Support.com, Inc.
Form 10-K
March 08, 2013

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

FORM 10-K

(Mark One)
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2012
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Transition Period from to
Commission File No. 000-30901

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

Delaware (State or Other Jurisdiction of Incorporation or Organization)	94-3282005 (I.R.S. Employer Identification No.)
900 Chesapeake Drive, 2nd Floor, , Redwood City, CA (Address of Registrant’s Principal Executive Offices)	94063 (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

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 o No x

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 o No x

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 x No o

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. x

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

Large accelerated filer o	Accelerated filer x	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

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

The aggregate market value of the registrant’s common stock, $.0001 par value, held by non-affiliates of the registrant was approximately $135,145,109 based on the closing price of $3.19 per share as of June 30, 2012. Shares of common stock held by each executive officer, director, and stockholders known by the registrant to own 10% or more of the outstanding stock based on Schedule 13G filings and other information known to us, have been excluded since such persons may be deemed affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of February 28, 2013, there were 50,120,890 shares of the registrant’s common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III, Items 10 (as to directors, section 16(a) beneficial ownership and audit committee and audit committee financial expert), 11, 12 (as to beneficial ownership), 13 and 14 incorporate by reference information from the registrant’s definitive proxy statement (the “Proxy Statement”) to be mailed to stockholders in connection with the solicitations of proxies for its 2011 annual meeting of stockholders. Except as expressly incorporated by reference, the registrant’s Proxy Statement shall not be deemed to be part of this report.

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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" refe 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.

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PART I

ITEM 1. BUSINESS.

Overview

Support.com is a leading provider of cloud-based services and software designed to enhance a customer's experience with technology. We enable leading brands to offer technology service programs that create new revenue streams and deepen customer relationships. We also allow technology support organizations to reduce costs, improve problem resolution and enhance the customer experience.

Our solution includes, the cloud-based Nexus® Service Delivery Platform ("Nexus platform"), a scalable workforce of technology specialists, mobile and desktop applications for end-users and proven expertise in program design and execution. We offer turnkey solutions encompassing all of these elements. We also make our Nexus platform available on a software-as-a-service (”SaaS”) basis and license our end-user applications separately.

We offer leading brands a broad array of technology services to meet the needs of their customers. Service programs available for consumer markets include computer and mobile device set-up, security and support, virus and malware removal and wireless network set-up, security and support. Service programs available for small business markets include the consumer services plus managed services such as server and network monitoring and maintenance. Our services can be purchased either as one-time incidents on subscriptions, with subscriptions representing an increasing percentage of our revenue. Our technology specialists deliver our services to customers online via remote control and by telephone, leveraging the Nexus platform. Most of our technology specialists work from their homes rather than in brick and mortar facilities.

Our Nexus platform includes a unified workspace for support agents that combines remote support, guided and automated workflow, chat, telephony, ticketing and order taking; real-time monitoring for supervisors; a desktop client and subscriber portal; foundation services, and business analytics and reporting. Nexus foundation services include marketing modules for recommending services, managing customer profiles, and messaging subscribers; commerce modules for Payment Card Industry (PCI) compliant payment processing; entitlement modules for subscription management, service definitions, and software licensing; and operations modules for skills-based routing and work order management. The Nexus platform provides business analytics and reporting for program performance, marketing activities, subscription usage and churn, service delivery quality, service level management and customer satisfaction. The Nexus platform integrates with other systems via web services interfaces. Our end-user software products include tools and apps designed to address some of the most common technology issues including computer maintenance, optimization and security.

We market our services primarily through channel partners. Our partners include leading communications providers, retailers, technology companies and others. We recently began marketing the Nexus platform separately from our technology service offerings. We market our end-user software products directly, principally online, and through partners. Our sales and marketing efforts are primarily focused in North America.

Industry Background

Technology has become an essential feature of the modern home and office. Products such as personal computers, printers, tablets, smartphones, digital cameras, gaming devices, music players and servers have become ubiquitous. Each year, these products become more feature-rich, offering many new capabilities. Consumers and small businesses now depend on such technology for “must-have” information, communication and entertainment.

Technology has also become increasingly connected, with networks now commonplace in the home as well as the office. At the same time, technology has become increasingly mobile, with anytime, anywhere access to voice, data, video and applications becoming standard. Further, the emerging trend of "bring your own device" (BYOD) is now blurring the line between technology used in the home and the office, raising performance and connectivity expectations for each.

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Many consumers and small businesses, however, lack the technical skill or time to overcome technology challenges. Parks Associates, a research firm focused on emerging consumer and small business technology products and services, notes that “among the people setting up devices by themselves, only 51% report that they would be likely to set up the devices by themselves next time, which indicates that a significant percentage of these people would prefer some kind of assistance with this process”, and that “45% of all SMBs with between one and 20 employees report they have paid for tech support at least once in the past year.”

While suppliers may offer support for their products, this support is typically limited to the supplier’s products, and often fails to address connections between devices or malfunctions caused by the user’s environment or usage, resulting in a customer experience gap. As a result, the market for premium technology services (non-warranty services paid for separately from the products themselves) is growing rapidly. Parks Associates projects that the market for consumer and small and medium business technical support services will grow from $18 billion in 2012 to approximately $32 billion by 2016.

While important on its own terms, technology support is also becoming increasingly critical to the overall customer experience, not just for technology products but for other products and services that depend on technology to deliver the customer experience. According to the Temkin Group, "Research shows that customer experience is highly correlated with loyalty." As a result, customer experience management ("CEM") solutions have begun to address the parts of the customer experience that are mediated by technology. Some companies seeking CEM solutions wish to provide better technology support in a cost-effective manner while others see an opportunity to create new revenue streams supporting not just their own products and services but the entire technology ecosystem their customers rely upon. In both cases, a platform for delivering technology services effectively is likely to play an important role.

In addition to the markets for technology services and service delivery platforms, there is an established market for software tools and apps used to manage computers and mobile devices. According to Parks Associates, “roughly one-half of consumers are self-defined ‘do-it-yourselfers’ with technical support, such as preventative maintenance activities and computer troubleshooting.”

Our Growth Strategy

Our objective is to become the leading provider of premium technology service programs and CEM software designed to enhance a customer's experience with technology. From a financial perspective, our goals are to grow and diversify revenue and maintain and enhance profitability. Our strategies for achieving our goals include expanding existing service programs, launching new programs, growing small business revenue, increasing SaaS revenue from our Nexus platform, and improving service delivery efficiency.

- To launch new service programs, we intend to pursue opportunities with leading communications, retail, technology and other partners.

- To grow small business revenue, we plan to introduce small business services into existing programs and launch small business programs for new partners.

- To increase SaaS revenue from our Nexus platform, we expect to increase our sales and marketing activities in this market and enhance such platform.

- To improve service delivery efficiency, we intend to optimize operating processes, enhance the Nexus platform and evolve our labor model.

We intend to execute our growth strategy organically and through acquisitions of complementary businesses, where appropriate.

Our Technology Service Programs

Support.com® technology services are distributed through channel partners, using the partner's brand, as one-time services ("incidents"), subscriptions and bundled components of broader offerings.

Our programs are based on the following core services:

Device Set-up. We offer a variety of installation and set-up services. Our Set-up and Configuration services complete the basic setup and configuration steps for new computers, peripherals and mobile devices. 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 between devices. Our Protection and Performance services install, update and configure anti-malware software and operating system settings to enhance digital security and can also install and configure parental controls and create user profiles that restrict Internet and application access. Our Tune-Up services enhance the performance of devices through optimization of key systems settings for faster startup and shutdown, loading of programs and Internet browsing as well as increased available memory and storage space. These services cover a wide variety of devices regardless of manufacturer.

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Device Repair. Our Repair services assist consumers with a wide range of technology problems. 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.

Network Services. Our Network services set up, secure and repair problems with wireless networks. We configure, connect and establish secure connections between computers, the wireless network and supported devices. In addition, we diagnose and repair problems customers have with existing wireless networks.

Online Data Backup with Cloud Data Access. Our Online Data Backup offering provides continuous backup to the cloud for documents, pictures, video and other key personal or business data. Once in the cloud, customers can access that data from any other web-connected computer or from over 800 mobile devices including standard mobile phones, smartphones and tablets. Our offering includes licensed software that provides the ability to share and stream data to social or business networks in real-time from any of these web-connected devices.

Onsite Services. While the vast majority of our services are delivered remotely, we provide services at the customer's home or business when necessary. We provide these services through partnerships with networks of field service technicians. We provide continuity between remote and onsite services through integration of our Nexus platform with platforms used by these field service networks.

Small Business Services. In addition to the remote support services available for consumers, we also provide server and network monitoring and management, cloud services such as hosted email and virtual desktops, and business-class data backup and disaster recovery.

We deliver our services through technology specialists leveraging our proprietary Nexus® Service Delivery Platform. Most technology specialists work from their homes rather than in brick and mortar facilities. Employee technology specialists are recruited, tested, hired and trained on a virtual basis using proprietary methods and remote technology. We also utilize contract labor in our service programs. We strive to continually enhance service delivery through evolution of our labor model, process improvement using Six Sigma methodologies and enhancement of our Nexus platform.

Our Nexus® Service Delivery Platform

The Nexus platform is a suite of cloud-based (hosted) applications, foundation services and business analytics that enable remote and onsite technology services. The Nexus platform includes the following cloud-based TCEM capabilities:

Tech Expert Applications that guide workflow and automate solutions to technical problems; a unified workspace that combines remote support, chat, telephony, ticketing and order taking and eliminates the need to switch between multiple applications; and a supervisor dashboard that enables real-time monitoring.

Customer Applications that drive sales via a health check app; provide a seamless experience for subscribers through a desktop client, a subscriber portal and e-cart for online sales; and optimize and secure computers and mobile devices.

Foundation Services for building comprehensive and fully branded technology service programs including: marketing modules that provide a recommendation engine, customer profiles, and subscriber messaging; commerce modules including PCI compliant payment processing and a flexible promotion engine; entitlement modules, including subscription management, service definitions, and software licensing; and logistics modules including skill-based routing and work order management.

Business Analytics and Reporting that provide insight into program performance, marketing results, subscription usage and churn, service delivery quality and compliance, service level management and customer satisfaction. Reports are accessible through a real-time portal and can also be distributed regularly via email or secure FTP export.

Web Services Interfaces that enable a tightly integrated partner ecosystem, with pre-built integrations to key technology partners for onsite and depot services, small business cloud services, warranty offerings and online backup. Web services interfaces are also included for real-time integration to existing systems such as e-commerce, billing, CRM, point-of-sale and others.

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. Our SUPERAntiSpyware® software includes our advanced anti-malware technology that protects PCs against spyware, adware, Trojans, dialers, worms, keyloggers, hijackers, parasites, rootkits, rogue security products and many other types of threats and malware. It also includes a real-time engine that detects and removes malware present on a PC. It is designed to work in conjunction with other computer security products such as anti-virus software.

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PC Maintenance and Optimization. Our Cosmos® software is designed to maintain and optimize the performance of PCs. Cosmos includes modules designed for hard drive maintenance, memory optimization, data security, privacy protection, system cleaning, registry repair, file recovery, startup management, and other common maintenance and optimization tasks. Cosmos also runs on Windows® 8-based tablet computers.

PC Registry Cleaning and Repair. Our ARO® software is designed to improve PC performance. ARO repairs errors in the registry database of Windows-based computers and removes unnecessary files. ARO also performs a baseline security scan to confirm the PC has up-to-date security software.

Smartphone / Tablet Maintenance and Optimization. Our Cosmos for Smartphones and Tablets software is designed to maintain and optimize the performance of Android™ devices. Cosmos for Smartphones and Tablets includes modules for scanning privacy settings, optimizing battery performance, managing files and applications, and other common maintenance and optimization tasks.

We also offer products designed for hard drive maintenance and memory management and optimization.

Sales and Marketing

Services.   We sell our services principally through channel partners. Our channel partners include leading communication providers, retailers, technology companies and others.

Our partnerships typically begin with a pilot phase and, if successful, progress to broader roll-outs. Programs for partners can take several months to more than a year to progress from a pilot stage to a broader roll-out. Structurally, we typically wholesale services to our partners on a per-incident or subscription period basis and our partners resell the services to consumers and small businesses at prices our partners determine. In these partnerships, the services are generally sold under the partner’s brand. In addition to service delivery, in certain cases, we sell the services on our partners’ behalf (and receive commissions for such activity). During 2012, we ceased selling activities by our own employees and now rely on third parties (which we manage) to provide sales services where requested by our partners.

We acquire partners through our business development organization, and support channel partners through our program management organization. We organize our program management organization along industry lines.

Nexus Service Delivery Platform. We recently began licensing our technology platform separately from services provided by our technology specialists. In such an arrangement, a customer receives a right to use our platform in their own technology support organization. We provide the platform on a cloud-based basis. We license the platform using a SaaS model under which customers pay us on a per-user per- month basis for the term of the contract, which we anticipate to be at least one year. In connection with the platform, we also provide implementation services to customers, typically covering integration of our platform to other customer systems. We charge for these services on a time and materials basis.

We acquire platform license customers through our business development organization. We expect to grow the size of the business development organization devoted to platform licenses during 2013.

End-User Software. We license our end-user software products directly to customers and through channel partners. To date, a substantial 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. The marketing costs for customer acquisition through free trials can be substantial, and a majority of our direct software license revenue currently is the result of advertising placements.

We also offer our software products to customers through some of our channel partners who rebrand and distribute such products to their customers. These partners typically pay us on a per-user per-month basis for each product licensed.

Research and Development

Technology is at the core of our business model, and as a result our investment in research and development is substantial. We believe our continuing investment in research and development creates significant competitive advantage in the quality and cost of our service offerings, in our ability to meet the rigorous requirements of partners and customers, and in the new capabilities we introduce. We maintain dedicated research and development teams in Redwood City, California; Bangalore, India; Sammamish, Washington; and Eugene, Oregon. Research and development expense was $6.8 million in 2012, $6.1 million in 2011, and $5.2 million in 2010.

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We have developed, currently maintain, and continue to improve proprietary, market-leading technologies that are essential to our business. Our technologies are architected to be cloud-based. We focus our investment in reserch and development across the following major areas: SaaS platform technologies, technology specialist workforce and customer applications, foundation services (including modules for marketing, commerce, entitlement and logistics), business analytics and reporting web services interfaces and end-user software products.

The Nexus platform is a multi-tenant platform, enabling a SaaS model where partners are not required to deploy special infrastructure for our software.

Our technology specialist workforce integrates customer relationship management ("CRM"), ticketing, ordering, means of payment, remote screen sharing, and telephony into one ergonomic and efficient application for our technology specialists. This application leverages our patented technology to enable many technically challenging and valuable aspects of remote services via the cloud and across firewalls, proxies and other network boundaries. In addition, we deploy our Solutions Toolkit application on the customer's device to ensure that our technology specialists follow a predesigned “best practice” workflow. The Solutions Toolkit also automates time-consuming steps such as tool downloads, system diagnostics, performance optimizations and software checks.

Our Nexus platform foundational services include:

- Marketing modules for configuring the recommendation engine used by the health check app, configuring the subscriber messaging delivered via the desktop client and for managing consumer and SMB customer profiles.

- Commerce modules include PCI compliant payment processing for charging credit cards on behalf of partners and a flexible promotion engine.

- Entitlement modules include support for partner-specific SKU and service definitions, subscription package definition and software licensing (for end-user software products).

- Operations modules simplify and orchestrate the ordering and workflow of services across multiple parties, ensuring that the right delivery party takes the right next step at the right time. The Nexus platform also includes an online portal for customers and partners, thus promoting a seamless experience and a high level of visibility throughout the service delivery process.

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. 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, or access reports via an online reporting portal.

Nexus web services interfaces enable integration with on-site and depot services, small business cloud services, e-commerce, billing, CRM, point-of-sale and others.

For end-user software products, we build and enhance the ARO, Cosmos, Cosmos for Smartphones and Tablets, SUPERAntiSpyware, and other products described under “Our Software Products” as well as new software products currently under development.

Intellectual Property

We own the registered trademarks SUPPORT.COM®, 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 other domain names. We have exclusive rights to our proprietary services technology, and our end user software products. We also have non-exclusive rights to distribute certain other software products.

We own three 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”), U.S. Patent No. 6,754,707 (“Secure Computer Support System”) and U.S. Patent No. 6,167,358 (“System and Method for Remotely Monitoring a Plurality of Computer-Based Systems”). 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.

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

With respect to licenses of our Nexus platform, our competitors include companies focused on CEM, service desk, remote support and IT process automation. We believe the principal competitive factors in our platform license market include breadth and depth of functionality; ease of implementation; performance; scalability; pricing; vendor reputation; financial resources; and customer support.

In the market for our end-user software products, we face direct competition from suppliers of software products who perform the same or similar functions as our products. We also face indirect or potential competition from application providers, operating system providers, network equipment manufacturers, and other original equipment manufacturers (“OEMs”) who may provide various solutions and functions in their products, and from individuals and groups who offer “free” and open source utilities online. We believe that the principal competitive factors in the market for our end-user software products include: product features and ease of use; price; convenience of purchase; brand recognition; financial resources; and customer support.

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.

Environmental Regulation

The majority of our employees works from their own homes and use our technology platform to deliver services from remote locations. We believe that on a per-employee basis, our operations contribute significantly to efforts to reduce pollutants by eliminating fossil fuel-based commutes for the majority of our workers. In addition, the nature of our remote service delivery also helps many customers avoid onsite services, resulting in additional reduction in pollutants caused by automobile transportation for such services. Finally, our principal delivery method for our end-user software products is by electronic download, which produces no packaging-related waste, and eliminates the need for production of physical media and transportation except for a small percentage of consumers who affirmatively request and pay for delivery of products by CD. We are not aware at this time of any material effects that compliance with Federal, State and local provisions which have been enacted or adopted regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, may have on our business. Our assessment could change if and when any new regulations of such sort are enacted or adopted.

Employees

As of December 31, 2012, we had 877 employees, of whom 718 were work-from-home agents and 159 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.

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SEC Filings and Other Available Information

We were incorporated in Delaware in December 1997. We file reports with the Securities and Exchange Commission (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 http://www.support.com/about/investor-relations/corporategovernance 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 by writing to:

Support.com, Inc.
Investor Relations
900 Chesapeake Drive, 2nd Floor
Redwood City, CA 94063

ITEM 1A. RISK FACTORS

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

Our expectations and beliefs regarding future financial results;

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

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

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

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

Our expectations regarding our ability to deliver premium technology services efficiently and through arrangements that are profitable;

Our ability to execute effectively in the small business market;

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

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

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

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

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

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

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

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

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

Our ability to deliver projected levels of profitability;

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

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

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

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

The expected effects of the adoption of new accounting standards.

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

Because forward-looking statements involve risks and uncertainties, there are important factors that may cause actual results to differ materially from our stated expectations. These factors are described below. This list does not include all risks that could affect our business, and 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.

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

In the third and fourth quarters of 2012, we delivered our first two quarters of profitability since 2005. We intend to make significant investments in support of our business, and may continue to sustain losses in the future notwithstanding our efforts to maintain profitability. If we fail to achieve revenue growth as a result of our additional investments or if such revenue growth does not result in our maintaining profitability, the market price of our common stock will likely decline. A sustained period of losses would result in usage of cash to fund our operating activities and a corresponding reduction in our cash balance.

Our business is based on a relatively new business model.

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

- Maintain our current relationships, and develop new relationships, with channel partners and licensees of our technology platform on acceptable terms or at all;
- Reach prospective customers for our end user software in a cost-effective fashion;
- Reduce our dependence on a relatively limited number of channel partners for a substantial portion of our revenue;
- Hire, train, manage and retain our home-based technology specialists and enhance the flexibility of our staffing model in a cost-effective fashion;
- Manage contract labor efficiently and effectively;
- Meet anticipated growth targets;
- Match staffing levels with demand for services;
- Manage our business to provide services and sales on an efficient basis in order to maintain profitability;
- Offer subscriptions to our services in a profitable manner;
- Successfully introduce new, and adapt our existing, services and products for consumers and small businesses;
- Respond effectively to changes in the online advertising markets in which we participate;
- Respond effectively to competition;
- Operate effectively in the small business market;
- Successfully license our Nexus platform;
- Respond to changes in macroeconomic conditions as they affect our and our channel partners' operations;
- Realize benefits of any acquisitions we make;
- Adapt to changes in the markets we serve, including the decline in sales of personal computers and the proliferation of tablets and other mobile devices;
- Adapt to changes in our industry, including consolidation;
- Respond to government regulations relating to our business;
- Manage and respond to present, threatened, and future litigation;
- Attract and retain qualified management and employees; and
- Manage our expanding operations and implement and improve our operational, financial and management controls.

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

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

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

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

- Demand for our services and products;
- The performance of our channel partners;
- Our reliance on a relatively small number of channel partners for a substantial portion of our revenue;
- Instability or decline in the global macroeconomic climate and its effect on our and our channel partners' operations;
- The efficiency of our technology specialists;
- Our ability to effectively match staffing levels with service volumes on a cost-effective basis, particularly with subscriptions;
- Our ability to manage contract labor;
- Our ability to manage sales costs in programs where we are responsible for sales;
- Our ability to attract and retain customers and channel partners;
- Our ability to reach customers directly in a cost effective manner;
- Our ability to serve the small business market;
- Successfully license our Nexus platform;

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

The price and mix of products and services we or our competitors offer;

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- The rate of expansion of our offerings and our investments therein;
- Our ability to successfully monetize customers who receive free versions of our software;
- Usage rates on the subscriptions we offer;
- 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 effects of such changes on our business;
- Our ability to adapt to our customers' needs in a market space defined by frequent technological change;
- The amount and timing of operating costs and capital expenditures in our business;
- Diversion of management's attention from other business concerns and disruption of our ongoing business activities as a result of acquisitions or divestitures by us;
- Costs related to the defense and settlement of litigation which can also have an additional adverse impact on us because of negative publicity, diversion of management resources and other factors;
- Potential losses on investments, or other losses from financial instruments we may hold that are exposed to market risk; and
- The exercise of judgment by our management in making accounting decisions in accordance with our accounting policies.

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

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

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

For the fourth quarter of 2012, Comcast (43%) and OfficeMax (11%) accounted for 10% or more of our total revenues. For the year ended December 2012, Comcast (35%), OfficeMax (12%), Office Depot (12%) and Staples (10%) accounted for 10% or more of our total revenue. The loss of these or other significant partners, the worsening of the terms or terminations of our arrangements with any of these partners or the failure of any of these partners to achieve their targets could adversely affect our business. Generally, the agreements with our partners do not require them to conduct any minimum amount of business with us, and therefore they have decided in the past and could decide at any time in the future to reduce or eliminate the use of our services. Additionally, we may not successfully obtain new channel partners or customers. There is also the risk that, once established, our programs with these and other channel 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 channel partners may also choose not to renew their relationship with us, discontinue selling our services, offer them only on a limited basis or devote insufficient time and attention to promoting them to their customers. Some of our key channel partners may prefer not to work with us if we also partner with their competitors. If any of these key channel 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. Further risks associated with the loss or decline in a significant channel partner are detailed in "Our failure to establish and expand successful partnerships to sell our services and products would harm our operating results" below.

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

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

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

A number of competitive offerings exist in the market, providing various feature sets that may overlap with our solution today or in the future. Some SaaS competitors 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 convey our differentiation as needed to grow our customer base. In addition, if we fail to develop and maintain competitive features, deliver high-quality products and satisfy existing customers, our SaaS business could fail to grow or possibly contract. Our successful growth in the SaaS business also depends on scaling our multi-tenant technology platform flexibly and cost-effectively to meet changing customer demand. Disruptions in infrastructure operations as described below could impair our ability to deliver SaaS solutions 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.

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

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

Our business depends in part on our ability to attract, manage and retain our technology specialists and other support personnel. If we are unable to attract, train and manage in a cost-effective manner adequate numbers of competent technology specialists and other support personnel to be available as service volumes vary, particularly as we seek to expand the breadth and flexibility of our staffing model, our service levels could decline, which could harm our reputation, result in financial losses under contract terms, cause us to lose customers and channel partners, and otherwise adversely affect our financial performance. Although our service delivery and communications infrastructure enables us to monitor and manage technology specialists remotely, because they are typically home-based and geographically dispersed we could experience difficulties meeting services levels and effectively managing the costs, performance and compliance of these technology specialists and other support personnel. Any problems we encounter in effectively attracting, managing and retaining our technology specialists and other support personnel could seriously jeopardize our service delivery operations and our financial results.

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

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

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

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

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

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

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

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

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

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

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Changes in the market for computers and other consumer electronics 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 popular equipment and platforms, consumers and small businesses may trend toward use of equipment we do not support, and the process of migration away from platforms we support may decrease the market for our services and products. Any of these risks could harm our operating results.

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

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

Unanticipated costs and liabilities and unforeseen accounting charges or fluctuations;

Delays and difficulties in delivery of services and products;

Failure to effectively integrate or separate management information systems, personnel, research and development, marketing, sales and support operations;

Loss of key employees;

Economic dilution to gross and operating profit;

Diversion of management’s attention from other business concerns and disruption of our ongoing business;

Difficulty in maintaining controls and procedures;

Uncertainty on the part of our existing customers about our ability to operate after a transaction;

Loss of customers;

Loss of partnerships;

Inability to execute our growth plans;

Declines in revenue and increases in losses;

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

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

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 channel partners and their customers' users, including credit card information, and our employees and contractors may access and use that information in the course of providing services. In addition, we collect and retain personal information of our employees in the ordinary course of our business. We and our third-party contractors use commercially available technologies to secure this information. Despite these measures, third 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 channel 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.

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

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

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

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

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

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

- Risks of product malfunction after new technology is integrated;
- Risks that we may be unable to obtain or continue to obtain support, maintenance and updates from the technology supplier;
- The diversion of resources from the development of our own proprietary technology; and
- Our inability to generate revenue from new technology sufficient to offset associated acquisition and maintenance costs.

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

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

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

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

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

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

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

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

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

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

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

Goodwill and identifiable intangible assets were recorded in part due to our acquisition of substantially all of the assets and liabilities of YourTechOnline.com ("YTO") in May 2008, our acquisition of substantially all of the assets of Xeriton Corporation in December 2009, our acquisition of certain assets and assumed liabilities of SUPERAntiSpyware ("SAS") in June 2011 and our acquisition of certain assets and assumed liabilities of RightHand IT Corporation ("RHIT") in January 2012. We also have certain intangible assets with indefinite lives. We assess the impairment of goodwill and indefinite lived intangible assets annually or more often if events or changes in circumstances indicate that the carrying value may not be recoverable. We assess the impairment of acquired product rights and other finite lived intangible assets whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. Our results of operations would be adversely affected if impairment of our goodwill or intangible assets occurred.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

Not applicable.

ITEM 2. PROPERTIES.

In the second quarter of 2012, we entered into a sublease and master landlord consent agreement for an office facility located in Redwood City, California which serves as our new corporate headquarters. This lease covers approximately 21,620 square feet and will expire on February 18, 2017. We also lease an office of approximately 2,117 square feet at Sammamish, Washington. This lease expires on June 30, 2013. We also lease an office of approximately 2,113 square feet at Eugene, Oregon. This lease expires on December 31, 2014. We also lease an office of approximately 2,500 square feet at Louisville, Colorado. This lease expires on January 31, 2014. In addition, we have an office in Bangalore, India with 6,838 square feet. This lease expires on August 31, 2014. We believe our facilities are adequate to meet our current business requirements.

ITEM 3. LEGAL PROCEEDINGS.

Legal Contingencies

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

In November 2001, a class action lawsuit was filed against us, two of our former officers and certain underwriters in the United States District Court for the Southern District of New York. Similar complaints were filed against 55 underwriters and more than 300 other companies and other individual officers and directors of those companies; the consolidated case is In re Initial Public Offering Securities Litigation, No. 21 MC 92 (SAS) (S.D.N.Y.). The lawsuit, which sought unspecified damages, fees and costs, alleged that our registration statement and prospectus dated July 18, 2000 for the issuance and initial public offering of 4,250,000 shares of our common stock contained material misrepresentations and/or omissions related to alleged inflated commissions received by the underwriters of the offering. On April 1, 2009, all parties entered into a Stipulation and Agreement of Settlement that would resolve all claims and dismiss the case against us and our former officers, without any payment by us or our former officers. On October 5, 2009, the court issued an order approving the settlement. Certain other parties appealed the settlement, and the appeal was subsequently dismissed by stipulation of the other parties on January 9, 2012. This concludes the litigation.

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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 accrue for legal contingencies if we can estimate the potential liability and if we believe it is more likely than not that the case will be ruled against us. If a legal claim for which we did not accrue is resolved against us, we would record the expense in the period in which the ruling was made. 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, 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.

Tax Contingencies

We are required to make periodic filings in the jurisdictions where we are deemed to have a presence for tax purposes. We have undergone audits in the past and have paid assessments arising from these audits. Our India entity was issued notices of income tax assessment pertaining to the 2004-2005, 2005-2006, 2006-2007 and 2007-2008 fiscal years. The notices claimed that the transfer price used in our inter-company agreements with our India entity was too low, and that the price should be increased. We believe our current transfer pricing position is more likely than not to be sustained. We believe that this will be resolved through the normal judicial appeal process used in India, and have submitted our case to the court. If we do not win our case we may incur additional payments, potentially up to $235,000.

We may be subject to other income tax assessments in the future. We evaluate estimated expenses that could arise from those assessments in accordance with ASC 740-10, Income Taxes. We consider such factors as the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate on the amount of expenses. We record the estimated liability amount of those assessments that meet the definition of an uncertain tax position under ASC 740-10.

Guarantees

We have identified guarantees in accordance with ASC 450, Contingencies. The 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 channel 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 statement for accounting for contingencies, as interpreted by the guidance for guarantor’s accounting and disclosure requirements for guarantees. We consider such factors as the degree of probability that we would be required to satisfy the liability associated with the guarantee and the ability to make a reasonable estimate of the resulting cost. During the year ended December 31, 2012, we incurred immaterial costs as a result of such obligations. We have not accrued any liabilities related to such obligations in the consolidated financial statements as of December 31, 2012 and 2011.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

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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 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
Fiscal Year 2011:		
First Quarter	$5.14	$6.95
Second Quarter	$3.97	$6.08
Third Quarter	$1.80	$4.80
Fourth Quarter	$1.63	$2.59
Fiscal Year 2012:		
First Quarter	$2.09	$3.82
Second Quarter	$2.27	$3.82
Third Quarter	$2.60	$4.55
Fourth Quarter	$3.75	$4.95

Holders of Record

As of February 28, 2013, there were approximately 130 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, 2007 through December 31, 2012. The graph assumes that $100 was invested on December 31, 2007 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 Global Select Market since July 19, 2000. The comparisons in the table are required by the Securities and Exchange Commission and are not intended to forecast or be indicative of possible future performance of our common stock.

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

CUMULATIVE TOTAL RETURN AT PERIOD END

	12/31/07	12/31/08	12/31/09	12/30/10	12/31/11	12/31/12
Support.com, Inc.	$100.00	$50.11	$59.33	$145.62	$50.56	$93.71
Nasdaq Composite Index	$100.00	$59.46	$85.55	$100.02	$98.22	$113.85
Nasdaq Computer Index	$100.00	$53.31	$91.06	$106.95	$107.47	$120.88

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.

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ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA.

Support.com, a leading provider of cloud-based services and software designed to enhance a customer's experience with technology, was founded in 1997. In June 2009, we sold our Enterprise business to Consona Corporation and focused our efforts purely on the consumer and small business market. 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. After reclassifying the Enterprise business to discontinued operations, our continuing operations consist solely of our remaining segment, the Consumer business.

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,				
	2012	2011	2010	2009	2008
	(in thousands, except per share data)				
Consolidated Statements of Operations Data:					
Revenue:					
Services	$57,622	$37,248	$32,276	$16,770	$6,468
Software and other	14,332	16,591	11,901	725	343
Total revenue	71,954	53,839	44,177	17,495	6,811
Cost of revenue:					
Cost of services	37,343	29,919	26,737	16,620	10,037
Cost of software and other	1,421	1,744	1,358	59	—
Total cost of revenue	38,764	31,663	28,095	16,679	10,307
Gross profit (loss)	33,190	22,176	16,082	816	(3,496)
Operating expenses:					
Research and development	6,773	6,057	5,214	5,795	6,694
Sales and marketing	18,285	21,791	18,091	7,675	9,073
General and administrative	12,234	12,005	10,963	14,119	14,559
Amortization of intangible assets and other	1,522	866	364	177	112
Total operating expenses	38,814	40,719	34,632	27,766	30,738
Loss from operations	(5,624)	(18,543)	(18,550)	(26,950)	(34,234)
Interest income and other, net	297	455	540	428	2,506
Loss from continuing operations, before income taxes	(5,327)	(18,088)	(18,010)	(26,522)	(31,728)
Income tax provision (benefit)	208	401	88	(4,941)	(18)
Loss from continuing operations, after income taxes	(5,535)	(18,489)	(18,098)	(21,581)	(31,710)
Income (loss) from discontinued operations, after income taxes	111	(151)	31	7,004	12,604
Net loss	$(5,424)	$(18,640)	$(18,067)	$(14,577)	$(19,106)
Basic and diluted earnings per share:					
Loss from continuing operations	$(0.11)	$(0.39)	$(0.39)	$(0.47)	$(0.69)
Income (loss) from discontinued operations	0.00	(0.00)	0.00	0.16	0.28
Basic and diluted net loss per share	$(0.11)	$(0.39)	$(0.39)	$(0.31)	$(0.41)

Shares used in computing basic and diluted net loss per share	48,798	48,288	46,818	46,378	46,098

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	2012	2011	December 31, 2010 (in thousands)	2009	2008
Consolidated Balance Sheet Data:					
Cash, cash equivalents and investments	$56,350	$53,013	$74,235	$83,479	$87,856
Auction-rate security put option	$—	$—	$—	$1,289	$7,148
Working capital	$54,758	$51,168	$71,385	$81,151	$68,429
Total assets	$88,259	$84,996	$93,739	$101,959	$123,586
Long-term obligations	$1,456	$1,575	$749	$992	$2,453
Accumulated deficit	$(166,373)	$(160,949)	$(142,309)	$(124,242)	$(109,665)
Total stockholders' equity	$74,163	$71,335	$86,057	$96,352	$105,446

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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 "Forward-Looking Statements and Risk Factors" in Item 1A of this Report for important information to consider when evaluating these statements.

Overview

Support.com is a leading provider of cloud-based services and software designed to enhance a customer's experience with technology. We enable leading brands to offer technology service programs that create new revenue streams and deepen customer relationships. We also allow technology support organizations to reduce costs, improve problem resolution and enhance the customer experience.

Our solution includes, the cloud-based Nexus® Service Delivery Platform, a scalable workforce of technology specialists, mobile and desktop applications for end-users and proven expertise in program design and execution. We offer turnkey solutions encompassing all of these elements. We also make our Nexus platform available on a SaaS basis and license our end-user applications separately.

We offer leading brands a broad array of technology services to meet the needs of their customers. Service programs available for consumer markets include computer and mobile device set-up, security and support, virus and malware removal and wireless network set-up, security and support. Service programs available for small business markets include the consumer services plus managed services such as server and network monitoring and maintenance. Our services can be purchased either as one-time incidents or subscriptions, with subscriptions representing an increasing percentage of our revenue. Our technology specialists deliver our services to customers online via remote control and by telephone, leveraging the Nexus platform. Most of our technology specialists work from their homes rather than in brick and mortar facilities.

We market our services primarily through channel partners. Our partners include leading communications providers, retailers, technology companies and others. We recently began marketing the Nexus platform separately from our service offerings. We market our end-user software products directly, principally online, and through partners. Our sales and marketing efforts are primarily focused in North America.

Total revenue for the year ended December 31, 2012 increased by $18.1 million, or 34%, from 2011. Services revenue for the year ended December 31, 2012 increased by $20.4 million, or 55%, from 2011. The increase in services revenue over the prior year was due to growth in our channel programs, primarily expansion of the Comcast program. Software revenue for the year ended December 31, 2012 decreased by $2.3 million, or 14%, from 2011 primarily due to changes in the online advertising market in which we participate.

Cost of services for the year ended December 31, 2012 grew by 25% from 2011 as we added service delivery personnel to support revenue growth. Services gross margin improved from 28% to 35% year-over-year primarily as a result of improved operational processes, refinements to service delivery methodology and further technology enablement. Cost of software and other for the year ended December 31, 2012 declined 19% year-over-year due to reduced sales of our software products. Software and other gross margin for the years ended December 31, 2012 and 2011 was consistent at approximately 90%. Total gross margin for the year ended December 31, 2012 was 46%, compared to 41% in 2011. The increase in total gross margin was driven by improved services gross margin offset by a lower percentage of software in the revenue mix.

Operating expenses for the year ended December 31, 2012 declined 5% from 2011, driven by lower sales expense related to our end-user software products and a reduction in the contact center sales agent workforce completed at the end of the second quarter of 2012.

In the third and fourth quarters of 2012, we delivered our first two quarters of profitability since 2005. Net income for the third and fourth quarters of 2012, was $291,000 and $1,299,000, respectively. The total balance of cash, cash equivalents and investments increased by $3.1 million and $4.7 million in the third and fourth quarters of 2012, respectively.

Our key goals for 2013 are to extend our market leadership, expand new initiatives that we launched in 2012, and maintain and enhance operating performance. Our strategies for achieving our goals include increasing revenues from small business programs, expanding our SaaS business, maintaining and enhancing existing programs, acquiring and launching new programs and refining our service delivery operations.

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We intend the following discussion of our financial condition and results of operations to provide information that will assist in understanding our financial statements, the changes in certain key items in those 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 financial statements.

Critical Accounting Policies and Estimates

In preparing our consolidated financial statements in conformity with accounting principles generally accepted 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, accounting for goodwill and other 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

Our revenue recognition policy is one of our critical accounting policies because revenue is a key component of our results of operations, and revenue recognition is based on complex rules which require us to make judgments. In applying our revenue recognition policy we must determine whether revenue is to be recognized on a gross or net basis in accordance with the provisions of ASC 605, Revenue Recognition, which portions of our revenue are to be recognized in the current period, and which portions must be deferred and recognized in subsequent periods. We also recognize breakage revenue on non-subscription deferred revenue balances, and we use judgment in evaluating the historical redemption patterns used to estimate the amount of such revenue to be recognized. We do not record revenue on sales transactions when the collection of cash is in doubt at the time of sale, and we use management judgment in determining collectability. From time to time, we may enter into agreements which involve us making payments to our channel partners. We use judgment in evaluating the treatment of such payments and in determining which portions of the consideration paid to customers should be recorded as contra-revenue and which should be recorded as an expense. We generally provide a refund period on services and software, and we employ judgment in determining whether a customer is eligible for a refund based on that customer's specific facts and circumstances. If our estimates and judgments on any of the foregoing are incorrect, our revenue for one or more periods may be incorrectly recorded. Please see Note 1 in Notes to the Consolidated Financial Statements for further discussion of our revenue recognition policies.

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. There were no transfers of assets between Level 1 and Level 2 measurements during 2012.

Our Level 3 asset consisted of auction-rate security ("ARS") with various state student loan authorities. Beginning February 2008, all auctions for our ARS failed. Based on the continued failure of these auctions and the underlying maturities of the securities, we classified our investment in ARS as a long-term asset. The fair value of our investment in ARS was estimated by management using assumptions regarding market volatility and discount rates. As of December 31, 2012, we had no investment in ARS because our long-term investment in ARS was settled at par for cash in May 2012.

Purchase Accounting in Business Combinations

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

Accounting for Goodwill and Other Intangible Assets

We test goodwill for impairment annually on September 30 and whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable in accordance with ASC 350, Intangibles - Goodwill and Other. Consistent with our assessment that we have only one reporting segment, we test goodwill for impairment at the entity level. We test goodwill using the two-step process required by ASC 350. In the first step, we compare the carrying value of the reporting unit to the fair value based on quoted market prices of our common stock. If the fair value of the reporting unit exceeds the carrying value, goodwill is not considered impaired and no further testing is required. If the carrying value exceeds the fair value, goodwill is potentially impaired and the second step of the impairment test must be performed. In the second step, we compare the implied fair value of the goodwill, as defined by ASC 350, to the carrying value to determine the impairment loss, if any. We performed our annual goodwill impairment tests on September 30, 2012, 2011, and 2010 and concluded that there was no impairment.

We assess the impairment of identifiable intangible assets whenever events or changes in circumstances indicate that the carrying value 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 value. 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 value of the asset and its fair value.

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 the Black-Scholes-Merton option-pricing model. 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.

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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 and a full valuation allowance on certain foreign 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. 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 deferred tax assets do not include excess tax benefits related to stock-based compensation post ASC 718 adoption. The total excess tax benefit component of our federal and state net operating loss carryforwards is $2.8 million as of December 31, 2012. Consistent with prior years, the excess tax benefit reflected in our net operating loss carryforwards will be accounted for as a credit to stockholders' equity, if and when realized. In determining if and when excess tax benefits have been realized, we have elected to utilize the with-and-without approach with respect to such excess tax benefits.

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,					
	2012		2011		2010	
Revenue:						
Services	80	%	69	%	73	%
Software and other	20		31		27	
Total revenue	100		100		100	
Cost of revenue:						
Cost of services	52		56		61	
Cost of software and other	2		3		3	
Total cost of revenue	54		59		64	
Gross profit	46		41		36	
Operating expenses:						
Research and development	9		11		12	
Sales and marketing	25		40		41	

General and administrative	17		22		24	
Amortization of intangible assets and other	2		2		1	
Total operating expenses	54		75		78	
Loss from operations	(8	)	(34	)	(42	)
Interest income and other, net	0		1		1	
Loss from continuing operations, before income taxes	(7	)	(33	)	(41	)
Income tax provision	0		1		0	
Loss from continuing operations, after income taxes	(8	)	(34	)	(41	)
Income (loss) from discontinued operations, after income taxes	0		(0	)	0	
Net loss	(8	)%	(34	)%	(41	)%

Years Ended December 31, 2012, 2011, and 2010

Revenue

($ in thousands)	2012	% Change 2011 to 2012	2011	% Change 2010 to 2011	2010
Services	$ 57,622	55 %	$ 37,248	15 %	$ 32,276
Software and other	14,332	(14) %	16,591	39 %	11,901
Total revenue	$ 71,954	34 %	$ 53,839	22 %	$ 44,177

Services revenue consists primarily of fees for technology services through our channel partners. We provide these services remotely, using service delivery personnel who utilize our proprietary technology to deliver the services. Services revenue for the year ended December 31, 2012 increased by $20.4 million from 2011. The increase was primarily due to growth in our channel programs, primarily continued expansion of the Comcast program. For the year ended December 31, 2012, services revenue generated from our channel partnerships was $54.4 million compared to $34.5 million for 2011. Direct services revenue was $3.2 million in 2012 compared to $2.8 million in 2011. Services revenue for the year ended December 31, 2011 increased by $4.9 million from 2010. The increase was primarily due to growth in our channel programs, primarily expansion of the Comcast program. For the year ended December 31, 2011, services revenue generated from our channel partnerships was $34.5 million compared to $28.8 million for 2010. Direct services revenue was $2.8 million in 2011 compared to $3.6 million in 2010. We expect services revenue to continue to grow in 2013 as a result of expansion of established programs, development of new partnerships with additional channel partners, and expansion of our small business programs.

In 2012, software and other revenue was comprised primarily of fees for end-user software products provided through direct consumer downloads and through the sale of this software via channel partners. Software and other revenues for the year ended December 31, 2012 decreased by $2.3 million compared to 2011. The year-over-year decline in software and other revenue was primarily due to changes in the online advertising market in which we participate. Direct software revenue and other was $8.4 million for the year ended December 31, 2012 compared to $11.3 million for 2011. Software and other revenues generated from our channel partnerships was $5.9 million in 2012 compared to $5.3 million for 2011. Software and other revenue for the year ended December 31, 2011 increased by $4.7 million compared to 2010, driven by growth in an existing channel partnership, optimization of the monetization of our ARO product and the availability of favorably-priced advertising inventory during the first half of 2011. The year-over-year growth in software and other revenue from 2010 to 2011 also reflected results of selling the software products acquired in our purchase of substantially all of the assets of SUPERAntiSpyware in June of 2011. Direct software and other revenues was $11.3 million for the year ended December 31, 2011 compared to $9.9 million for 2010. Software and other revenue generated from our channel partnerships was $5.3 million in 2011 compared to $1.9 million for 2010. We expect software revenue levels in 2013 to be determined by new releases of our end-user software products and developments in the online advertising market in which we participate.

Revenue Mix

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

	Year Ended December 31,		
	2012	2011	2010
Services	80 %	69 %	73 %
Software and other	20 %	31 %	27 %

Total revenue	100 %	100 %	100 %

We expect that services revenue will continue to comprise a substantial majority of our total revenue and that software and other revenue will represent a material percentage of our total revenue over the next year.

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For the year ended December 2012, Comcast (35%), OfficeMax (12%), Office Depot (12%) and Staples (10%) accounted for 10% or more of our total revenue. For the year ended December 2011, Office Depot (23%), Staples (15%) and Comcast (14%) accounted for 10% or more of our total revenue. For the year ended December 31, 2010, Office Depot (43%) and Staples (17%) accounted for 10% or more 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 2012, 2011 and 2010.

Cost of Revenue

($ in thousands)		2012	% Change 2011 to 2012			2011	% Change 2010 to 2011			2010
Cost of services	$	37,343	25	%	$	29,919	12	%	$	26,737
Cost of software and other		1,421	(19	)%		1,744	28	%		1,358
Total cost of revenues	$	38,764	22	%	$	31,663	13	%	$	28,095

Cost of services. Cost of services consists primarily of salary–related and contractor expenses for service delivery personnel, technology and telecommunication expenses related to the delivery of services and other personnel-related expenses in service delivery. The increase of $7.4 million in cost of services for the year ended December 31, 2012 compared to 2011 was primarily due to a $3.9 million increase in costs associated with higher number of service delivery personnel to support our growing service revenue, a $1.6 million increase in third-party personnel costs, a $0.7 million increase due to the expansion of our small business programs and a $0.6 million increase in direct technology costs to support the growing workforce. The increase of $3.2 million in cost of services for the year ended December 31, 2011 compared to 2010 was mainly driven by $3.1 million of costs associated with higher numbers of service delivery personnel added to support program growth. In 2013, we expect cost of services to continue to increase to support higher anticipated service volumes.

Cost of software and other. Cost of software and other 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 decrease of $323,000 in cost of software and other for the year ended December 31, 2012 compared to 2011 was primarily due to reduced sales of software products developed by the third-party as software revenues declined year-over-year and we substituted our own internally developed products. The increase of $386,000 in cost of software and other for the year ended December 31, 2011 compared to 2010 was primarily due to higher third-party royalty payments associated with higher software revenues. In 2013, we expect gross margin from software revenue and other to be relatively consistent with 2012.

Operating expenses

($ in thousands)		2012	% Change 2011 to 2012			2011	% Change 2010 to 2011			2010
Research and development	$	6,773	12	%	$	6,057	16	%	$	5,214
Sales and marketing		18,285	(16	) %		21,791	20	%		18,091
General and administrative		12,234	2	%		12,005	10	%		10,963
Total operating expenses	$	37,292	(6	)%	$	39,853	16	%	$	34,268

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 increase of $716,000 in research and development expense for the year ended December 31, 2012 compared to 2011 resulted primarily from an increase in salary and related expenses of $513,000 and an increase in stock-based compensation expense of $203,000. The increase of $843,000 in research and development expense for the year ended December 31, 2011 compared to 2010 resulted primarily from an increase in salary and related expenses of $615,000 and an increase in stock-based compensation expense of $228,000. In 2013, we expect research and development spending to increase as we continue our investment in our technology.

Sales and marketing. Sales and marketing expense consists primarily of compensation costs, including salaries and sales commissions for contact center sales agents and 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 $3.5 million in sales and marketing expense for the year ended December 31, 2012 compared to 2011 resulted from a $2.6 million decrease in marketing spend associated with our end-user software products and $900,000 decrease in sales expense following a reduction in the contact center sales agent workforce completed at the end of the second quarter of 2012. The increase of $3.7 million in sales and marketing expense for the year ended December 31, 2011 compared to 2010 resulted from $3.0 million related to additional contact center sales agent personnel and $1.7 million of additional marketing expense associated with higher software sales. This increase was offset by a decrease of $1.6 million in partner marketing fees for our channels due to contractual reductions in marketing fee rates. In 2013, we expect sales and marketing spending levels to be determined by a number of factors including software marketing costs and investments in SaaS and small business programs.

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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 increase of $228,000 in general and administrative expense for the year ended December 31, 2012 compared to 2011 was primarily due to an increase of $550,000 in stock-based compensation expense offset by a $322,000 decrease in salary and related expenses. The increase of $1.0 million in general and administrative expense for the year ended December 31, 2011 compared to 2010 resulted from an increase in acquisition-related costs of $543,000 and an increase in stock-based compensation expense of $212,000. In 2013, we expect general and administrative spending to increase modestly in order to support our growing business.

Amortization of intangible assets and other

($ in thousands)	2012	% Change 2011 to 2012	2011	% Change 2010 to 2011	2010
Amortization of intangible assets	$ 1,522	76 %	$ 866	138 %	$ 364

Amortization of intangible assets and other. Amortization of intangible assets in 2012, 2011 and 2010 was $1.5 million, $866,000 and $364,000, respectively. The increase in amortization of intangible assets and other in 2012 was due to the acquisition of RightHand IT in 2012 and a full year amortization of intangible assets acquired as part of the acquisition of SUPERAntiSpyware in 2011. The increase in amortization of intangible assets and other in 2011 was due to the acquisition of SUPERAntiSpyware in 2011.

Interest income and other, net

($ in thousands)	2012	% Change 2011 to 2012	2011	% Change 2010 to 2011	2010
Interest income and other, net	$ 297	(35)%	$ 455	(16)%	$ 540

Interest income and other, net. Interest and other income consist primarily of interest income on our cash, cash equivalents and investments. The decrease in interest income and other, net from 2011 to 2012 was primarily due to lower interest income on our investments in 2012 compared to 2011. The decrease in interest income and other, net from 2010 to 2011 was primarily due to lower cash, cash equivalents and investment in 2011 compared to 2010.

Income tax provision

($ in thousands)	2012	2011	2010
Income tax provision	$ 208	$ 401	$ 88

Income tax provision. Generally, the amount of tax expense or benefit allocated to continuing operations is determined without regard to the tax effects of other categories of income or loss, such as income from discontinued operations. For the year ended December 31, 2012, the Company recorded a tax expense of $208,000 in continuing operations primarily related to India income tax, release of Canadian valuation allowance, deferred tax expenses of goodwill amortization, and state income taxes with an offsetting tax benefit of $129,000 in discontinued operations during the current year. For the year ended December 31, 2011, the income tax provision of $401,000 was primarily comprised of Indian income tax, deferred tax expenses of goodwill amortization, and state income taxes which was offset by a $131,000 benefit in discontinued operations. For the year ended December 31, 2010, the income tax provision of $88,000 was primarily comprised of gain on the sale of the Company's Enterprise business offset by $31,000 benefit in discontinued operations.

Liquidity and Capital Resources

Total cash, cash equivalents and investments at December 31, 2012 and 2011 were $56.3 million and $53.0 million, respectively. The increase in cash, cash equivalents and investments in fiscal year 2012 was primarily due to cash generated from operating activities and exercise of employee stock options, which was offset by cash used for investing activities.

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Operating Activities

Net cash provided by (used in) operating activities was $2.0 million for the year ended December 31, 2012, $(11.1) million for the year ended December 31, 2011, and $(13.4) million for the year ended December 31, 2010. Amounts included in net loss, which do not require the use of cash, primarily included depreciation, amortization of premiums and discounts on marketable securities, stock-based compensation expense, amortization of intangible assets, and realized gain/loss on our investment in ARS. The sum of these items totaled $7.2 million, $6.9 million, and $5.2 million in 2012, 2011 and 2010, respectively. Net cash provided by operating activities during 2012 was the result of non-cash items of $7.2 million and an increase in deferred revenue of $1.4 million partially offset by a net loss of $5.4 million and a decrease in accounts payable and accrued expenses of $1.3 million. Net cash used in operating activities during 2011 was the result of the net loss of $18.6 million, an increase in accounts receivable, net of $5.1 million, partially offset by non-cash items of $6.9 million and an increase in deferred revenue of $3.1 million. Net cash used in operating activities during 2010 was the result of the net loss of $18.1 million, an increase in accounts receivable, net of $1.9 million, partially offset by non-cash items of $5.2 million.

Investing Activities

Net cash provided by investing activities was $3.2 million for the year ended December 31, 2012, $14.5 million for the year ended December 31, 2011, and $3.8 million for the year ended December 31, 2010. Net cash provided by investing activities in 2012 was primarily due to sales and maturities of $42.9 million in marketable securities offset by the purchase of $37.8 million in marketable securities, $1.3 million for the acquisition of RightHand IT Corporation and $523,000 for purchases of property and equipment. Net cash provided by investing activities in 2011 was primarily due to sales and maturities of $74.0 million in marketable securities offset by the purchase of $50.8 million in marketable securities, $8.4 million for the acquisition of SUPERAntiSpyware and $279,000 for purchases of property and equipment. Net cash provided by investing activities in 2010 was primarily due to sales and maturities of $69.8 million in marketable securities offset by the purchase of $65.5 million in marketable securities and $498,000 for purchases of property and equipment.

Financing Activities

Net cash generated by financing activities was $3.5 million for the year ended December 31, 2012, $516,000 for the year ended December 31, 2011, and $4.5 million for the year ended December 31, 2010. In 2012 and 2011, cash generated by financing activities was primarily attributable to the exercise of employee stock options and the purchase of common stock under employee stock purchase plans. In 2010, cash generated by financing activities was primarily attributable to the exercise of employee stock options.

Working Capital and Capital Expenditure Requirements

At December 31, 2012, we had stockholders' equity of $74.2 million and working capital of $54.8 million. We believe that our existing cash balances will be sufficient to meet our working capital requirements for at least the next 12 months. In 2013, we expect our capital expenditures to remain relatively consistent with 2012.

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.

We plan to continue to make investments in our business during 2013. We believe these investments are essential to creating sustainable growth in our business in the future. Additionally, we may choose to acquire other businesses or complimentary technologies to enhance our product capabilities and such acquisitions would likely require the use of cash.

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Contractual Obligations

The following table summarizes our contractual obligations at December 31, 2012 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 year	1 - 3 Years	More than 3 Years
Operating leases	$ 1,860	$ 477	$ 873	$ 510

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, 2012, 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

In June 2011, the FASB issued ASU No. 2011-05, “Comprehensive Income”. This update is to improve the comparability, consistency and transparency of financial reporting and increases the prominence of items reported in other comprehensive income. Under this amendment, an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU No. 2011-05 is effective for public entities for fiscal years and interim periods within those years beginning after December 15, 2011. The Company adopted this guidance in its condensed consolidated financial statements for the three months ended March 31, 2012 by presenting total comprehensive income/loss in two separate but consecutive statements.

In September 2011, a pronouncement was issued that amended the guidance for goodwill impairment testing. The pronouncement allows the entity to perform an initial qualitative assessment to determine whether it is "more likely than not" that the fair value of the reporting unit is less than its carrying amount. This assessment is used as a basis for determining whether it is necessary to perform the two step goodwill impairment test. The methodology for how goodwill is calculated, assigned to reporting units, and the application of the two step goodwill impairment test have not been revised. The pronouncement is effective for fiscal years beginning after December 15, 2011. The adoption of this pronouncement did not have a significant impact on the Company’s consolidated financial statements.

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

Interest Rate and Market Risk

There has been significant deterioration and instability in the financial markets since 2008. This extraordinary disruption and readjustment in the financial markets exposes us to additional investment 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. In light of the current market conditions and these additional risks, 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 meeting certain criteria. These securities are classified as available-for-sale. Consequently, our available-for-sale securities are recorded on the balance sheet at fair value with unrealized gains or losses reported as a separate component of accumulated other comprehensive income (loss). 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, 2012, we held $25.5 million in investments (excluding cash and cash equivalents), which consisted primarily of government debt securities, corporate notes and bonds, and commercial paper. The weighted average interest rate of our portfolio was approximately 0.34% at December 31, 2012. A decline in interest rates over time would reduce our interest income from our investments. A hypothetical 10% increase or decrease in interest rates, however, would not have a material impact adverse effect on our financial condition.

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As of December 31, 2011, we had an investment in a AAA-rated ARS with a state student loan authority with an estimated fair value of $1.1 million. This investment is substantially guaranteed by the federal government through the Federal Family Education Loan Program (FFELP). The ARS is a long-term floating rate bond tied to short-term interest rates. After the initial issuance, the interest rate on the security is reset periodically, at intervals established at the time of issuance (e.g., every seven days, twenty-eight days, thirty-five days, or every six months), based on market demand, if the auctions are successful, through a competitive bidding process often referred to as a “Dutch auction.” If there is insufficient interest in the securities at the time of an auction, the auction may not be completed and the ARS then pays a default interest rate. Following such a failed auction, we could not access our funds that were invested in the corresponding ARS until a future auction of these investments is successful, new buyers express interest in purchasing these securities between reset dates, issuers establish a different form of financing to replace these securities or final payments become due according to contractual maturities. At December 31, 2012, we had no investments in ARS because our long-term investment in ARS was settled at par for cash in May 2012.

The fair value for our ARS as of December 31, 2011 was estimated by management and based on a discounted cash flow valuation that takes into account a number of factors including the estimated weighted average remaining term (WART) of the underlying securities, the expected return, and the discount rate. The WART was estimated based on servicing reports and expectations regarding redemptions. The expected return was calculated based on the last twelve months’ average for the 91 day T-bill plus a spread. This rate is the typical default rate for ARS held by us. The discount rate was calculated using the 3-month LIBOR rate plus adjustments for the security type. Changes in any of the above estimates, especially the weighted average remaining term or the discount rate, could result in a material change to the fair value.

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 into U.S. dollars for a limited number of customers and a small portion of our operations, currency fluctuations may have an immaterial impact on our financial results. 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 has generally been immaterial. As of December 31, 2012, we did not engage in foreign currency hedging activities.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

SUPPORT.COM, INC.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of
Support.com, Inc.

We have audited the accompanying consolidated balance sheets of Support.com, Inc. as of December 31, 2012 and 2011, and the related consolidated statements of operations, comprehensive loss, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Support.com, Inc. at December 31, 2012 and 2011, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Support.com, Inc.'s internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 8, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Redwood City, California
March 8, 2013

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SUPPORT.COM, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands except share and per share data)

	December 31, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$30,852	$22,159
Short-term investments	25,498	29,743
Accounts receivable, less allowance of $2 and $20 at December 31, 2012 and 2011, respectively	9,689	10,284
Prepaid expenses and other current assets	1,359	1,068
Total current assets	67,398	63,254
Long-term investment	—	1,111
Property and equipment, net	591	461
Purchased technology, net	62	143
Goodwill	14,240	13,621
Intangible assets, net	4,775	5,670
Other assets	1,193	736
Total assets	$88,259	$84,996
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$444	$1,196
Accrued compensation	1,609	1,676
Other accrued liabilities	3,969	4,491
Short-term deferred revenue	6,618	4,723
Total current liabilities	12,640	12,086
Long-term deferred revenue	35	489
Other long-term liabilities	1,421	1,086
Total liabilities	14,096	13,661
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Common stock; par value $0.0001, 150,000,000 shares authorized; 50,002,587 issued and 49,809,989 outstanding at December 31, 2012; 48,561,074 issued and 48,368,476 outstanding at December 31, 2011	5	5
Additional paid-in capital	242,032	233,977
Accumulated other comprehensive loss	(1,501)	(1,698)
Accumulated deficit	(166,373)	(160,949)
Total stockholders' equity	74,163	71,335
Total liabilities and stockholders' equity	$88,259	$84,996

See accompanying notes.

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SUPPORT.COM, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands except per share data)

	Year Ended December 31,		
	2012	2011	2010
Revenue:			
Services	$57,622	$37,248	$32,276
Software and other	14,332	16,591	11,901
Total revenue	71,954	53,839	44,177
Costs of revenue:			
Cost of services	37,343	29,919	26,737
Cost of software and other	1,421	1,744	1,358
Total cost of revenue	38,764	31,663	28,095
Gross profit	33,190	22,176	16,082
Operating expenses:			
Research and development	6,773	6,057	5,214
Sales and marketing	18,285	21,791	18,091
General and administrative	12,234	12,005	10,963
Amortization of intangible assets	1,522	866	364
Total operating expenses	38,814	40,719	34,632
Loss from operations	(5,624)	(18,543)	(18,550)
Interest income and other, net	297	455	540
Loss from continuing operations, before income taxes	(5,327)	(18,088)	(18,010)
Income tax provision	208	401	88
Loss from continuing operations, after income taxes	(5,535)	(18,489)	(18,098)
Income (loss) from discontinued operations, after income taxes	111	(151)	31
Net loss	$(5,424)	$(18,640)	$(18,067)
Basic and diluted earnings (loss) per share:			
Loss from continuing operations	$(0.11)	$(0.39)	$(0.39)
Income (loss) from discontinued operations	0.00	(0.00)	0.00
Basic and diluted net loss per share	$(0.11)	$(0.39)	$(0.39)
Shares used in computing basic and diluted net loss per share	48,798	48,288	46,818

See accompanying notes.

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SUPPORT.COM, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(in thousands)

	Year Ended December 31, 2012	2011	2010
Net loss	$(5,424)	$(18,640)	$(18,067)
Other comprehensive income (loss):			
Change in foreign currency translation adjustment	(114)	(182)	(32)
Change in net unrealized gain (loss) on investments	311	(185)	(66)
Other comprehensive income (loss)	197	(367)	(98)
Comprehensive loss	$(5,227)	$(19,007)	$(18,165)

See accompanying notes.

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SUPPORT.COM, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands except share data)

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balances at December 31, 2009	46,460,554	5	221,822	(1,233)	(124,242)	96,352
Net loss	—	—	—		(18,067)	(18,067)
Other comprehensive loss	—		—	(98)	—	(98)
Stock-based compensation expense	—	—	3,331	—	—	3,331
Issuance of common stock upon exercise of stock options for cash	1,681,591	—	4,539	—	—	4,539
Balances at December 31, 2010	48,142,145	5	229,692	(1,331)	(142,309)	86,057
Net loss	—	—	—		(18,640)	(18,640)
Other comprehensive loss	—			(367)	—	(367)
Stock-based compensation expense	—	—	3,769	—	—	3,769
Issuance of common stock upon exercise of stock options for cash	190,480	—	450	—	—	450
Issuance of common stock under employee stock purchase plan	35,851	—	66	—	—	66
Balances at December 31, 2011	48,368,476	5	233,977	(1,698)	(160,949)	71,335
Net loss	—	—	—		(5,424)	(5,424)
Other comprehensive income	—		—	197	—	197
Stock-based compensation expense	—	—	4,525	—	—	4,525
Issuance of common stock upon exercise of stock options for cash	1,357,431	—	3,351	—	—	3,351
Issuance of common stock under employee stock purchase plan	84,082	—	179	—	—	179
Balances at December 31, 2012	49,809,989	$ 5	$ 242,032	$ (1,501)	$ (166,373)	$ 74,163

See accompanying notes.

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SUPPORT.COM, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Year Ended December 31,		
	2012	2011	2010
Operating activities:			
Net loss	$(5,424)	$(18,640)	$(18,067)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation	503	438	323
Loss on cumulative translation adjustment on discontinued operations	—	284	—
Stock-based compensation expense	4,525	3,769	3,331
Amortization of premiums and discounts on marketable securities	588	1,451	1,149
Amortization of intangible assets	1,522	866	364
Amortization of purchased technology	81	83	83
Realized gain on investments	—	(7)	(1,299)
Loss on auction-rate security put option	—	—	1,289
Changes in assets and liabilities:			
Accounts receivable, net	747	(5,146)	(1,943)
Prepaid expenses and other current assets	(342)	544	(371)
Other assets	(460)	(192)	(318)
Accounts payable	(752)	658	436
Accrued compensation	(67)	402	491
Other accrued liabilities	(527)	885	510
Other long-term liabilities	201	340	(214)
Deferred revenue	1,357	3,147	848
Net cash provided by (used in) operating activities	1,952	(11,118)	(13,388)
Investing activities:			
Purchases of property and equipment	(523)	(279)	(498)
Acquisition of business, net of cash acquired	(1,327)	(8,419)	—
Purchases of investments	(37,764)	(50,763)	(65,464)
Sales of investments	2,400	23,263	33,073
Maturities of investments	40,445	50,691	36,733
Net cash provided by investing activities	3,231	14,493	3,844
Financing activities:			
Proceeds from issuance of common stock upon exercise of stock options	3,351	450	4,539
Proceeds from issuance of common stock under employee stock purchase plan	179	66	—
Net cash provided by financing activities	3,530	516	4,539
Net increase (decrease) in cash and cash equivalents	8,713	3,891	(5,005)
Effect of exchange rate changes on cash and cash equivalents	(20)	(293)	19
Cash and cash equivalents at beginning of period	22,159	18,561	23,547
Cash and cash equivalents at end of period	$30,852	$22,159	$18,561
Supplemental schedule of cash flow information:			
Cash paid for (refund of) income taxes	$86	$(89)	$89

See accompanying notes.

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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 Global Select Market under the symbol “SPRT.”

Support.com is a provider of cloud-based services and software designed to enhance a customer's experience with technology.

Our solution includes, the cloud-based Nexus® Service Delivery Platform, a scalable workforce of technology specialists, mobile and desktop applications for end-users and proven expertise in program design and execution. We offer turnkey solutions including all of these elements. We also make our Nexus platform available on a SaaS basis and license our end-user applications separately.

We offer our customers a broad array of technology services to meet the needs of their own customers. Service programs available for consumer markets include computer and mobile device set-up, security and support, virus and malware removal and wireless network set-up, security and support. Service programs available for small business markets include the consumer services plus managed services such as server and network monitoring and maintenance. Our services can be purchased either as one-time incidents or subscriptions, with subscriptions representing an increasing percentage of our revenue. Our technology specialists deliver our services to customers online via remote control and by telephone, leveraging the Nexus platform. Most of our technology specialists work from their homes rather than in brick and mortar facilities.

Basis of Presentation

The Consolidated Financial Statements include the accounts of Support.com and its wholly owned subsidiaries. All significant 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 or loss. Realized foreign currency transaction gains and losses were not material during the years ended December 31, 2012, 2011, and 2010.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The accounting estimates that require management’s most significant, difficult and subjective judgments include revenue recognition, fair value measurements, purchase accounting in business combinations, accounting for goodwill and other intangible assets, stock-based compensation and accounting for income taxes. Actual results could differ materially from these estimates.

Concentrations of Credit Risk

Financial instruments that potentially subject us to concentrations of credit risk consist principally of cash equivalents, investments and trade accounts receivable. Our investment portfolio consists of investment grade securities. Except for obligations of the United States government and securities issued by agencies of the United States government, we diversify our investments by limiting our holdings with any individual issuer. We are exposed to credit risks in the event of default by the issuers to the extent of the amount recorded on the balance sheet. 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.

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Trade Accounts Receivable and Allowance for Doubtful Accounts

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

The following table summarizes the allowance for doubtful accounts as of December 31, 2012, 2011 and 2010 (in thousands):

Allowance for doubtful accounts:	Balance at Beginning of Period	Adjustments to Costs and Expenses	Write-offs	Balance at End of Period
Year ended December 31, 2010	$ 9	$ 34	$—	$43
Year ended December 31, 2011	$ 43	$ (16)	$(7)	$20
Year ended December 31, 2012	$ 20	$ (18)	$—	$2

As of December 31, 2012, Comcast (52%) and OfficeMax (10%) accounted for 10% or more of our total accounts receivable. As of December 31, 2011, Comcast (41%), Staples (17%), Office Depot (15%) and OfficeMax (13%) accounted for 10% or more of our total accounts receivable. No other customers accounted for 10% or more of our total accounts receivable as of December 31, 2012 or 2011.

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.

Long-term investment at December 31, 2011 consisted of an ARS position. Our cash equivalents and short-term and long-term investments are classified as available-for-sale, and are reported at fair value with unrealized gains/losses (when deemed to be temporary) included in accumulated other comprehensive income within stockholders' equity on the consolidated balance sheets. We view our available-for-sale portfolio as available for use in our current operations, and therefore we present our marketable securities as short-term assets.

We monitor our investments for impairment on a quarterly basis and determine whether a decline in fair value is other-than-temporary by considering factors such as current economic and market conditions, the credit rating of the security's issuer, the length of time an investment's fair value has been below our carrying value, the Company's intent to sell the security and the Company's belief that it will not be required to sell the security before the recovery of its amortized cost. If an investment's decline in fair value is deemed to be other-than-temporary, we reduce its carrying value to its estimated fair value, as determined based on quoted market prices or liquidation values. Declines in value judged to be other-than-temporary, if any, are recorded in operations as incurred. At December 31, 2012, 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.

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At December 31, 2012 and 2011, the fair value of cash, cash equivalents and investments was $56.3 million and $53.0 million, respectively. The following is a summary of cash, cash equivalents and investments at December 31, 2012 and 2011 (in thousands):

	For the Year Ended December 31, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Cash	$11,116	$—	$—	$11,116
Money market fund	17,235	—	—	17,235
Certificates of deposit	1,880	—	(1)	1,879
Commercial paper	5,745	1	(1)	5,745
Corporate notes and bonds	20,172	7	(6)	20,173
U.S. government agency securities	202	—	—	202
	$56,350	$8	$(8)	$56,350
Classified as:				
Cash and cash equivalents	$30,853	$—	$(1)	$30,852
Short-term investments	25,497	8	(7)	25,498
	$56,350	$8	$(8)	$56,350

	For the Year Ended December 31, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Cash	$6,461	$—	$—	$6,461
Money market fund	15,698	—	—	15,698
Certificates of deposit	480	—	—	480
Commercial paper	6,295	—	(6)	6,289
Corporate notes and bonds	15,283	1	(16)	15,268
U.S. government agency securities	7,707	—	(1)	7,706
Auction-rate security	1,400	—	(289)	1,111
	$53,324	$1	$(312)	$53,013
Classified as:				
Cash and cash equivalents	$22,159	$—	$—	$22,159
Short-term investments	29,765	1	(23)	29,743
Long-term investment	1,400	—	(289)	1,111
	$53,324	$1	$(312)	$53,013

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,	
	2012	2011
Due within one year	$ 23,885	$ 29,503
Due within two years	1,613	240
Due after two years	—	1,111
	$ 25,498	$ 30,854

We determined that the gross unrealized losses on our available-for-sale investments as of December 31, 2012 are temporary in nature. The fair value of our available-for-sale securities at December 31, 2012 and 2011 reflects a net unrealized loss of zero and $311,000, respectively. We recognized net realized gains related to available-for-sale securities of zero and $7,000 for the years ended December 31, 2012 and 2011, respectively. There were no net realized losses on available-for-sale securities in the years ended December 31, 2012 and 2011, respectively. The cost of securities sold is based on the specific identification method.

At December 31, 2011, we had an investment in AAA-rated ARS with a state student loan authority with an estimated fair value of $1.1 million. At December 31, 2012, we had no investment in ARS because our long-term investment in ARS was settled at par for cash in May 2012.

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The following table sets forth the unrealized losses for the Company’s available-for-sale investments as of December 31, 2012 and 2011 (in thousands):

As of December 31, 2012	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
Certificate of deposits	$1,159	$(1)	$—	$—	$1,159	$(1)
Commercial paper	3,498	(1)	—	—	3,498	(1)
Corporate notes and bonds	12,045	(4)	1,613	(2)	13,658	(6)
Total	$16,702	$(6)	$1,613	$(2)	$18,315	$(8)

As of December 31, 2011	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
Commercial paper	$4,288	$(6)	$ —			