diluted	18,826	18,644	18,409

December 31,

2018 2017 2016

Consolidated Balance Sheet Data:

Cash, cash equivalents and investments	\$49,649	\$49,233	\$53,409
Working capital	\$47,036	\$54,989	\$54,873
Total assets	\$64,600	\$64,353	\$67,229
Long-term obligations	\$800	\$898	\$607
Accumulated deficit	\$(213,096)	\$(203,996)	\$(202,470)
Total stockholders' equity	\$47,896	\$56,458	\$57,308

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes included elsewhere in this Form 10-K. The following discussion includes forward-looking statements. Please see the section entitled "Risk Factors" in Item 1A of this Report for important information to consider when evaluating these statements.

Overview

Support.com is a leading provider of tech support and turnkey support center services, producer of SUPERAntiSpyware® anti-malware products, and the maker of Support.com® software. Our technology support services programs help leading brands create new revenue streams and deepen customer relationships. We offer turnkey, outsourced support services for service providers, retailers and technology companies. Our technology support services 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, and home security and automation system support. Our Support.com Cloud offering is a SaaS solution for companies to optimize support interactions with their customers using their own or third-party support personnel. The solution enables companies to quickly resolve complex technology issues for their customers, boosting agent productivity and dramatically improving the customer experience.

Total revenue for the year ended December 31, 2018 increased by \$9.4 million, or 15.7%, from 2017. The increase in service revenue was primarily due to an increase in the billable hours of Comcast offset by the decrease in revenue from Office Depot due to the termination of Professional Service Agreement between us and Office Depot in September 2017. Revenue from software and other for the year ended December 31, 2018 decreased by \$0.4 million, or 7%, from 2017 primarily due to loss of some of existing customers and resulting in this lost subscription revenue exceeding new subscriptions and subscription renewals.

Cost of services. Cost of services consists primarily of compensation costs and contractor expenses for people providing services, technology and telecommunication expenses related to the delivery of services and other personnel-related expenses in service delivery. The increase of \$10.3 million or 22% from 2017 was primarily attributable to increases in payroll and benefits charges. Headcount increased from 1,776 employees at December 31, 2017 to 2,035 employees at December 31, 2018 which led to a net increase in compensation and related costs of \$10.2 million which included an overall reduction in self-insurance costs as a result of lower medical claims during the period.

Cost of software and other. Cost of software and other fees consists primarily of third-party royalty fees for our end-user software products. Certain of these products were developed using third-party research and development resources, and the third party receives royalty payments on sales of products it developed. The modest decrease in cost of software and other was mainly driven by lower 3rd party fees.

Total gross margin decreased from 21% to 17% year-over-year which was primarily due to the non-proportional increase in sales as compared with the increase in overall costs.

Operating expenses for the year ended December 31, 2018 increased by \$7.7 million or 54% from 2017. The increase is primarily related to a \$10.0 million legal settlement with a FTC related investigation that was agreed to on November 6, 2018 and remains unpaid as of December 31, 2018. This increase was offset by lower research and development costs of \$0.3 million, lower sales and marketing costs of \$0.6 million, a decrease in general and administration costs of \$1.3 million, all of which are due to cost reduction efforts throughout 2017 which lowered

overall costs in 2018. These cost reduction efforts impacted compensation and benefits related expenses, office, travel, and consulting expenses.

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

Critical Accounting Policies and Estimates

In preparing our consolidated financial statements in conformity with generally accepted accounting principles in the United States, we make assumptions, judgments and estimates that can have a significant impact on our revenue and operating results, as well as on the value of certain assets and liabilities on our consolidated balance sheet. We base our assumptions, judgments and estimates on historical experience and various other factors that we believe to be reasonable under the circumstances. Actual results could differ materially from these estimates under different assumptions or conditions. On a regular basis we evaluate our assumptions, judgments and estimates and make changes accordingly. We believe that the assumptions, judgments and estimates involved in the accounting for revenue recognition, fair value measurements, purchase accounting in business combinations, self-insurance accruals, accounting for intangible assets, stock-based compensation and accounting for income taxes have the greatest potential impact on our consolidated financial statements, so we consider these to be our critical accounting policies. We discuss below the critical accounting estimates associated with these policies. For further information on the critical accounting policies, see Note 1 of our Notes to Consolidated Financial Statements.

Revenue Recognition

On January 1, 2018, the Company adopted Financial Accounting Standards Board ("FASB") Accounting Standards Codification Topic 606, Revenue from Contracts with Customers ("ASC 606"). As a result, the Company changed its accounting policy for revenue recognition and applied ASC 606 using the modified retrospective method. Typically, this approach would result in recognizing the cumulative effect of initially applying ASC 606 as an adjustment to the opening retained earnings at January 1, 2018, while prior period amounts are not adjusted and continue to be reported in accordance with the Company's historic revenue recognition methodology under ASC 605, Revenue Recognition. Based on our assessment of the guidance in ASC 606, the Company did not have a material change in financial position, results of operations, or cash flows and therefore there is no cumulative impact recorded to opening retained earnings. However, we have included additional qualitative and quantitative disclosures about our revenues as is required under the new revenue standard.

Disaggregation of Revenue

We generate revenue from the sale of services and sale of software fees for end-user software products provided through direct customer downloads and through the sale of these end-user software products via partners. The following table depicts the disaggregation of revenue (in thousands) according to revenue type and is consistent with how we evaluate our financial performance:

Revenue from Contracts with Customers:

	Twelve months ended December 31,	
	2018	2017
Services	\$64,476	\$54,670
Software and other	5,073	5,451
Total revenue	\$69,549	\$60,121

Fair Value Measurements

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 as the exchange price that would be received for an asset or paid to transfer a liability 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 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. Therefore, determining fair value for Level 1 instruments generally does not require significant management judgment, and the estimation is not difficult.

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 2 instruments require limited management judgment.

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. The determination of fair value for Level 3 instruments requires the most management judgment and subjectivity.

Our 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. Marketable securities, measured at fair value using Level 2 inputs, are primarily comprised of commercial paper, corporate bonds, corporate notes and U.S. government agencies securities. 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.

Stock-Based Compensation

We account for stock-based compensation in accordance with the provisions of ASC 718, Compensation - Stock Compensation. Under the fair value recognition provisions of ASC 718, stock-based compensation cost is estimated at the grant date based on the fair value of the award and is recognized as expense ratably over the requisite service period of the award. We estimate the fair value of stock-based awards on the grant date using (i) the Black-Scholes-Merton option-pricing model for service-based stock options and (ii) the quoted prices of the Company's common stock for restricted stock units. Determining the appropriate fair value model and calculating the fair value of stock-based awards requires judgment, including estimating stock price volatility, forfeiture rates and expected life. If any of these assumptions used in the option-pricing models change, our stock-based compensation expense could change on our consolidated financial statements.

Accounting for Income Taxes

We are required to estimate our income taxes in each of the tax jurisdictions in which we operate. This process involves management's estimation of our current tax exposures together with an assessment of temporary differences determined based on the difference between the financial statement and tax basis of certain items. These differences result in net deferred tax assets and liabilities, which are included in our consolidated balance sheet. We must assess the likelihood that we will be able to recover our deferred tax assets. If recovery is not likely, we must increase our provision for taxes by recording a valuation allowance against the deferred tax assets that we estimate will not ultimately be recoverable. We currently have provided a full valuation allowance on our U.S. deferred tax assets that management determined are not likely to be realized due to cumulative net losses since inception and the difficulty in accurately forecasting the Company's results. In addition, we currently have provided a partial valuation allowance on certain foreign deferred tax assets. If any of our estimates change, we may change the likelihood of recovery and our tax expense as well as the value of our deferred tax assets would change.

Our income tax calculations are based on the application of the respective U.S. Federal, state or foreign tax law. The Company's tax filings, however, are subject to audit by the respective tax authorities. Accordingly, we recognize tax liabilities based on our estimate of whether, and the extent to which, additional taxes will be due when such estimates are more-likely-than-not to be sustained. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Our policy is to include interest and penalties related to unrecognized tax benefits as a component of income tax expense. To the extent the final tax liabilities are different than the amounts originally accrued, the increases or decreases are recorded as income tax expense or benefit in the consolidated statements of operations.

Results of Operations

The following table presents certain Consolidated Statements of Operations data for the periods indicated as a percentage of total revenue:

	Year Ended December 31,	
	2018	2017
Revenue:		
Services	93%	91%
Software and other	7	9
Total revenue	100	100
Cost of revenue:		
Cost of services	82	78
Cost of software and other	1	1
Total cost of revenue	83	79
Gross profit	17	21
Operating expenses:		
Research and development	4	5
Sales and marketing	3	4
General and administrative	11	14
Legal settlement	14	0
Restructuring	-	1
Total operating expenses	32	24
Income (loss) from operations	(15)	(3)
Interest income and other, net	1	1
Income (loss), before income taxes	(14)	(2)
Income tax provision	-	(1)
Income (loss), after income taxes	(14)%	(3)%

Years Ended December 31, 2018 and 2017:

Revenue

(\$ in thousands)	2018	% Change	2017 to 2018	2017
Services	\$64,476	18%		\$54,670
Software and other	5,073	(7)%		5,451
Total revenue	\$69,549	16%		\$60,121

Services. Services revenue consists primarily of fees for customer support services generated from our partners. We provide these services remotely, generally using service delivery personnel who utilize our proprietary technology to

deliver the services. Services revenue is also comprised of licensing of our Support.com Cloud applications. Services revenue for the year ended December 31, 2018 increased by \$9.8 million from 2017. The increase in service revenue was primarily due to the increase in the billable hours of our major customers, offset by a decrease in 2017 revenues primarily due to the termination of the Office Depot agreement in September, 2017. For the year ended December 31, 2018, services revenue generated from our partnerships was \$61.0 million compared to \$50.3 million for 2017. For the year ended December 31, 2018, direct services revenue was \$3.5 million compared to \$4.4 million for 2017.

On July 28, 2017, Office Depot provided written notice of its intent not to renew the Professional Services Agreement between the Company and Office Depot dated July 26, 2007, and such Agreement terminated on September 30, 2017. Revenue attributed to Office Depot for the year ended December 31, 2018 was nil compared to \$3.1 million for the year ended December 31, 2017.

Software and other. Software and other revenue is comprised primarily of fees for end-user software products provided through direct customer downloads, and, to a lesser extent, through the sale of these software products via partners. Software and other revenue for the year ended December 31, 2018 was relatively flat as compared with the year ended 2017. For the year ended December 31, 2018, direct software and other revenue was \$2.8 million compared to \$2.7 million for 2017. For the year ended December 31, 2018, software and other revenue generated from our partnerships was \$2.2 million compared to \$2.7 million for 2017.

Revenue Mix

The components of revenue, expressed as a percentage of total revenue were:

	Year Ended December 31	
	2018	2017
Services	93%	91%
Software and other	7%	9%
Total revenue	100%	100%

For the year ended December 31, 2018, Comcast and Cox Communications accounted for 69% and 15% of our total revenue, respectively. For the year ended December 31, 2017, Comcast accounted for 65% of our total revenue. No other customers accounted for 10% or more of our total revenue in any year presented. Revenue from customers outside the United States accounted for less than 1% of our total revenue in 2018 and 2017.

Cost of Revenue

(\$ in thousands)	2018	% Change 2017 to 2018	2017
Cost of services	\$57,396	22%	\$47,101
Cost of software and other	208	(28)%	287
Total cost of revenues	\$57,604	22%	\$47,388

Cost of services. Cost of services consists primarily of compensation costs and contractor expenses for people providing services, technology and telecommunication expenses related to the delivery of services and other personnel-related expenses in service delivery. The increase of \$10.3 million in cost of services for the year ended December 31, 2018 compared to 2017 includes an increase in compensation and benefits charges of \$12.8 million related to increases in headcount, offset by a \$2.5 million decrease in self-insurance cost and related employee benefits due to lower medical claims.

Cost of software and other. Cost of software and other fees consists primarily of third-party royalty fees for our end-user software products, wages, and processing fees. Certain of these products were developed using third-party research and development resources, and the third party receives royalty payments on sales of products it developed. Cost of software and other were relatively flat year-over-year.

Operating expenses

(\$ in thousands)	2018	% Change 2017 to 2018	2017
Research and development	\$2,780	(8)%	\$3,033
Sales and marketing	1,823	(25)%	2,425
General and administrative	7,408	(15)%	8,696
Amortization of intangible assets and other	—	(100)%	16
Legal settlement	10,000	100%	—
Restructuring	—	(100)%	128
Total operating expenses	\$22,011	54%	\$14,298

Research and development. Research and development expense consists primarily of compensation costs, third-party consulting expenses and related overhead costs for research and development personnel. Research and development costs are expensed as they are incurred. The decrease of \$0.3 million in research and development expense for the year ended December 31, 2018 compared to 2017 resulted primarily from a decrease in salary and employee benefit costs primarily from a lower self-insurance cost due to lower medical claims.

Sales and marketing. Sales and marketing expense consists primarily of compensation costs of business development, program management and marketing personnel, as well as expenses for lead generation and promotional activities, including public relations, advertising and marketing. The decrease of \$0.6 million in sales and marketing expense for the year ended December 31, 2018 compared to 2017 resulted primarily from the resignation of sales management personnel during 2018 and lower health care costs.

General and administrative. General and administrative expense consists primarily of compensation costs and related overhead costs for administrative personnel and professional fees for legal, accounting and other professional services. The decrease of \$1.3 million in general and administrative expense for the year ended December 31, 2018 compared to 2017 was attributable to cost reduction efforts during 2017 that impacted 2018 results including lower salary and employee related expenses, lower legal fees, and lower office and facility expenses. The lower facility expenses were largely the result of a relocation to smaller facilities during 2017 which lowered full-year expenses in 2018. These decreases were offset by higher stock based compensation expense largely attributable to stock options granted during 2018 that vested immediately.

Restructuring. During the third quarter of 2017, the Company incurred restructuring charges of approximately \$0.1 million associated with the down-sizing of its Bangalore, India facilities. These cost reductions were primarily headcount related and, to a lesser degree, attributable to property, plant and equipment.

Interest income and other, net

(\$ in thousands)	2018	% Change 2017 to 2018	2017
Interest income and other, net	\$965	50%	\$643

Interest income and other, net. Interest income and other, net consists primarily of interest income on our cash, cash equivalents and short-term investments. The increase in interest income and other, net of \$0.3 million for the year ended December 31, 2018 compared to 2017 was primarily due to higher interest rate and higher yields on corporate and government debt investments.

Income tax provision (benefit)

(\$ in thousands)	2018	% Change 2017 to 2018	2017
Income tax provision (benefit)	\$(1)	(100)%	\$604

Income tax provision (benefit). The income tax provision (benefit) is comprised of estimates of current taxes due in domestic and foreign jurisdictions and changes in deferred tax balances. For the year ended December 31, 2018, the income tax provision primarily consisted of federal income tax, state income tax and foreign taxes. For the year ended December 31, 2018, the income tax provision / (benefit) consisted of a (\$9) provision (benefit) for foreign taxes and a \$8 provision for state income tax. For the year ended December 31, 2017, the income tax provision primarily consisted of federal income tax, state income tax and foreign taxes. For the year ended December 31, 2017, the income tax provision consisted of a \$670 provision for foreign taxes, a \$13 provision for state income tax and a (\$78) provision / (benefit) for federal income tax.

Liquidity and Capital Resources

Total cash, cash equivalents and short-term investments at December 31, 2018 and 2017 was \$49.6 million and \$49.2 million, respectively. Cash equivalents and short-term investments are comprised of money market funds, certificates of deposit, corporate notes and bonds, and U.S. government agency securities. The increase in cash, cash equivalents from \$18.1 million as of December 31, 2017 to \$25.2 million at December 31, 2018 was primarily due to cash provided by investing activities in anticipation of the liquidity requirements to facilitate the forthcoming \$10 million FTC settlement payment.

Operating Activities

Net cash provided by (used in) operating activities was \$0.8 million for the year ended December 31, 2018, and (\$4.2) million for the year ended December 31, 2017. Net cash provided by (used in) operating activities primarily reflects the loss for the period, adjusted for non-cash items such as stock-based compensation expense, amortization of intangible assets and other, amortization of premiums and discounts on investments, depreciation, and changes in operating assets and liabilities.

Net cash provided by operating activities during 2018 was the result of a net loss for the period of (\$9.1) million, adjusted for non-cash items totaling \$1.5 million and changes in operating assets and liabilities of \$8.4 million. Adjustments for non-cash items primarily consisted of stock-based compensation expense of \$0.7 million and depreciation on fixed assets of \$0.6 million. Changes in operating assets and liabilities primarily consisted of a \$10 million increase in the accrued legal settlement related to the FTC investigation and a \$0.3 million increase in accrued compensation due to the timing of our payroll cycles offset by an increase in accounts receivable, net, of \$0.3 million due to increased revenue as well as timing of collections with a larger percentage of accounts receivable shifting to customers with slightly longer payment terms, a \$0.9 million decrease in deferred revenue due to a shift in our customer mix and the termination of the Professional Services Agreement with Office Depot in 2017, and a \$0.4 million decrease in other accrued liabilities primarily from Office Depot and Office Max due to the cancellation of Professional Services Agreement as the Company no longer needs to accrue for the customer rebate incentive.

Net cash used in operating activities during 2017 was the result of a net loss for the period of (\$1.5) million, adjusted for non-cash items totaling \$2.7 million and changes in operating assets and liabilities of \$4.4 million. Adjustments for non-cash items primarily consisted of stock-based compensation expense of \$430,000, depreciation on fixed assets of \$628,000 and deferred income taxes of \$585,000. Changes in operating assets and liabilities primarily consisted of

an increase in accounts receivable, net, of \$2.4 million due to increased revenue as well as timing of collections with a larger amount of accounts receivable shifting to customers with slightly longer payment terms, a \$846,000 decrease in deferred revenue due to a shift in our customer mix and the termination of the Professional Services Agreement with Office Depot, in 2017, a \$581,000 decrease in accounts payable attributable in part to lower spending coupled with the timing of payments to vendors, and a \$1.2 million decrease in other accrued liabilities also due to the implementation of cost reduction plan in the fourth quarter of 2016. These decreases were offset by a \$417,000 increase in prepaid expenses, a \$191,000 increase in accrued compensation due to the timing of payroll, and a \$132,000 increase in other long-term assets.

Investing Activities

Net cash provided by investing activities was \$6.3 million for the year ended December 31, 2018 and \$5.2 million for the year ended December 31, 2017. Net cash provided by investing activities in 2018 was primarily due to purchases of investments of (\$30.0) million and purchases of property and equipment of (\$0.2) million offset by sales and maturities of investments of \$37.0 million. Net cash provided by investing activities in 2017 was primarily due to purchases of investments of (\$25.8) million and purchases of property and equipment of (\$0.1) million offset by sales and maturities of investments of \$31.0 million.

Financing Activities

Net cash provided by financing activities was \$0.3 million for the year ended December 31, 2018 and \$25,000 for the year ended December 31, 2017. In 2018, cash provided by financing activities was primarily attributable to the \$0.2 million in proceeds from exercise of stock options and \$0.1 million in proceeds from the issuance of common stock under employee stock purchase plans. In 2017, cash provided by financing activities was primarily attributable to the \$28,000 in proceeds from the issuance of common stock under employee stock purchase plans offset by a reduction of (\$2,000) from the repurchase of common stock and (\$1,000) from the cash settlement from our stock split.

Working Capital and Capital Expenditure Requirements

At December 31, 2018, we had stockholders' equity of \$47.9 million and working capital of \$47.0 million. We believe that our existing cash balances will be sufficient to meet our working capital requirements for at least the next 12 months.

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

Contractual Obligations

The following table summarizes our contractual obligations at December 31, 2018 and the effect these contractual obligations are expected to have on our liquidity and cash flows in future periods (in thousands):

Payments Due By Period

	Total	Less than 1 - 3 1 year	Years	More than 3 Years
Operating leases	\$501	\$273	\$228	\$—
Uncertain tax positions, including interest and penalties	140	—	—	140
	\$641	\$273	\$228	\$140

These obligations are for non-cancelable operating leases including our headquarters office and offices to carry out research and development and operations globally.

Off-Balance Sheet Arrangements

At December 31, 2018, we did not have any significant off-balance sheet arrangements, as defined in Item 303(a) (4) (ii) of Regulation S-K.

Recent Accounting Pronouncements

See Note 1 – Organization and Summary of Significant Accounting Policies to the Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K for a summary of new accounting standards.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Interest Rate and Market Risk

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

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

As of December 31, 2018, we held \$24.5 million in short-term investments (excluding cash and cash equivalents), which consisted primarily of government debt securities, corporate notes and bonds, and commercial paper. The weighted average interest rate of our portfolio was approximately 2.28% at December 31, 2018. A decline in interest rates over time would reduce our interest income from our investments. We have limited exposure to market risks from instruments that may impact our balance sheets, statement of comprehensive loss, and statement of cash flows. Such exposure is primarily due to changing interest rates.

Impact of Foreign Currency Rate Changes

The functional currencies of our international operating subsidiaries are the local currencies. We translate the assets and liabilities of our foreign subsidiaries at the exchange rates in effect on the balance sheet date. We translate their income and expenses at the average rates of exchange in effect during the period. We include translation gains and losses in the stockholders' equity section of our consolidated balance sheets. We include net gains and losses resulting from foreign exchange transactions in interest income and other in our consolidated statements of operations. Since we translate foreign currencies (primarily Canadian dollars and Indian rupees) into U.S. dollars for a small portion of our operations, currency fluctuations have had an immaterial impact on our consolidated statements of operations. We have both revenue and expenses that are denominated in foreign currencies. Neither a weaker or stronger U.S. dollar environment would have a material impact on our consolidated statement of operations. The historical impact of currency fluctuations on our consolidated statements of operations has generally been immaterial. As of December 31, 2018, we did not engage in foreign currency hedging activities.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

SUPPORT.COM, INC.

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Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors of Support.com, Inc.

Opinion on the consolidated Financial Statements

We have audited the accompanying consolidated balance sheet of Support.com, Inc. (the “Company”) as of December 31, 2018, the related consolidated statement of operations, comprehensive loss, stockholders' equity, and cash flows for the year ended December 31, 2018, and the related notes collectively referred to as the “financial statements”. In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018, and the results of its operations and its cash flows for the year ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provide a reasonable basis for our opinion.

/s/ Plante & Moran, PLLC

Denver, Colorado

March 8, 2019

We have served as the Company's auditor since 2017.

REPORT OF INDEPENDENT PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Support.com, Inc.
Sunnyvale, California

OPINION ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated balance sheet of Support.com, Inc. (the "Company") as of December 31, 2017, and the related consolidated statements of operations, comprehensive loss, stockholders' equity, and cash flows, for the year ended December 31, 2017, and the related notes (collectively referred to as the "financial statements").

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017, and the results of their operations and their cash flows for the year ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

BASIS FOR OPINION

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud.

/s/ EKS&H LLP

San Francisco, California

March 22, 2018

We have served as the Company's auditor since 2017.

SUPPORT.COM, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands except share and per share data)

	December 31,	
	2018	2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$25,182	\$18,050
Short-term investments	24,467	31,183
Accounts receivable, less allowance of \$13 and \$9 at December 31, 2018 and 2017, respectively	12,292	11,951
Prepaid expenses and other current assets	999	802
Total current assets	62,940	61,986
Property and equipment, net	703	1,133
Intangible assets	250	250
Other assets	707	984
Total assets	\$64,600	\$64,353
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$368	\$504
Accrued compensation	3,423	3,157
Other accrued liabilities	978	1,330
Accrued legal settlement	10,000	-
Short-term deferred revenue	1,135	2,006
Total current liabilities	15,904	6,997
Long-term deferred revenue	-	13
Other long-term liabilities	800	885
Total liabilities	16,704	7,895
Commitments and contingencies (Note 5)		
Stockholders' equity:		
Common stock; par value \$0.0001, 50,000,000 shares authorized; 19,438,178 issued and 18,955,264 outstanding at December 31, 2018; 19,211,826 issued and 18,728,192 outstanding at December 31, 2017	2	2
Additional paid-in capital	268,794	267,857
Treasury stock, at cost (482,914 shares at December 31, 2018 and December 31, 2017)	(5,297)	(5,297)
Accumulated other comprehensive loss	(2,507)	(2,108)
Accumulated deficit	(213,096)	(203,996)
Total stockholders' equity	47,896	56,458

Total liabilities and stockholders' equity	\$64,600	\$64,353
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See accompanying notes.

SUPPORT.COM, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands except per share data)

	Year Ended December 31,	
	2018	2017
Revenue:		
Services	\$64,476	\$54,670
Software and other	5,073	5,451
Total revenue	69,549	60,121
Costs of revenue:		
Cost of services	57,396	47,101
Cost of software and other	208	287
Total cost of revenue	57,604	47,388
Gross profit	11,945	12,733
Operating expenses:		
Research and development	2,780	3,033
Sales and marketing	1,823	2,425
General and administrative	7,408	8,696
Amortization of intangible assets and other	—	16
Legal settlement	10,000	—
Restructuring	—	128
Total operating expenses	22,011	14,298
Loss from operations	(10,066)	(1,565)
Interest income and other, net	965	643
Loss from operations, before income taxes	(9,101)	(922)
Income tax provision (benefit)	(1)	604
Net loss	\$(9,100)	\$(1,526)
Basic and diluted loss per share		
Basic	\$(0.48)	\$(0.08)
Diluted	\$(0.48)	\$(0.08)
Shares used in computing per share amounts		
Basic	18,826	18,644
Diluted	18,826	18,644

See accompanying notes.

SUPPORT.COM, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(in thousands)

	Year Ended December 31,	
	2018	2017
Net loss	\$(9,100)	\$(1,526)
Other comprehensive income:		
Change in foreign currency translation adjustment	(414)	264
Change in net unrealized gain (loss) on investments	15	(43)
Other comprehensive income (loss)	(399)	221
Comprehensive loss	\$(9,499)	\$(1,305)

See accompanying notes.

SUPPORT.COM, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands, except share data)

Common Stock

	Shares	Amount	Additional Paid-In Capital	Treasury Stock	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Shares		
Balances at December 31, 2016	18,548,180	\$2	\$267,400	\$(5,295)	\$(2,329)	\$(202,470)	\$57,308		
Net loss	—	—	—	—	—	(1,526)	(1,526)		
Partial shares in reverse split	(40)	—	(1)	—	—	—	(1)		
Other comprehensive income	—	—	—	—	221	—	221		
Stock-based compensation expense	—	—	430	—	—	—	430		
Issuance of common stock upon exercise of stock options for cash and releases of RSUs	153,824	—	—	—	—	—	—		
Issuance of common stock under employee stock purchase plan	28,018	—	28	—	—	—	28		
Repurchase of common stock	(1,070)	—	—	(2)	—	—	(2)		
Balances at December 31, 2017	18,728,912	\$2	\$267,857	\$(5,297)	\$(2,108)	\$(203,996)	\$56,458		
Net loss	—	—	—	—	—	(9,100)	(9,100)		
Other comprehensive income	—	—	—	—	—	(399)	(399)		
Stock-based compensation expense	—	—	—	680	—	—	680		
Issuance of common stock upon exercise of stock options for cash and releases of RSUs	—	—	194,965	—	185	—	185		
Issuance of common stock under employee stock purchase plan	—	—	31,387	—	72	—	72		
Balances at December 31, 2018	—	—	18,955,264	\$2	\$268,794	(5,297)	\$(2,507)	\$(213,096)	\$47,896

See accompanying notes.

SUPPORT.COM, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Year Ended December 31,	
	2018	2017
Operating activities:		
Net loss	\$(9,100)	\$(1,526)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Stock-based compensation expense	680	430
Amortization of intangible assets and other	-	16
Amortization of premiums and discounts on investments	176	65
Depreciation	638	628
Deferred income taxes	-	585
Loss on disposal of fixed assets	-	8
Changes in operating assets and liabilities:		
Accounts receivable, net	(341)	(2,384)
Prepaid expenses and other current assets	(210)	417
Other assets	159	132
Accounts payable	(136)	(581)
Accrued legal settlement	10,000	-
Accrued compensation	257	191
Other accrued liabilities	(358)	(1,159)
Other long-term liabilities	(85)	(179)
Deferred revenue	(884)	(846)
Net cash provided by (used in) operating activities	796	(4,203)
Investing activities:		
Purchases of property and equipment	(208)	(63)
Purchases of investments	(30,049)	(25,795)
Maturities of investments	36,604	31,023
Net cash provided by investing activities	6,347	5,165
Financing activities:		
Cash settlement in stock split	-	(1)
Proceeds from exercise of stock options	185	28
Proceeds from employee stock purchase plan	72	-
Repurchase of common stock	-	(2)
Net cash provided by financing activities	257	25
Net increase (decrease) in cash and cash equivalents	7,400	987

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Effect of exchange rate changes on cash and cash equivalents	(268)	173
Cash and cash equivalents at beginning of year	18,050	16,890
Cash and cash equivalents at end of year	\$25,182	\$18,050

Supplemental schedule of cash flow information:

Cash paid for income taxes	\$72	\$323
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See accompanying notes.

SUPPORT.COM, INC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Organization and Summary of Significant Accounting Policies

Nature of Operations

Support.com, Inc. (“Support.com”, “the Company”, “We” or “Our”), was incorporated in the state of Delaware on December 3, 1997. Our common stock trades on the Nasdaq Capital Market under the symbol “SPRT.”

Support.com is a leading provider of tech support and turnkey support center services, producer of SUPERAntiSpyware® anti-malware products, and the maker of Support.com® software. Our technology support services programs help leading brands create new revenue streams and deepen customer relationships. We offer turnkey, outsourced support services for service providers, retailers and technology companies. Our technology support services 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, and home security and automation system support. Our Support.com Cloud offering is a SaaS solution for companies to optimize support interactions with their customers using their own- or third-party support personnel. The solution enables companies to quickly resolve complex technology issues for their customers, boosting agent productivity and dramatically improving the customer experience.

Basis of Presentation

The consolidated financial statements include the accounts of Support.com and its wholly-owned foreign subsidiaries. All intercompany transactions and balances have been eliminated.

Foreign Currency Translation

The functional currency of our foreign subsidiaries is generally the local currency. Assets and liabilities of our wholly owned foreign subsidiaries are translated from their respective functional currencies at exchange rates in effect at the balance sheet date, and revenues and expenses are translated at average exchange rates prevailing during the year. Any material resulting translation adjustments are reflected as a separate component of stockholders’ equity in accumulated other comprehensive income (loss). Realized foreign currency transaction gains (losses) were not material during the years ended December 31, 2018 and 2017.

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. Periodically throughout the year, the Company has maintained balances in various operating accounts in excess of federally insured limits. 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. 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.

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. Our allowances are made based on a specific review of all significant outstanding invoices. For those invoices not specifically provided for, allowances 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.

The following table summarizes the allowance for doubtful accounts as of December 31, 2018 and 2017 (in thousands):

	Balance at Beginning of Period	Adjustments to Costs and Expenses	Write- offs	Balance at End of Period
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Allowance for doubtful accounts:

Year ended December 31, 2017	\$19	\$34	\$(44)	\$9
Year ended December 31, 2018	\$9	\$24	\$(20)	\$13

As of December 31, 2018, Comcast and Cox Communications accounted for approximately 71% and 20% of our total accounts receivable, respectively. As of December 31, 2017, Comcast and Cox Communications accounted for approximately 71% and 12% of our total accounts receivable, respectively. No other customers accounted for 10% or more of our total accounts receivable as of December 31, 2018 and 2017.

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 consolidated statements of operations.

Our cash equivalents and short-term investments are classified as investment, and are reported at fair value with unrealized gains/losses included in accumulated other comprehensive loss within stockholders' equity on the consolidated balance sheets and in the consolidated statements of comprehensive loss. We view this investment 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 December 31, 2018, the Company evaluated its unrealized 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 December 31, 2018 and 2017, the estimated fair value of cash, cash equivalents and investments was \$49.6 million and \$49.2 million, respectively. The following is a summary of cash, cash equivalents and investments at December 31, 2018 and 2017 (in thousands):

For the Year Ended December 31, 2018

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Cash	\$8,391	\$—	\$—	\$8,391
Money market fund	14,295	—	—	14,295
Certificates of deposit	1,171	—	(1)	1,170
Commercial paper	3,986	—	(1)	3,985
Corporate notes and bonds	14,899	—	(66)	14,833
U.S. government agency securities	6,976	—	(1)	6,975
	\$49,718	\$—	\$(69)	\$49,649
Classified as:				
Cash and cash equivalents	\$25,182	\$—	\$—	\$25,182
Short-term investments	24,536	—	(69)	24,467
	\$49,718	\$—	\$(69)	\$49,649

For the Year Ended December 31, 2017

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Cash	\$7,408	\$—	\$—	\$7,408
Money market fund	10,643	\$—	(1)	10,642
Certificates of deposit	1,207	—	(2)	1,205
Commercial paper	2,494	—	(1)	2,493
Corporate notes and bonds	22,846	—	(76)	22,770
U.S. government agency securities	4,719	—	(4)	4,715
	\$49,317	\$—	\$(84)	\$49,233
Classified as:				
Cash and cash equivalents	\$18,051	\$—	\$(1)	\$18,050
Short-term investments	31,266	—	(83)	31,183
	\$49,317	\$—	\$(84)	\$49,233

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):

December 31,

2018 2017

Due within one year	\$20,874	\$22,228
Due within two years	3,593	8,955
	\$24,467	\$31,183

We determined that the gross unrealized losses on our available-for-sale investments as of December 31, 2018 are temporary in nature. The fair value of our available-for-sale securities at December 31, 2018 and 2017 reflects a net unrealized loss of \$68,000 and \$84,000, respectively. There were no net realized gains (losses) on available-for-sale securities in the years ended December 31, 2018 and 2017. The cost of securities sold is based on the specific identification method.

The following table sets forth the unrealized losses for the Company's available-for-sale investments as of December 31, 2018 and 2017 (in thousands):

As of December 31, 2018	In Loss Position Less Than 12 Months		In Loss Position More Than 12 Months		Total in Loss Position	
Description	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Certificates of deposit	\$720	\$(1)	\$—	\$—	\$719	\$(1)
Corporate notes and bonds	18,883	(67)	—	—	18,816	(67)
U.S. government agency securities	6,976	(1)	—	—	6,975	(1)
Total	\$26,579	\$(69)	\$—	\$—	\$26,510	\$(69)

As of December 21, 2017	In Loss Position Less Than 12 Months		In Loss Position More Than 12 Months		Total in Loss Position	
Description	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Certificates of deposit	\$718	\$(2)	\$—	\$—	\$718	\$(2)
Corporate notes and bonds	16,530	(32)	6,947	(47)	23,477	(79)
U.S. government agency securities	3,720	(3)	998	—	4,718	(3)
Total	\$20,968	\$(37)	\$7,945	\$(47)	\$28,913	\$(84)

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation and amortization which is determined using the straight-line method over the estimated useful lives of two to five years for computer equipment and software, three 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 they are incurred.

Long-Lived Assets

We record purchased identifiable intangible assets at fair value as part of a business combination. Useful life is estimated as the period over which the identifiable intangible assets are expected to contribute directly or indirectly to the future cash flows of the Company. As we do not believe that we can reliably determine a pattern by which the economic benefits of these identifiable intangible assets will be consumed, management adopted straight-line amortization. The original cost is amortized on a straight-line basis over the estimated useful life of each identifiable intangible asset.

The Company assesses its long-lived assets, which includes property and equipment and identifiable intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss would be recognized when the sum of the 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 charge 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.

Revenue Recognition

On January 1, 2018, the Company adopted Financial Accounting Standards Board ("FASB") Accounting Standards Codification Topic 606, Revenue from Contracts with Customers ("ASC 606"). As a result, the Company has changed its accounting policy for revenue recognition and applied ASC 606 using the modified retrospective method.

Typically, this approach would result in recognizing the cumulative effect of initially applying ASC 606 as an adjustment to the opening retained earnings at January 1, 2018, while prior period amounts are not adjusted and continue to be reported in accordance with the Company's historic revenue recognition methodology under ASC 605, Revenue Recognition. Based on our assessment of the guidance in ASC 606, the Company did not have a material change in financial position, results of operations, or cash flows and therefore there is no cumulative impact recorded to opening retained earnings. However, we have included additional qualitative and quantitative disclosures about our revenues as is required under the new revenue standard.

Disaggregation of Revenue

We generate revenue from the sale of services and sale of software fees for end-user software products provided through direct customer downloads and through the sale of these end-user software products via partners. The following table depicts the disaggregation of revenue (in thousands) according to revenue type and is consistent with how we evaluate our financial performance:

Revenue from Contracts with Customers:

	Twelve months ended December 31,	
	2018	2017
Services	\$64,476	\$54,670
Software and other	5,073	5,451
Total revenue	\$69,549	\$60,121

Under Topic 606, revenue is recognized when control of the promised goods or services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services.

We determine revenue recognition through the following steps:

identification of the contract, or contracts, with a customer;

identification of the performance obligations in the contract;

determination of the transaction price;

allocation of the transaction price to the performance obligations in the contract; and

recognition of revenue when, or as, we satisfy a performance obligation.

Services Revenue

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

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.

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 years ended December 31, 2018 and 2017, services breakage revenue accounted for less than 1% of total services revenue.

The following table represent deferred revenue activity for the years ended December 31, 2018 and 2017 (in thousands):

Changes in deferred revenues were as follows:	Year Ended	
	December 31,	
	2018	2017
Balance, beginning of period	\$2,019	\$2,865
Deferred revenue	1,120	1,764
Recognition of unearned revenue	(2,004)	(2,610)
Balance, end of period	\$1,135	\$2,019

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.

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.

Services revenue also includes fees from licensing of our Support.com cloud-based software. In such arrangements, customers receive a right to use our Support.com Cloud in their own technology support organizations. We license our cloud-based software using a SaaS model under which customers cannot take possession of the technology and pay us on a per-user basis during the term of the arrangement. In addition, services revenue includes fees from implementation services of our cloud-based software. Currently, revenues from implementation services are recognized ratably over the customer life which is estimated as the term of the arrangement once the Support.com Cloud services are made available to customers. We generally charge for these services on a time and material basis. As of December 31, 2018, revenues from implementation services are di minimus.

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. Our software is sold to customers as a perpetual license or as a fixed period subscription. We offer when-and-if-available software upgrades to our end-user products. Management has determined that these upgrades are not distinct, as the upgrades are an input into a combined output. In addition, Management has determined that the frequency and timing of the when-and-if-available upgrades are unpredictable and therefore we recognize revenue consistent with the sale of the perpetual license or subscription. We 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.

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.

Research and Development

Research and development expenditures are charged to operations as they are incurred.

Software Development Costs

Based on our product development process, technological feasibility is established on the completion of a working model. The Company determined that technological feasibility is reached shortly before the product is ready for general release and therefore development costs incurred have been insignificant. Accordingly, we have charged all such costs to research and development expense in the period in which they were incurred.

Purchased Technology for Internal Use

We capitalize costs related to software that we license and incorporate into our product and service offerings or develop for internal use.

Advertising Costs

Advertising costs are recorded as sales and marketing expense in the period in which they are incurred. Advertising expense was \$18,000 and \$0.1 million for the years ended December 31, 2018 and 2017, respectively.

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 restricted stock units (“RSUs”) using the treasury stock method when dilutive. We excluded outstanding weighted average stock options of 0.8 million and 1.9 million for the years ended December 31, 2018 and 2017, respectively, from the calculation of diluted earnings per common share because the exercise prices of these stock options were greater than or equal to the average market value of the common stock. These stock options could be included in the calculation in the future if the average market value of the common stock increases and is greater than the exercise price of these stock options. Since we reported a net loss for the years ended December 31, 2018 and 2017, 64,000 and 28,000 outstanding options and RSUs were also excluded from the computation of diluted loss per share since their effect would have been anti-dilutive.

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

	Year Ended December 31,	
	2018	2017
Net loss	\$(9,100)	\$(1,526)
Basic:		
Weighted-average shares of common stock outstanding	18,826	18,644

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Shares used in computing basic net loss per share	18,826	18,644
Basic net loss per share	\$(0.48)	\$(0.08)
Diluted:		
Weighted-average shares of common stock outstanding	18,826	18,644
Add: Common equivalent shares outstanding	—	—
Shares used in computing diluted net loss per share	18,826	18,644
Diluted net loss per share	\$(0.48)	\$(0.08)

Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive loss, which relate entirely to accumulated foreign currency translation losses associated with our foreign subsidiaries and unrealized losses on investments, consisted of the following (in thousands):

	Foreign Currency Translation Losses	Unrealized Gains (Losses) on Investments	Total
Balance as of December 31, 2017	\$(2,024)	\$(84)	\$(2,108)
Current-period other comprehensive gain (loss)	(414)	15	(399)
Balance as of December 31, 2018	\$(2,438)	\$(69)	\$(2,507)

Realized gains/losses on investments reclassified from accumulated other comprehensive loss are reported as interest income and other, net in our consolidated statements of operations.

The amounts noted in the consolidated statements of comprehensive loss are shown before taking into account the related income tax impact. The income tax effect allocated to each component of other comprehensive income 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 and options to purchase stock, made to employees and directors based on estimated fair values.

Determining Fair Value of Share-Based Payments

Valuation and Attribution Method: Stock-based compensation expense for service-based stock options and employee stock purchase plan ("ESPP") is estimated at the date of grant based on the fair value of awards using the Black-Scholes-Merton option pricing model. Stock-based compensation expense for RSUs is estimated at the date of grant based on the number of shares granted and the quoted price of the Company's common stock on the grant date. Stock options vest on a graded schedule; however, we recognize the expense over the requisite service period based on the straight-line method for service-based stock options and the accelerated method for market-based stock options, which is generally four years for stock options, three years or four years for RSUs and six months for ESPP, net of estimated forfeitures. These limitations require that on any date the compensation cost recognized is at least equal to the portion of the grant-date fair value of the award that is vested at that date. The Company estimates pre-vesting forfeitures at the time of grant by analyzing historical data and revises those estimates in subsequent periods if actual forfeitures differ from those estimates. The total expense recognized over the vesting period will only be for those awards that ultimately vest.

Risk-free Interest Rate: We base our risk-free interest rate on the yield currently available on U.S. Treasury zero coupon issues for the expected term of the stock options.

Expected Term: Our expected term represents the period that our stock options are expected to be outstanding and is determined based on historical experience of similar stock options considering the contractual terms of the stock options, vesting schedules and expectations of future employee behavior.

Expected Volatility: Our expected volatility represents the amount by which the stock price is expected to fluctuate throughout the period that the stock option is outstanding. The expected volatility is based on the historical volatility of the Company's stock.

Expected Dividend: We use a dividend yield of zero, as we have never paid cash dividends and do not expect to pay dividends in the future.

The fair value of our stock-based awards was estimated using the following weighted average assumptions for the years ended December 31, 2018 and 2017:

	Stock Option Plan		Employee Stock Purchase Plan	
	2018	2017	2018	2017
Risk-free interest rate	2.43%	1.71%	2.31%	0.5%
Expected term (in years)	3.0	3.0	0.5	0.5
Volatility	41.2%	41.2%	29.0%	39.0%
Expected dividend	0%	0%	0%	0%
Weighted average grant-date fair value	\$0.84	\$0.68	\$0.67	\$0.39

We recorded the following stock-based compensation expense for the fiscal years ended December 31, 2018 and 2017 (in thousands):

For the Year
Ended
December 31,

2018 2017

Stock-based compensation expense related to grants of:

Stock options	\$395	\$144
ESPP	16	21
RSU	269	265
	\$680	\$430
Stock-based compensation expense recognized in:		
Cost of service	\$63	\$109
Cost of software and others	-	4
Research and development	42	78
Sales and marketing	54	59
General and administrative	521	180
	\$680	\$430

Cash provided by (used in) from the issuance of common stock, net of repurchase of common stock and cash settlement in stock split, was \$257,000 and \$25,000 for the years ended December 31, 2018 and 2017, respectively.

Income Taxes

Income taxes are accounted for under the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial

statement carrying amounts of existing assets and liabilities and their respective tax bases, and operating losses and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be reversed or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the consolidated statements of operations in the period that includes the enactment date. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets, if it is more likely than not, that such assets will not be realized. The Company's deferred tax asset and related valuation allowance increased by \$2.1 million to \$46 million. As the deferred tax asset is fully allowed for, this change had no impact on the Company's financial position or results of operations.

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 December 31, 2018, we were not required to make any payment resulting from infringement claims asserted against our customers and have not recorded any related accruals.

Fair Value Measurements

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.

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 December 31, 2018 and 2017 (in thousands):

As of December 31, 2018	Level 1	Level 2	Level 3	Total
Money market funds	\$14,295	\$—	\$—	\$14,295
Certificates of deposit	—	1,170	—	1,170
Commercial paper	—	3,985	—	3,985
Corporate notes and bonds	—	14,833	—	14,833
U.S. government agency securities	—	6,975	—	6,975
Total	\$14,295	\$26,963	\$—	\$41,258

As of December 31, 2017	Level 1	Level 2	Level 3	Total
Money market funds	\$10,642	\$—	\$—	\$10,642
Certificates of deposit	—	1,206	—	1,206
Commercial paper	—	2,493	—	2,493
Corporate notes and bonds	—	22,769	—	22,769
U.S. government agency securities	—	4,715	—	4,715
Total	\$10,642	\$31,183	\$—	\$41,825

For short-term investments, 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. Our policy is that the end of our quarterly reporting period determines when transfers of financial instruments between levels are recognized.

Segment Information

The Company reports its operations as a single operating segment and has a single reporting unit. Our Chief Operating Decision Maker (“CODM”), our Chief Executive Officer, manages our operations on a consolidated basis for purposes of allocating resources. When evaluating performance and allocating resources, the CODM reviews financial information presented on a consolidated basis.

Revenue from customers located outside the United States was less than 1% of total for the years ended December 31, 2018 and 2017.

For the year ended December 31, 2018, Comcast and Cox Communications accounted for approximately 69% and 15%, respectively, of our total revenue. For the year ended December 31, 2017, Comcast accounted for approximately 65% of our total revenue. There were no other customers that accounted for 10% or more of our total revenue in any of the periods presented.

Long-lived assets are attributed to the geographic location in which they are located. We include in long-lived assets all tangible assets. Long-lived assets by geographic areas are as follows (in thousands):

	December 31,	
	2018	2017
United States	\$702	\$1,132
India	-	-
Philippines	1	1
Total	\$703	\$1,133

Recent Accounting Pronouncements

Accounting Standards Adopted in the Current Period

Revenue Recognition

We have implemented all new accounting pronouncements that are in effect and that management believes would materially affect our financial statements.

In May 2014, the Financial Accounting Standards Board (the “FASB”) issued ASU No. 2014-09, Revenue from Contracts with Customers, updated by ASU No. 2015-14 Deferral of the Effective Date (a.k.a. ASC 606), which provides a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and will supersede most current revenue recognition guidance. The standard was effective for public entities for annual and interim periods beginning after December 15, 2017. Our revenue is primarily generated when we deliver the service to the customers over time. We completed our analysis during 2017 and there was no material change to our financial position, results of operations, and cash flows as a result of the implementation of ACS 606. We adopted ASC 606 on a modified retrospective basis effective on January 1, 2018. Although there is no material impact, we have expanded disclosures in our notes to our consolidated financial statements related to revenue recognition under the new standard. We have implemented changes to our accounting policies and practices, business processes, systems, and controls to support the new revenue recognition and disclosure requirements

Financial Instruments

In January 2016, The FASB issued ASU No. 2016-01, Financial Instruments - Recognition and Measurement of Financial Assets and Financial Liabilities (Topic 825). ASU No. 2016-01 revises the classification and measurement of investments in certain equity investments and the presentation of certain fair value changes for certain financial liabilities measured at fair value. ASU No. 2016-01 requires the change in fair value of many equity investments to be recognized in net income. The Company adopted ASU 2016-01 in its first quarter of 2018 utilizing the modified retrospective transition method. Based on the composition of the Company's investment portfolio, the adoption of ASU 2016-01 did not have a material impact on its consolidated financial statements.

Income Taxes

In March 2018, the Company adopted Accounting Standards Update No. 2018-05 – Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118, which updates the income tax accounting in U.S. GAAP to reflect the Securities and Exchange Commission (“SEC”) interpretive guidance released on December 22, 2017, when the Tax Cuts and Jobs Act was signed into law.

New Accounting Standards to be adopted in Future Periods

Intangible Assets

In January 2017, the FASB issued Accounting Standards Update No. 2017-04, Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment (ASU 2017-04), which eliminates step two from the goodwill impairment test. Under ASU 2017-04, an entity should recognize an impairment charge for the amount by which the carrying amount of a reporting unit exceeds its fair value up to the amount of goodwill allocated to that reporting unit. This guidance will be effective for us in the first quarter of 2020 on a prospective basis, and early adoption is permitted. We do not expect the standard to have a material impact on our consolidated financial statements.

Lease Accounting

In February 2016, the FASB issued an ASU amending the accounting for leases. The new guidance requires the recognition of lease assets and liabilities for operating leases with terms of more than 12 months, in addition to those currently recorded, on our consolidated balance sheets. Presentation of leases within the consolidated statements of operations and consolidated statements of cash flows will be generally consistent with the current lease accounting guidance. The ASU is effective for reporting periods beginning after December 15, 2018, with early adoption permitted. We will adopt this ASU on January 1, 2019. This adoption approach will result in a balance sheet presentation that will not be comparable to the prior period in the first year of adoption. We are in the process of finalizing the impact on the amounts to be recognized as total right-of-use assets and total lease liabilities on our consolidated balance sheet beginning in 2019. Other than this disclosure, we do not expect the new standard to have a material impact on our remaining consolidated financial statements.

Comprehensive Income

In February 2018, the FASB issued ASU 2018-02, Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, which allows companies to reclassify standard tax effects resulting from the 2017 Tax Cuts and Jobs Act (the Tax Act), from accumulated other comprehensive income to retained earnings. This standard is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted for any interim period after issuance of the ASU. The new standard is effective for us beginning January 1, 2019, with early adoption permitted. We are currently evaluating the adoption of this guidance but do not expect such adoption to have a material impact on our consolidated financial statements and the related disclosures.

Note 2. Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation, and consist of the following as of December 31, 2018 and 2017 (in thousands):

	December 31,	
	2018	2017
Computer equipment and software	\$7,143	\$6,935
Furniture and office equipment	142	142
Leasehold improvements	348	348
Construction in progress	—	—
	7,633	7,425
Accumulated depreciation	(6,930)	(6,292)
	\$703	\$1,133

Depreciation expense was \$638,000 and \$628,000 for the years ended December 31, 2018 and 2017, respectively.

Note 3. Intangible Assets

Amortization expense related to intangible assets was \$0 and \$16,000 for the years ended December 31, 2018 and 2017, respectively.

In December 2006, we acquired the use of a toll-free telephone number for cash consideration of \$250,000. This asset has an indefinite useful life. The intangible asset is tested for impairment annually or more often if events or changes in circumstances indicate that the carrying value may not be recoverable.

As of December 31, 2018, all intangible assets have been fully amortized with the exception of the indefinite-life intangibles.

Note 4. Commitments and Contingencies

Lease commitments

Sunnyvale office lease. On March 23, 2018, we entered into a two-year lease agreement with an effective date of April 1, 2018 for our Sunnyvale facility, covering approximately 6,283 square feet with the monthly rent of \$14,000. The lease is scheduled to expire on March 31, 2020.

Other facility leases. We lease our facilities under non-cancelable operating lease agreements, which expire at various dates through December 2020.

Total facility rent expense pursuant to all operating lease agreements was \$401,000 and \$567,000 for the years ended December 31, 2018 and 2017, respectively.

As of December 31, 2018, minimum payments due under all non-cancelable lease agreements were as follows (in thousands):

Years ending December 31,	Operating Leases
2019	\$273
2020	158
2021	70
Total minimum lease and principal payments	\$501

Legal contingencies

Federal Trade Commission Consent Order. As previously disclosed, on December 20, 2016 the Federal Trade Commission (“FTC”) issued a confidential Civil Investigative Demand, or CID, to the Company requiring the Company to produce certain documents and materials and to answer certain interrogatories relating to PC Healthcheck, an obsolete software program that the Company developed on behalf of a third party for their use with their customers. The investigation relates to the Company providing software like PC Healthcheck to third parties for their use prior to December 31, 2016, when the Company was under management of the previous Board and executive team. Since issuing the CID, the FTC has sought additional written and testimonial evidence from the Company. We have cooperated fully with the FTC’s investigation and provided all requested information. In addition, the Company has not used PC Healthcheck nor provided it to any customers since December 2016.

On March 9, 2018, the FTC notified the Company that the FTC was willing to engage in settlement discussions. On November 6, 2018, the Company and the FTC entered into a proposed Stipulation to Entry of Order for Permanent Injunction and Monetary Judgment, or the Consent Order. The Consent Order is expected to be approved by the Commission and lodged with the U.S. District Court for the Southern District of Florida. Upon final entry by the Court, the Consent Order resolves the FTC’s multi-year investigation of the Company.

Pursuant to the Consent Order, under which the Company neither admitted nor denied the FTC’s allegations (except as to the Court having jurisdiction over the matter), the FTC has agreed to accept a payment of \$10 million in settlement of the \$35 million judgement, subject to the factual accuracy of the information the Company has provided as part of our financial representations. The \$10 million payment will be made within seven (7) days of the entry of the Consent Order in the Southern District of Florida and is recognized in operating expenses within the Company’s consolidated statements of operations for the year ended December 31, 2018.

Additionally, pursuant to the Consent Order, the Company has agreed to implement certain new procedures and enhance certain existing procedures. For example, the Consent Order necessitates that the Company cooperate with representatives of the Commission on associated investigations if needed; imposes requirements on the Company regarding obtaining acknowledgements of the Consent Order and compliance certification, including record creation and maintenance; and prohibits the Company from making misrepresentations and misleading claims or providing the means for others to make such claims regarding, among other things, detection of security or performance issues on consumer's Electronic Devices. Electronic Devices include, but are not limited to, cell phones, tablets and computers. The Company intends to monitor the impact of the Consent Order regularly and, while the Company currently does not expect the settlement to have a long-term and materially adverse impact on its business, the Company's business may be negatively impacted as the Company adjusts to some of the changes. If the Company is unable to comply with the Consent Order, then this could result in a material and adverse impact to the Company's results of operations and financial condition.

Other Matters. On January 17, 2017 the Consumer Protection Division of the Office of Attorney General, State of Washington ("Washington AG"), issued a Civil Investigative Demand to the Company requiring the Company to produce certain documents and materials and to answer certain interrogatories relating to PC Healthcheck. The Washington AG has not alleged a factual basis underlying the issuance of the Civil Investigative Demand. On May 30, 2017, the Consumer Protection Division of the Office of Attorney General, State of Texas ("Texas AG"), issued a Civil Investigative Demand to the Company requiring the Company to produce certain documents and materials and to answer certain interrogatories relating to PC Healthcheck. The Texas AG has not alleged a factual basis underlying the issuance of the Civil Investigative Demand. Accordingly, the Company has responded to both the Washington AG Civil Investigative Demand and the Texas AG Civil Investigative Demand. To date, the Company has not received any follow-up communications from either state's AG with respect to these matters.

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 any pending claims of any type (alone or combined) will materially affect our financial position, results of operations or cash flows. The ultimate outcome of any litigation is uncertain; however, any unfavorable outcomes could have a material negative impact on our financial condition and operating results. Regardless of outcome, litigation can have an adverse impact on us because of defense costs, negative publicity, diversion of management resources and other factors.

Guarantees

We have identified guarantees in accordance with ASC 450, Contingencies. This guidance stipulates that an entity must recognize an initial liability for the fair value, or market value, of the obligation it assumes under the guarantee at the time it issues such a guarantee, and must disclose that information in its interim and annual financial statements. We have entered into various service level agreements with our partners, in which we may guarantee the maintenance of certain service level thresholds. Under some circumstances, if we do not meet these thresholds, we may be liable for certain financial costs. We evaluate costs for such guarantees under the provisions of ASC 450. We consider such factors as the degree of probability that we would be required to satisfy the liability associated with the guarantee and the ability to make a reasonable estimate of the resulting cost. We incurred zero costs as a result of such obligations during the years ended December 31, 2018 and 2017, respectively. We have not accrued any liabilities related to such obligations in the consolidated financial statements as of December 31, 2018 and 2017.

Note 5. Other Accrued Liabilities

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

	As of December 31,	
	2018	2017
Accrued expenses	\$338	\$462
Self-insurance accruals	585	679
Other accrued liabilities	55	189
Total other accrued liabilities	\$978	\$1,330

Note 6. Stockholders' Equity

Equity Compensation Plan

We adopted the amended and restated 2010 Equity and Performance Incentive Plan (the "2010 Plan"), effective as of February 8, 2010. Under the 2010 Plan, the number of shares of Common Stock that may be issued will not exceed in the aggregate 1,666,666 shares of Common Stock plus the number of shares of Common Stock relating to prior awards under the 2000 Omnibus Equity Incentive Plan that expire, are forfeited or are cancelled after the adoption of the 2010 Plan, subject to adjustment as provided in the 2010 Plan. Pursuant to an approval from the Company's shareholders, the number of shares of Common Stock that may be issued under the 2010 Plan was increased by 750,000 shares of Common Stock in May 2013 and 333,333 shares in June 2016. No grants will be made under the 2010 Plan after the tenth anniversary of its effective date. Under our 2010 Plan, as of December 31, 2018, there were approximately 2.1 million shares available for grant.

We adopted the 2014 Inducement Award Plan (the "Inducement Plan"), effective as of May 13, 2014. Under the Inducement Plan, the number of shares of Common Stock that may be issued will not exceed in the aggregate 666,666 shares of Common Stock. Under our Inducement Plan, as of December 31, 2018, there were approximately 456,000 shares available for grant.

Stock Options

The following tables represent stock option activity for the years ended December 31, 2018 and 2017:

	Number of Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding options at December 31, 2016	1,381,843	\$14.85	4.95	\$0
Granted	430,500	\$2.291		
Exercised	(0)	\$-		
Forfeited	(1,080,153)	\$5.90		
Outstanding options at December 31, 2017	732,190	\$3.72	8.17	\$56
Granted	330,000	\$2.75		
Exercised	(75,022)	\$2.46		
Forfeited	(183,848)	\$6.14		
Outstanding options at December 31, 2018	803,320	\$2.89	8.43	\$54
Options vested and expected to vest	786,829	\$2.90	8.43	\$51
Exercisable at December 31, 2018	556,487	\$3.12	8.31	\$20

A summary of additional information related to the options outstanding as of December 31, 2018 under the 2010 and 2014 Plans are as follows:

Option Plans Range of Exercise Prices	Number of Outstanding Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
\$2.29 - \$2.29	315,330	8.52	\$2.29
\$2.51-\$2.52	88,105	7.37	\$2.51
\$2.56-\$2.57	29,208	7.45	\$2.56
\$2.74-\$2.74	300,000	9.15	\$2.74
\$2.88-\$13.44	61,549	7.06	\$6.29
\$13.50-\$17.67	9,128	4.62	\$16.78
	803,320		

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 December 31, 2018 and 2017. This amount will change based on the fair market value of our stock. The total aggregate intrinsic value of options exercised under our stock option plans was \$27,000 and \$0 for the years ended December 31, 2018 and 2017, respectively. The total fair value of options vested during 2018 and 2017 was \$22,000 and \$32,000, respectively.

At December 31, 2018, there was \$165,000 of unrecognized compensation cost related to stock options which is expected to be recognized over a weighted average period of 1.6 years.

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 a new Employee Stock Purchase Plan 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.

A total of 31,387 shares and 28,018 shares were issued under the ESPP during the years ended December 31, 2018 and 2017, respectively.

As of December 31, 2018, approximately 78,847 shares remain available for grant under the ESPP.

Restricted Stock Units

The following table represents RSU activity for the years ended December 31, 2018 and 2017:

	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, 2016	351,921	\$4.59	1.06	\$908
Awarded	102,880	\$2.43		
Released	(153,714)	\$3.45		
Forfeited	(164,758)	\$5.78		
Outstanding RSUs at December 31, 2017	136,329	\$2.80	0.80	\$329
Awarded	90,905	\$2.75		
Released	(119,943)	\$2.79		
Forfeited	(11,061)	\$2.67		
Outstanding RSUs at December 31, 2018	96,230	\$2.78	0.60	\$227

At December 31, 2018, there was \$116,000 of unrecognized compensation cost related to RSUs which is expected to be recognized over a weighted average period of 0.6 years.

Stock Repurchase Program

On April 27, 2005, our Board of Directors authorized the repurchase of up to 666,666 outstanding shares of our common stock. As of December 31, 2018, the maximum number of shares remaining that can be repurchased under this program was 602,467. The Company does not intend to repurchase shares without a pre-approval from its Board of Directors.

Stockholder Rights Agreement and Tax Benefits Preservation Plan

Our Board adopted the Section 382 Tax Benefits Preservation Plan in an effort to diminish the risk that the Company's ability to utilize its net operating loss carryovers (collectively, the "NOLs") to reduce potential future federal income tax obligations may become substantially limited. Under the Internal Revenue Code of 1986, as amended (the "Code"), and the regulations promulgated thereunder by the U.S. Treasury Department, these NOLs may be "carried forward" in certain circumstances to offset any current and future taxable income and thus reduce federal income tax liability, subject to certain requirements and restrictions. However, if the Company experiences an "ownership change," within the meaning of Section 382 of the Code ("Section 382"), its ability to utilize the NOLs may be substantially limited, and the timing of the usage of the NOLs could be substantially delayed, which could therefore significantly impair the

value of those assets. Section 382 and the Treasury regulations thereunder make the Company's commercial risk from a Section 382 limitation triggering event particularly acute given the relative size of its current cash on hand to its market capitalization. As applied to the Company's current cash position and current market capitalization, if the Company was to currently experience an ownership change, it would be subject to Section 382's "non-business asset" limitation which would result in the Company permanently losing all \$141 million of its NOLs.

The Section 382 Tax Benefits Preservation Plan is intended to act as a deterrent to any person or group acquiring beneficial ownership of 4.99% or more of the outstanding Common Stock without the approval of the Board (such person, an “Acquiring Person”). A person who acquires, without the approval of the Board, beneficial ownership (other than as a result of repurchases of stock by the Company, dividends or distributions by the Company or certain inadvertent actions by stockholders) of 4.99% or more of the outstanding Common Stock (including any ownership interest held by that person's Affiliates and Associates as defined under the Section 382 Tax Benefits Preservation Plan) could be subject to significant dilution. Stockholders who beneficially own 4.99% or more of the outstanding Common Stock prior to the first public announcement by the Company of the Board’s adoption of the Section 382 Tax Benefits Preservation Plan will not trigger the Section 382 Tax Benefits Preservation Plan so long as they do not acquire beneficial ownership of additional shares of the Common Stock (other than pursuant to a dividend or distribution paid or made by the Company on the outstanding shares of Common Stock or pursuant to a split or subdivision of the outstanding shares of Common Stock) at a time when they still beneficially own 4.99% or more of such stock. In addition, the Board retains the sole discretion to exempt any person or group from the penalties imposed by the Section 382 Tax Benefits Preservation Plan.

In the event that a person becomes an Acquiring Person, each holder of a Right, other than Rights that are or, under certain circumstances, were beneficially owned by the Acquiring Person (which will thereupon become void), will thereafter have the right to receive upon exercise of a Right and payment of the Purchase Price, and subject to the terms, provisions and conditions of the Section 382 Tax Benefits Preservation Plan, a number of shares of the Common Stock having a market value of two times the Purchase Price.

Note 7. Income Taxes

The components of our loss before income taxes are as follows (in thousands):

	Year Ended December 31,	
	2018	2017
United States	\$(9,458)	\$(1,541)
Foreign	357	619
Total	\$(9,101)	\$(922)

The provision (benefit) for income taxes from continuing operations consisted of the following (in thousands):

	Year Ended December 31,	
	2018	2017
Current:		
Federal	\$—	\$(79)
State	8	13
Foreign	(38)	85
Total Current	\$(30)	\$19

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Deferred		
Federal	\$—	\$—
State	—	—
Foreign	29	585
Total Deferred	\$29	\$585
Provision (benefit) for income taxes	\$(1)	\$604

60

The reconciliation of the Federal statutory income tax rate to our effective income tax rate is as follows (in thousands):

	Year Ended December 31,	
	2018	2017
Provision at Federal statutory rate	\$(1,911)	\$(322)
State taxes	8	13
Permanent differences/other	65	581
Tax Cuts and Jobs Act of 2017 Rate Change	—	22,714
Stock-based compensation	81	365
Federal valuation allowance (used) provided	1,756	(22,747)
Provision (benefit) for income taxes	\$(1)	\$604

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of our deferred tax assets and liabilities are as follows (in thousands):

	December 31,	
	2018	2017
Deferred Tax Assets		
Fixed assets	\$66	\$64
Accruals and reserves	2,673	147
Stock options	179	196
Net operating loss carryforwards	35,522	35,254
Federal and state credits	3,461	3,461
Foreign credits	152	165
Intangible assets	2,139	2,442
Research and development expense	2,224	2,542
Gross deferred tax assets	46,416	44,271
Valuation allowance	(46,283)	(44,100)
Total deferred tax assets	133	171
Deferred Tax Liabilities (1)	(543)	(543)
Net deferred tax asset/liabilities	(410)	(372)

(1)

The 543,000 deferred tax liabilities is the only tax related to the Indian subsidiaries remittance would be dividend distribution tax.

ASC 740, Income Taxes, provides for the recognition of deferred tax assets if realization of such assets is more likely than not to occur. Based on management's review of both the positive and negative evidence, which includes our historical operating performance, reported cumulative net losses since inception and difficulty in accurately forecasting its results, the Company has concluded that it is not more likely than not that the Company will be able to realize all the Company's U.S. deferred tax assets. Therefore, the Company has provided a full valuation allowance against its U.S. deferred tax assets.

Based on management's review of both positive and negative evidence, which includes the historical operating performance of our Canadian subsidiary, the Company has concluded that it is more likely than not that the Company will be able to realize a portion of the Company's Canadian deferred tax assets. Therefore, the Company has a partial valuation allowance on Canadian deferred tax assets. There is no valuation allowance against the Company's Indian deferred tax assets. The Company reassesses the need for its valuation allowance on a quarterly basis.

Based on management's review discussed above, the realization of deferred tax assets is dependent on improvements over present levels of pre-tax income. Until the Company is consistently profitable in the U.S., it will not realize its deferred tax assets.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (“Tax Act”) was signed into law making significant changes to the Internal Revenue Code. Changes include, but are not limited to, a corporate tax rate decrease from 35% to 21% effective for tax years beginning after December 31, 2017, the transition of U.S international taxation from a worldwide tax system to a territorial system, and a one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings as of December 31, 2017. The Company has calculated its best estimate of the impact of the Tax Act in its year end income tax provision in accordance with its understanding of the Tax Act and guidance available as of the date of this filing. The Company has evaluated these changes and, as a result of the decrease in tax rate, has recorded a provisional decrease to net deferred tax assets of \$22.7 million with a corresponding decrease to valuation allowance.

Due to the complexities involved in accounting for the recently enacted Tax Act, the U.S. Securities and Exchange Commission’s Staff Accounting Bulletin (“SAB”) 118 requires that the Company include in its financial statements a reasonable estimate of the impact of the Tax Act on earnings to the extent such estimate has been determined. Pursuant to the SAB118, the Company is allowed a measurement period of up to one year after the enactment date of the Tax Act to finalize the recording of the related tax impacts. December 22, 2018 marked the end of the measurement period for purposes of SAB 118. As such, the Company has completed the analysis relating to the Act currently available which resulted in no additional SAB 118 tax effect in the fourth quarter of 2018 for the year ended December 31, 2018.

Beginning in 2018, the Tax Act provides a 100% deduction for dividends received from 10-percent owned foreign corporations by U.S. corporate shareholders, subject to a one-year holding period. Although dividend income is now exempt from U.S. federal tax in the hands of the U.S. corporate shareholders, companies must still apply the guidance of ASC 740-30-25-18 to account for the tax consequences of outside basis differences and other tax impacts of their investments in non-U.S. subsidiaries. Deferred income taxes have not been provided on the cumulative undistributed earnings of foreign subsidiaries except for a change in assertion at December 31, 2017 for Support.com India Private Ltd. The amount of cumulative undistributed Indian subsidiary’s earnings at December 31, 2017 for which the Company is changing its assertion under ASC 740-30-25 is \$2.67 million. Under the Tax Cuts and Jobs Act of 2017, all foreign subsidiaries’ accumulated earnings through December 31, 2017 has been included in U.S. taxable income. As such, the only tax related to the Indian subsidiary remittance would be a dividend distribution tax of \$543,000.

The Transition Tax on unrepatriated foreign earnings is a tax on previously untaxed accumulated and current earnings and profits (“E&P”) of the Company’s foreign subsidiaries. To determine the amount of the Transition Tax, the Company must determine, among other factors, the amount of post-1986 E&P of its foreign subsidiaries, as well as the amount of non-U.S. income taxes paid on such earnings. The Company was able to make a reasonable estimate of its previously untaxed accumulated and current earnings and profits and has concluded that such amount is an accumulated deficit; therefore, no Transition Tax results.

The net valuation allowance increased and decreased by approximately \$2.1 million and \$18.0 million during the years ended December 31, 2018 and 2017, respectively. As of December 31, 2018, the Company had Federal and state net operating loss carryforwards of approximately \$143.4 million and \$70.5 million, respectively. The Federal net operating loss and credit carryforwards will expire at various dates beginning in 2020 through 2037, if not utilized. The state net operating loss carryforwards will expire at various dates beginning in 2018 through 2037, if not utilized. As a result of the adoption of ASU 2016-09 in fiscal 2017, the Company recorded a cumulative effect adjustment to increase deferred tax assets and a corresponding increase to valuation allowance from stock-based compensation which had not been previously recognized. As such there was no cumulative effect to retained earnings adjustment required.

The Company also had Federal and state research and development credit carryforwards of approximately \$2.8 million and \$2.4 million, respectively. The federal credits expire in varying amounts between 2020 and 2031. The state research and development credit carryforwards do not have an expiration date.

Utilization of net operating loss carryforwards and credits may be subject to substantial annual limitation or could be lost due to the ownership change limitations provided by the Internal Revenue Code of 1986, as amended and similar state provisions. The annual limitation may result in the expiration of net operating losses and credits before utilization.

ASC 740-10 clarifies the accounting for uncertainties in income taxes by prescribing guidance for the recognition, de-recognition and measurement in financial statements of income tax positions taken in previously filed tax returns or tax positions expected to be taken in tax returns, including a decision whether to file or not to file in a particular jurisdiction. ASC 740-10 requires the disclosure of any liability created for unrecognized tax benefits. The application of ASC 740-10 may also affect the tax bases of assets and liabilities and therefore may change or create deferred tax liabilities or assets.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

	Year Ended December 31,	
	2018	2017
Balance at beginning of year	\$2,229	\$2,285
Increase related to prior year tax positions	—	26