

Support.com, Inc.  
Form 10-Q  
May 05, 2015

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

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended March 31, 2015

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 000-30901

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

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

900 Chesapeake Drive, 2<sup>nd</sup> Floor

Redwood City, CA 94063

(Address of Principal Executive Offices)  
(Zip Code)

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

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

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(Do not check if a smaller reporting company)

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

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

On April 30, 2015, 54,346,235 shares of the Registrant's Common Stock, \$0.0001 par value, were outstanding.

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SUPPORT.COM, INC.

FORM 10-Q

QUARTERLY PERIOD ENDED MARCH 31, 2015

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

SUPPORT.COM, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands except share and per share data)

	March 31, 2015 (Unaudited)	December 31, 2014
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 16,810	\$23,354
Short-term investments	56,231	50,439
Accounts receivable, net	15,375	14,627
Prepaid expenses and other current assets	1,390	1,403
Total current assets	89,806	89,823
Property and equipment, net	484	417
Goodwill	14,240	14,240
Intangible assets, net	2,095	2,363
Other assets	1,159	1,144
Total assets	\$ 107,784	\$ 107,987
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 728	\$1,625
Accrued compensation	4,068	2,792
Other accrued liabilities	4,169	3,029
Short-term deferred revenue	2,573	2,619
Total current liabilities	11,538	10,065
Long-term deferred revenue	75	72
Other long-term liabilities	2,131	2,129
Total liabilities	13,744	12,266
Commitments and contingencies (Note 4)		
Stockholders' equity:		
Common stock; par value \$0.0001, 150,000,000 shares authorized; 55,537,526 issued and 54,344,928 outstanding at March 31, 2015; 55,457,001 issued and 54,264,483 outstanding at December 31, 2014	5	5
Additional paid-in capital	262,964	262,253
Treasury stock	(5,036 )	(5,036 )
Accumulated other comprehensive loss	(1,989 )	(2,028 )
Accumulated deficit	(161,904 )	(159,473)
Total stockholders' equity	94,040	95,721
Total liabilities and stockholders' equity	\$ 107,784	\$ 107,987

See accompanying notes.

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SUPPORT.COM, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

(Unaudited)

	Three Months Ended March 31,	
	2015	2014
Revenue:		
Services	\$21,875	\$17,052
Software and other	1,282	1,561
Total revenue	23,157	18,613
Cost of revenue:		
Cost of services	18,394	12,962
Cost of software and other	150	239
Total cost of revenue	18,544	13,201
Gross profit	4,613	5,412
Operating expenses:		
Research and development	1,524	1,354
Sales and marketing	2,208	1,551
General and administrative	3,060	2,663
Amortization of intangible assets and other	268	273
Total operating expenses	7,060	5,841
Loss from operations	(2,447 )	(429 )
Interest income and other, net	100	78
Loss from continuing operations, before income taxes	(2,347 )	(351 )
Income tax provision	126	125
Loss from continuing operations, after income taxes	(2,473 )	(476 )
Income (loss) from discontinued operations, after income taxes	42	(6 )
Net loss	\$(2,431 )	\$(482 )
Basic and diluted earnings per share:		
Loss from continuing operations	\$(0.05 )	\$(0.01 )
Income (loss) from discontinued operations	0.01	(0.00 )
Basic and diluted net loss per share	\$(0.04 )	\$(0.01 )
Shares used in computing basic net loss per share	54,237	53,313
Shares used in computing diluted net loss per share	54,237	53,313

See accompanying notes.

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SUPPORT.COM, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(in thousands)

(Unaudited)

	Three Months Ended March 31,	
	2015	2014
Net loss	\$(2,431)	\$(482)
Other comprehensive loss:		
Change in foreign currency translation adjustment	6	69
Change in net unrealized gain (loss) on investments	33	8
Other comprehensive loss	39	77
Comprehensive loss	\$(2,392)	\$(405)

See accompanying notes.

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SUPPORT.COM, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	Three Months Ended March 31,	
	2015	2014
<b>Operating Activities:</b>		
Net loss	\$(2,431 )	\$(482 )
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	93	72
Amortization of premiums and discounts on investments	141	239
Amortization of intangible assets and other	268	273
Stock-based compensation	711	622
Changes in assets and liabilities:		
Accounts receivable, net	(748 )	1,978
Prepaid expenses and other current assets	13	21
Other long-term assets	(14 )	(28 )
Accounts payable	(897 )	237
Accrued compensation	1,276	1,078
Other accrued liabilities	1,140	(395 )
Other long-term liabilities	26	84
Deferred revenue	(43 )	(338 )
Net cash provided by (used in) operating activities	(465 )	3,361
<b>Investing Activities:</b>		
Purchases of property and equipment	(160 )	(34 )
Purchases of investments	(21,700)	(15,312)
Maturities of investments	15,799	15,108
Net cash used in investing activities	(6,061 )	(238 )
<b>Financing Activities:</b>		
Proceeds from issuances of common stock	---	59
Net cash provided by financing activities	---	59
Effect of exchange rate changes on cash and cash equivalents	(18 )	37
Net increase (decrease) in cash and cash equivalents	(6,544 )	3,219
Cash and cash equivalents at beginning of period	23,354	28,390
Cash and cash equivalents at end of period	\$16,810	\$31,609
<b>Supplemental schedule of cash flow information:</b>		
Income taxes paid	\$77	\$60

See accompanying notes.



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SUPPORT.COM, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Significant Accounting Policies

Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements include the accounts of Support.com, Inc. (the “Company”, “Support.com”, “We” or “Our”) and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated. The condensed consolidated balance sheet as of March 31, 2015 and the consolidated statements of operations and comprehensive loss for the three months ended March 31, 2015 and 2014 and the consolidated statements of cash flows for the three months ended March 31, 2015 and 2014 are unaudited. In the opinion of management, these unaudited interim condensed consolidated financial statements reflect all adjustments (consisting of normal recurring adjustments) that are necessary for a fair presentation of the results for, and as of, the periods shown. The results of operations for such periods are not necessarily indicative of the results expected for the full fiscal year or for any future period. The condensed consolidated balance sheet information as of December 31, 2014 is derived from audited financial statements as of that date. These financial statements have been prepared based upon Securities and Exchange Commission (“SEC”) rules that permit reduced disclosure for interim periods. For a more complete discussion of significant accounting policies and certain other information, these unaudited interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014, filed with the SEC on March 6, 2015.

Use of Estimates

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

Revenue Recognition

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

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

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

provided all other revenue recognition criteria have been met.

#### Services Revenue

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

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

The technology services described above include four types of offerings:

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

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

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

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

In certain cases, we are paid for services that are sold but not yet delivered. We initially record such balances as deferred revenue, and recognize revenue when the service has been provided or, on the non-subscription portion of these balances, when the likelihood of the service being redeemed by the customer is remote (“services breakage”). Based on our historical redemption patterns for these relationships, we believe that the likelihood of a service being delivered more than 90 days after sale is remote. We therefore recognize non-subscription deferred revenue balances older than 90 days as services revenue. For the three months ended March 31, 2015 and 2014, services breakage revenue was approximately 0% and 3% of our total revenue, respectively.

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

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

Services revenue also includes fees from licensing of Nexus® cloud-based software. In such arrangements, customers receive a right to use Nexus in their own technology support organizations. We license Nexus using a software-as-a-service (“SaaS”) model under which customers cannot take possession of the technology and pay us on a per-user basis during the term of the arrangement. In addition, services revenue includes fees from implementation

services of Nexus. Currently, revenues from implementation services are recognized ratably over the customer life which is estimated as the term of the arrangement once the Nexus services are made available to customers. We generally charge for these services on a time and material basis.

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## Software and Other Revenue

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

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

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

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

## Cash, Cash Equivalents and Investments

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

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

We monitor our investments for impairment on a quarterly basis and determine whether a decline in fair value is other-than-temporary by considering factors such as current economic and market conditions, the credit rating of the security's issuer, the length of time an investment's fair value has been below our carrying value, the Company's intent to sell the security and the Company's belief that it will not be required to sell the security before the recovery of its amortized cost. If an investment's decline in fair value is deemed to be other-than-temporary, we reduce its carrying value to its estimated fair value, as determined based on quoted market prices or liquidation values. Declines in value judged to be other-than-temporary, if any, are recorded in operations as incurred. At March 31, 2015, we evaluated our unrealized gains/losses on available-for-sale securities and determined them to be temporary. We currently do not intend to sell securities with unrealized losses and we concluded that we will not be required to sell these securities before the recovery of their amortized cost basis. At March 31, 2015 and December 31, 2014, the fair value of cash, cash equivalents and investments was \$73.0 million and \$73.8 million, respectively.

The following is a summary of cash, cash equivalents and investments at March 31, 2015 and December 31, 2014 (in thousands):

Amortized	Gross	Gross
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	Cost	Unrealized Gains	Unrealized Losses	Fair Value
As of March 31, 2015				
Cash	\$ 11,521	\$ -	\$ -	\$11,521
Money market funds	5,289	-	-	5,289
Certificates of deposits	3,600	2	-	3,602
Commercial paper	2,996	-	-	2,996
Corporate notes and bonds	42,158	8	(34 )	42,132
U.S. government agency securities	7,497	4	-	7,501
	\$ 73,061	\$ 14	\$ (34 )	\$73,041

Classified as:

Cash and cash equivalents	\$ 16,810	\$ -	\$ -	\$16,810
Short-term investments	56,251	14	(34 )	56,231
	\$ 73,061	\$ 14	\$ (34 )	\$73,041

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	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
As of December 31, 2014				
Cash	\$ 9,572	\$ —	\$ —	\$9,572
Money market funds	9,859	—	—	9,859
Certificates of deposits	3,600	—	(5 )	3,595
Commercial paper	2,996	—	—	2,996
Corporate notes and bonds	45,819	—	(48 )	45,771
U.S. government agency securities	2,000	—	—	2,000
	\$ 73,846	\$ —	\$ (53 )	\$73,793

## Classified as:

Cash and cash equivalents	\$ 23,354	\$ —	\$ —	\$23,354
Short-term investments	50,492	—	(53 )	50,439
	\$ 73,846	\$ —	\$ (53 )	\$73,793

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

	March 31, 2015	December 31, 2014
Due within one year	\$39,110	\$41,448
Due within two years	17,121	8,990
	\$56,231	\$50,438

## Fair Value Measurements

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

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

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

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

In accordance with ASC 820, the following table represents our fair value hierarchy for our financial assets (cash equivalents and investments) measured at fair value on a recurring basis as of March 31, 2015 and December 31, 2014 (in thousands):

As of March 31, 2015	Level		Level		Total
	1	Level 2	3		
Money market funds	\$5,289	\$—	\$	—	\$5,289
Certificates of deposits	—	3,602	—	—	3,602
Commercial paper	—	2,996	—	—	2,996
Corporate notes and bonds	—	42,132	—	—	42,132
U.S. government agency securities	—	7,501	—	—	7,501
Total	\$5,289	\$56,231	\$	—	\$61,520

As of December 31, 2014	Level		Level		Total
	1	Level 2	3		
Money market funds	\$9,859	\$—	\$	—	\$9,859
Certificates of deposits	—	3,595	—	—	3,595
Commercial paper	—	2,996	—	—	2,996
Corporate notes and bonds	—	45,771	—	—	45,771
U.S. government agency securities	—	2,000	—	—	2,000
Total	\$9,859	\$54,362	\$	—	\$64,221

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

#### Concentrations of Credit Risk

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

For the three months ended March 31, 2015, Comcast (68%) and Office Depot (15%) accounted for 10% or more of our total revenue. For the three months ended March 31, 2014, Comcast (57%) and Office Depot (20%) accounted for 10% or more of our total revenue. There were no other customers that accounted for 10% or more of total revenue for the three months ended March 31, 2015 and 2014.



The credit risk in our trade accounts receivable is substantially mitigated by our evaluation of the customers' financial conditions at the time we enter into business and reasonably short payment terms. As of March 31, 2015 and December 31, 2014, Comcast (80%) accounted for 10% or more of our total accounts receivable. There were no other customers that accounted for 10% or more of our total accounts receivable as of March 31, 2015 and December 31, 2014.

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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. At March 31, 2015 and December 31, 2014, we had an allowance for doubtful accounts of \$7,000 and \$2,000, respectively.

Goodwill

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 Accounting Standards Codification ("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 ("Step 1"), we compare the carrying value of the reporting unit to the fair value based on quoted market prices of our common stock and other valuation factors. 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 of the reporting unit exceeds the fair value, goodwill is potentially impaired and the second step ("Step 2") 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 amount to determine the impairment loss, if any.

Based on the decline in our market capitalization during the first quarter of 2015, we determined that it was appropriate to perform impairment testing. The Company performed a Step 1 impairment assessment of goodwill, which considered the Company's market capitalization. In addition, we considered valuation factors including an estimated control premium which was based on a review of comparative market transactions. As a result of Step 1 of our goodwill impairment test for the three months ended March 31, 2015, we estimated that the fair value for our reporting unit exceeded its carrying value by 31% thus no impairment was indicated. The substantial majority of the excess fair value pertains to the control premium we estimated. We will continue to monitor our market capitalization and impairment indicators.

Self-Funded Health Insurance

Effective January 1, 2015, the Company maintains a self-funded health insurance program with a stop-loss umbrella policy with a third party insurer to limit the maximum potential liability for medical claims. With respect to this program, the Company considers historical and projected medical utilization data when estimating its health insurance program liability and related expense. As of March 31, 2015, the Company had approximately \$1 million in reserve for its self-funded health insurance program. The reserve is included in "other accrued liabilities" in the condensed consolidated balance sheets.

The Company regularly analyzes its reserves for incurred but not reported claims and for reported but not paid claims related to its self-funded insurance program. The Company believes its reserves are adequate. However, significant judgment is involved in assessing these reserves such as assessing historical paid claims, average lags between the claims' incurred date, reported dates and paid dates, and the frequency and severity of claims. There may be differences between actual settlement amounts and recorded reserves and any resulting adjustments are included in expense once a probable amount is known.

Accumulated Other Comprehensive Loss

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

	Foreign Currency Translation Losses	Unrealized Losses on Investments	Total
Balance as of December 31, 2014	(1,975 )	(53 )	(2,028)
Current-period other comprehensive income (loss)	6	33	39
Balance as of March 31, 2015	\$ (1,969 )	\$ (20 )	\$ (1,989)

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

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

## Stock-Based Compensation

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

The fair value of our stock-based awards was estimated using the following weighted average assumptions for the three months ended March 31, 2015 and 2014:

	Stock Option Plan		Employee Stock Purchase Plan	
	Three Months Ended March 31,			
	2015	2014 <sup>(1)</sup>	2015	2014
Risk-free interest rate	1.3 %		0.1 %	0.1 %
Expected term (in years)	3.8	—	0.5	0.5
Volatility	56.6%	—	37.2%	53.7%
Expected dividend	0 %	—	0 %	0 %
Weighted average grant-date fair value	\$0.80	—	\$0.55	\$1.34

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

We recorded the following stock-based compensation expense for the three months ended March 31, 2015 and 2014 (in thousands):

	Three Months Ended March 31,	
	2015	2014
Stock-based compensation expense related to grants of:		
Stock options	\$252	\$336
Employee Stock Purchase Plan (“ESPP”)	20	29
Restricted stock units (“RSUs”)	439	257
	\$711	\$622
Stock-based compensation expense recognized in:		
Cost of service	\$62	\$87
Cost of software and other	4	3
Research and development	130	167
Sales and marketing	66	77
General and administrative	449	288
	\$711	\$622

## Earnings (Loss) Per Share

Basic earnings (loss) per share is computed using our net income (loss) and the weighted average number of common shares outstanding during the reporting period. Diluted earnings (loss) per share is computed using our net income (loss) and the weighted average number of common shares outstanding, including the effect of the potential issuance of common stock such as stock issuable pursuant to the exercise of stock options and warrants and vesting of RSUs using the treasury stock method when dilutive. Pursuant to approval by the Company's Compensation Committee, the Company issued approximately 397,000 RSUs and 162,000 stock options to its corporate employees on April 21, 2015. These RSUs and stock options were not included in the computation of the basic and diluted loss per share for the three months ended March 31, 2015 because they were not outstanding during this period.

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

	Three months ended March 31,	
	2015	2014
Net loss	\$(2,431 )	\$(482 )
Basic:		
Weighted-average shares of common stock outstanding	54,237	53,313
Shares used in computing basic loss per share	54,237	53,313
Basic loss per share	\$(0.04 )	\$(0.01 )
Diluted:		
Weighted-average shares of common stock outstanding	54,237	53,313
Add: Common equivalent shares outstanding	-	-
Shares used in computing diluted loss per share	54,237	53,313
Diluted loss per share	\$(0.04 )	\$(0.01 )

The following potential common shares outstanding were excluded from the computation of diluted loss per share because including them would have been antidilutive (in thousands):

	Three months ended March 31,	
	2015	2014
Stock options	3,711	5,139
RSUs	1,370	1,152
Warrants	490	490
Total common share equivalents	5,571	6,781

## Warranties and Indemnifications

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

We generally agree to indemnify our customers against legal claims that our end-user software products infringe certain third-party intellectual property rights. As of March 31, 2015, we have not been required to make any payment resulting from infringement claims asserted against our customers and have not recorded any related accruals.

## Financial Statement Reclassification

Certain amounts in the consolidated financial statements for the first quarter of 2014 have been reclassified to conform to the current period's presentation. Prior to July 1, 2014, fees from Nexus SaaS offering were included in software and other revenue. During the quarter ended September 30, 2014, the Company classified these fees as services revenue. In addition, the Company concluded that cost associated with the Nexus SaaS solution was immaterial and therefore

did not reclassify this cost from cost of software and other to cost of services. These reclassifications had no impact on previously reported total revenue, net income (loss), and cash flows.

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Recent Accounting Pronouncements

In August 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-15, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. ASU 2014-15 explicitly requires management to evaluate, at each annual or interim reporting period, whether there are conditions or events that exist that raise substantial doubt about an entity's ability to continue as a going concern within one year after the date the financial statements are issued and to provide related disclosures. ASU 2014-15 is effective for annual periods ending after December 15, 2016 and earlier application is permitted. The adoption of ASU 2014-15 is not expected to have a material effect on our consolidated financial statements or disclosures.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which provides guidance for revenue recognition. ASU 2014-09 is applicable to any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets. ASU 2014-09 will supersede the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled to receive in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under current U.S. GAAP. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. ASU 2014-09 is effective prospectively for fiscal years, and interim reporting periods within those years, beginning after December 15, 2017. We are currently evaluating the impact of the adoption of ASU 2014-09 on our consolidated financial statements.

Note 2. Warrants

On October 25, 2010, we entered into a Support Services Agreement (the "Customer Agreement") with Comcast Cable Communications Management, LLC ("Comcast") under which Support.com provides technology support services to customers of Comcast in exchange for fees. In connection with the Customer Agreement, Support.com and Comcast entered into a Warrant Agreement, under which Support.com agreed to issue to Comcast warrants to purchase up to 975,000 shares of Support.com common stock in the future in the event that Comcast meets specified sales milestones under the Customer Agreement. Each warrant, if issued, will have an exercise price per share of \$4.9498 and a term of three years from issuance. On September 27, 2011, the Company and Comcast amended the Warrant Agreement to extend the expiration date for the performance milestones while maintaining the previously agreed revenue thresholds. The warrants were valued as they were earned, and the resulting value was recorded as a charge against revenue in the period in which the performance milestone was met and the warrant was earned. During the third and fourth quarters of 2013, the performance milestones for the first and second tranche of warrants were met, respectively. Therefore, we issued to Comcast warrants to purchase a total of 490,000 shares of our common stock (warrants to purchase 166,000 shares were issued on September 30, 2013 and warrants to purchase 324,000 shares were issued on December 31, 2013) and recorded warrant-related charges of \$777,000 against revenue for the year ended December 31, 2013. The value of the first and second tranche of warrants was estimated using the following weighted-average assumptions: risk-free interest rate of 0.74%, expected term of 3 years, volatility of 59.12% and expected dividend of 0%. The right to receive this final tranche expired on March 31, 2014 due to the termination of the Customer Agreement on such date.

Note 3. Income Taxes

We recorded an income tax provision of \$126,000 and \$125,000 for the three months ended March 31, 2015 and 2014, respectively. The provision for income taxes is comprised of estimates of current taxes due in domestic and foreign jurisdictions. This provision reflects tax expense associated with state income tax, foreign taxes, and tax expense related to the recording of a deferred tax liability that results from the amortization for income tax purposes of



acquisition-related goodwill.

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

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As of March 31, 2015, our deferred tax assets are fully offset by a valuation allowance except in those jurisdictions where it is determined that a valuation allowance is not required. ASC 740, Income Taxes, provides for the recognition of deferred tax assets if realization of such assets is more likely than not. Based upon the weight of available evidence, which includes historical operating performance, reported cumulative net losses since inception and difficulty in accurately forecasting our future results, we provided a full valuation allowance against our net U.S. deferred tax assets and a partial valuation allowance against our foreign deferred tax assets. We reassess the need for our valuation allowance on a quarterly basis. If it is later determined that a portion or all of the valuation allowance is not required, it generally will be a benefit to the income tax provision in the period such determination is made.

The Company does not anticipate a material change in the total amount or composition of its unrecognized tax benefits within 12 months of March 31, 2015.

## Note 4. Commitments and Contingencies

### Legal contingencies

On April 3, 2014, LT Tech LLC filed a complaint against the Company in U.S. District Court for the Eastern District of Texas alleging infringement of United States Patent No. 6,177,932. LT Tech LLC is believed to be a non-practicing entity (“NPE”) and has filed several patent infringement lawsuits against other companies in U.S. District Court for the Eastern District of Texas and elsewhere. On June 30, 2014, the Company and LT Tech LLC executed a Settlement and License Agreement according to which the Company paid LT Tech LLC a total amount of \$150,000 which was recorded as a charge against earnings in cost of services in the second quarter of 2014. On July 8, 2014, the Company obtained a dismissal for the complaint filed by LT Tech LLC. The Company denies any wrongdoing or liability and entered into the settlement to minimize the costs of defense.

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

### Guarantees

We have identified guarantees in accordance with ASC 450, Contingencies. This guidance stipulates that an entity must recognize an initial liability for the fair value, or market value, of the obligation it assumes under the guarantee at the time it issues such a guarantee, and must disclose that information in its interim and annual financial statements. We have entered into various service level agreements with our partners, in which we may guarantee the maintenance of certain service level thresholds. Under some circumstances, if we do not meet these thresholds, we may be liable for certain financial costs. We evaluate costs for such guarantees under the provisions of ASC 450. We consider such factors as the degree of probability that we would be required to satisfy the liability associated with the guarantee and the ability to make a reasonable estimate of the resulting cost. During the three months ended March 31, 2015, we did not incur any costs as a result of such obligations. We have not accrued any liabilities related to such obligations in the condensed consolidated financial statements as of March 31, 2015 and December 31, 2014.

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## Note 5. Intangible Assets

Amortization of intangible assets and other for the three months ended March 31, 2015 and 2014 were \$268,000 and \$273,000, respectively.

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

	Non- compete	Partner Relationships	Customer Base	Technology Rights	Tradenames	Indefinite Life Intangibles	Total
<u>As of March 31, 2015</u>							
Gross carrying value	\$ 593	\$ 145	\$ 641	\$ 5,330	\$ 760	\$ 250	\$7,719
Accumulated amortization	(534 )	(145 )	(476 )	(3,805 )	(664 )	—	(5,624)
Net carrying value	\$ 59	\$ —	\$ 165	\$ 1,525	\$ 96	\$ 250	\$2,095
<u>As of December 31, 2014</u>							
Gross carrying value	\$ 593	\$ 145	\$ 641	\$ 5,330	\$ 760	\$ 250	\$7,719
Accumulated amortization	(527 )	(145 )	(453 )	(3,582 )	(649 )	—	(5,356)
Net carrying value	\$ 66	\$ —	\$ 188	\$ 1,748	\$ 111	\$ 250	\$2,363

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

The estimated future amortization expense of intangible assets, with the exception of the indefinite-life intangible assets as of March 31, 2015 is as follows (in thousands):

<u>Fiscal Year</u>	Amount
2015 (April-December)	\$ 801
2016	1,028
2017	16
Total	\$ 1,845
	1.73
Weighted average remaining useful life	years

## Note 6. Other Accrued Liabilities

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

	March 31, 2015	December 31, 2014
Accrued expenses	\$3,601	\$ 2,502
Customer deposits	347	352
Other accrued liabilities	221	175
Total other accrued liabilities	\$4,169	\$ 3,029

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## Note 7. Stockholder's Equity

## Stock Options

The following table represents the stock option activity for the three months ended March 31, 2015:

	Number of Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding options at December 31, 2014	3,516,037	\$ 3.16	6.28	\$ 3
Granted	430,000	\$ 1.85		
Exercised	---	---		
Forfeited	(235,292 )	\$ 3.17		
Outstanding options at March 31, 2015	3,710,745	\$ 3.01	6.61	\$ 0
Options vested and expected to vest	3,532,586	\$ 3.03	6.48	\$ 0
Exercisable at March 31, 2015	1,642,453	\$ 3.63	3.78	\$ 0

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value that would have been received by the option holders had they all exercised their options on March 31, 2015. This amount changes based on the fair market value of our stock. During the three months ended March 31, 2015 and 2014, the aggregate intrinsic value of options exercised under our stock option plans was zero and \$6,000, respectively. Total fair value of options vested during the three months ended March 31, 2015 and 2014 was \$134,000 and \$207,000, respectively.

At March 31, 2015, there was \$1.7 million of unrecognized compensation cost related to existing options outstanding which is expected to be recognized over a weighted average period of 2.0 years.

On February 10, 2015, pursuant to approval by the Company's Compensation Committee, the Company issued 425,000 time-based stock options to certain key executives. These time-based stock options vest monthly over three years.

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

On February 11, 2014, Joshua Pickus, the Company's President and Chief Executive Officer submitted his written resignation effective April 1, 2014. Also effective April 1, 2014, Mr. Pickus resigned as a member of the Company's Board of Directors. In connection with Mr. Pickus' resignation the Compensation Committee of the Board of Directors, considering all relevant factors and the best interest of the Company's stockholders, approved the extension of the post-termination exercise period for the vested portions of each of Mr. Pickus' outstanding stock option grants from 90 days following termination to December 31, 2014, in order to permit the orderly exercise and disposition of shares under his vested grants prior to their expiration. No other terms of the stock options were modified. As part of the modification of the stock options, the Company recorded an incremental stock-based compensation expense of approximately \$193,000 in the three months ended March 31, 2014. In addition, as a result of Mr. Pickus' resignation during the three months ended March 31, 2014, the Company reversed approximately \$505,000 of previously

recorded stock-based compensation expenses for his unvested performance-based equity awards.

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## Employee Stock Purchase Plan

In the second quarter of 2011, to advance the interests of the Company and its stockholders by providing an incentive to attract, retain and reward eligible employees and by motivating such persons to contribute to the growth and profitability of the Company, the Company's Board of Directors and stockholders approved an ESPP and reserved 1,000,000 shares of our common stock for issuance effective as of May 15, 2011. The ESPP continues in effect for ten (10) years from its effective date unless terminated earlier by the Company. The ESPP consists of six-month offering periods during which employees may enroll in the plan. The purchase price on each purchase date shall not be less than eighty five percent (85%) of the lesser of (a) the fair market value of a share of stock on the offering date of the offering period or (b) the fair market value of a share of stock on the purchase date. During the three months ended March 31, 2015, no shares were purchased under ESPP.

## Restricted Stock Units

The following table represents RSU activity for the three months ended March 31, 2015:

	Number of Shares	Weighted Average Grant-Date Fair Value per Share	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding RSUs at December 31, 2014	1,463,834	\$ 3.51	1.56	\$ 3,067
Awarded	116,950	\$ 1.86		
Released	(80,445 )	\$ 3.27		
Forfeited	(130,308 )	\$ 3.43		
Outstanding RSUs at March 31, 2015	1,370,031	3.40	1.45	\$ 2,137

On May 16, 2014, pursuant to the employment offer letter as approved by the Company's Compensation Committee, and in addition to the market-based stock options, the Company issued 218,752 RSUs to the Company's new President and Chief Executive Officer. These RSUs vest over four years from the grant date in equal annual vesting tranches with 25% becoming vested on each of the first four anniversaries of the grant date subject to continuous service.

On June 4, 2014, the Board of Directors of the Company approved, based on recommendations of the Compensation Committee, a grant of 108,225 RSUs to non-employee directors. These RSUs vest upon the first anniversary of the grant date.

At March 31, 2015, there was \$3.1 million of unrecognized compensation cost related to RSUs which is expected to be recognized over a weighted average period of 2.50 years.

## Stock Repurchase Program

On April 27, 2005, our Board of Directors authorized the repurchase of up to 2,000,000 outstanding shares of our common stock. As of March 31, 2015 the maximum number of shares remaining that can be repurchased under this program was 1,807,402. The Company does not intend to repurchase shares without a further approval from its Board of Directors.

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

The following discussion of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and the related notes included elsewhere in this Form 10-Q (the "Report") and the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2014. The following discussion includes forward-looking statements. Please see "Risk Factors" in Item 1A of this Report for important information to consider when evaluating these statements.

Overview

Support.com, Inc. is a leading provider of cloud-based software and services that enable technology support for a connected world. Our technology support services programs help leading brands create new revenue streams and deepen customer relationships. We offer turnkey, outsourced support services for service providers, retailers and technology companies. Our technology support services programs are designed for both the consumer and small business markets, and include computer and mobile device set-up, security and support, virus and malware removal, wireless network set-up, and home security and automation system support.

Total revenue for the first quarter of 2015 increased 24% year-over-year. Revenue from services increased 28% year-over-year due to continued growth in our channel programs, mainly the programs with Comcast. Revenue from software and other decreased 18% year-over-year due to a decision to discontinue our largest advertising placements in the second half of 2013 because they were no longer profitable.

Cost of services for the first quarter of 2015 increased 42% year-over-year primarily as a result of the hiring of additional technology specialists for our home networking support bundle program and Xfinity home program with Comcast. Cost of software and other for the first quarter of 2015 decreased 37% year-over-year due to lower sales of end-user software products driven by our decision to discontinue our largest advertising placements in the second half of 2013. Total gross margin declined from 29% to 20% year-over-year due to a higher percentage of revenue generated by the lower margin Comcast home networking support bundle program and Comcast Xfinity home program which replaced the higher margin Comcast Xfinity signature support program.

Operating expenses for the first quarter of 2015 increased 21% from the same period in 2014, primarily driven by the increase in the investment in research and development and sales and marketing devoted to Nexus.

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

Critical Accounting Policies and Estimates

In preparing our interim condensed consolidated financial statements, we make estimates, assumptions and judgments that can have a significant impact on our net revenue, operating income or loss and net income or loss, as well as on the value of certain assets and liabilities on our condensed consolidated balance sheet. We believe that the estimates, assumptions and judgments involved in the accounting policies described in Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2014 have the greatest potential impact on our interim condensed consolidated financial statements, so we consider them to be our critical accounting policies and estimates. There have been no significant changes in these critical accounting policies and estimates during the three months ended March 31, 2015.

RESULTS OF OPERATIONS

The following table sets forth the results of operations for the three months ended March 31, 2015 and 2014 expressed as a percentage of total revenue:

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	Three Months Ended March 31, 2015		2014	
Revenue:				
Services	94	%	92	%
Software and other	6		8	
Total revenue	100		100	
Costs of revenue:				
Cost of services	79		70	
Cost of software and other	1		1	
Total cost of revenue	80		71	
Gross profit	20		29	
Operating expenses:				
Research and development	7		7	
Sales and marketing	10		8	
General and administrative	13		14	
Amortization of intangible assets and other	1		2	
Total operating expenses	30		31	
Loss from operations	(10)		(2)	)
Interest income and other, net	—		—	
Loss from continuing operations, before income taxes	(10)		(2)	)
Income tax provision	1		1	
Loss from continuing operations, after income taxes	(11)		(3)	)
Income (loss) from discontinued operations, after income taxes	—		—	
Net loss	(11)	)%	(3)	)%

## Three Months Ended March 31, 2015 and 2014

## REVENUE

In thousands, except percentages	Three Months Ended March 31,		\$	%
	2015	2014		
Services	\$21,875	\$17,052	\$4,823	28 %
Software and other	1,282	1,561	(279)	(18)%
Total revenue	\$23,157	\$18,613	\$4,544	(24)%

Services. Services revenue consists primarily of fees for technology services generated from our partners. We provide these services remotely, generally using service delivery personnel who utilize our proprietary technology to deliver the services. Services revenue is also comprised of licensing of Nexus. Services revenue for the three months ended March 31, 2015 increased by \$4.8 million from the same period in 2014 mainly due to continued growth in our

Comcast programs. For the three months ended March 31, 2015, services revenue generated from our partnerships was \$20.4 million compared to \$15.6 million for the same period in 2014. Direct services revenue was \$1.4 million for the three months ended March 31, 2015 compared to \$1.1 for the same period in 2014.

Software and other. Software and other revenue is comprised primarily of fees for end-user software products provided through direct customer downloads, and, to a lesser extent, through the sale of these software products via partners. Software and other revenue for the three months ended March 31, 2015 decreased by \$279,000, or 18%, from the same period in 2014 due to a decision to discontinue our largest advertising placements in the second half of 2013. For the three months ended March 31, 2015, revenue from software and other generated from our direct sales was \$726,000 compared to \$1.1 million for the same period in 2014. Software revenue and other generated from our partnerships was \$556,000 for the three months ended March 31, 2015 compared to \$733,000 for the same period in 2014.

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## COSTS OF REVENUE

In thousands, except percentages	Three Months Ended		\$	%	
	March 31, 2015	2014			
Cost of services	\$18,394	\$12,962	\$5,432	42	%
Cost of software and other	150	239	(89 )	(37	)%
Total cost of revenue	\$18,544	\$13,201	\$5,343	40	%

Cost of services. Cost of services consists primarily of compensation costs and contractor expenses for people providing services, technology and telecommunication expenses related to the delivery of services and other personnel-related expenses in service delivery. The increase of \$5.4 million in cost of services for the three months ended March 31, 2015 compared to the same period in 2014 was mainly driven by the hiring of additional technology specialists for our home networking support bundle program and Xfinity home program with Comcast.

Cost of software and other. Cost of software and other fees consists primarily of third-party royalty fees for our end-user software products. Certain of these products were developed using third-party research and development resources, and the third party receives royalty payments on sales of products it developed. The decrease of \$89,000 in cost of software and other for the three months ended March 31, 2015 compared to the same period in 2014 was primarily due to lower sales of end-user software products driven by our decision to discontinue our largest advertising placements in the second half of 2013.

## OPERATING EXPENSES

In thousands, except percentages	Three Months Ended		\$	%	
	March 31, 2015	2014			
Research and development	\$1,524	\$1,354	\$ 170	13	%
Sales and marketing	\$2,208	\$1,551	\$ 657	42	%
General and administrative	\$3,060	\$2,663	\$ 397	15	%
Amortization of intangible assets and other	\$268	\$273	\$ (5 )	(2	)%

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 \$170,000 for the three months ended March 31, 2015 as compared to the same period in 2014 resulted from an increase in salary and employee related expenses due an increase in headcount.

Sales and marketing. Sales and marketing expense consists primarily of compensation costs of business development, program management and marketing personnel, as well as expenses for lead generation and promotional activities, including public relations, advertising and marketing. The increase of \$657,000 in sales and marketing expense for the three months ended March 31, 2015 compared to the same period in 2014 resulted from a \$340,000 increase in salary and employee related expenses due an increase in headcount and a \$60,000 increase in consulting services.

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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 \$397,000 in general and administrative expense for three months ended March 31, 2015 compared to the same period in 2014 was primarily related to a \$161,000 increase in stock-based compensation expenses due to the resignation of the Company's former President and Chief Executive Officer during the three months ended March 31, 2014 and a \$80,000 increase in consulting services.

Amortization of intangible assets and other. The decrease of \$5,000 in amortization of intangibles assets and other for the three months ended March 31, 2015 compared to the same period in 2014 was due to certain intangible assets becoming fully amortized as of the end of 2014.

## INTEREST INCOME AND OTHER, NET

	Three Months Ended March 31,			
	\$		%	
In thousands, except percentages	2015	2014	Change	Change
Interest and other, net	\$ 100	\$ 78	\$ 22	28 %

Interest income and other, net. Interest income and other, net consists primarily of interest income on our cash, cash equivalents and short-term investments.

## INCOME TAX PROVISION

	Three Months Ended March 31,			
	\$		%	
In thousands, except percentages	2015	2014	Change	Change
Income tax provision	\$ 126	\$ 125	\$ 1	1 %

Income tax provision. The income tax provision is comprised of estimates of current taxes due in domestic and foreign jurisdictions. For the three months ended March 31, 2015 and 2014, the income tax provision primarily consisted of state income tax, foreign taxes, and tax expense related to the recording of a deferred tax liability that results from the amortization for income tax purposes of acquisition-related goodwill. For the three months ended March 31, 2015, the income tax provision consisted of \$48,000 for foreign taxes, \$71,000 for amortization for income tax purposes of acquisition-related goodwill and \$7,000 for state income tax. For the three months ended March 31, 2014, the income tax provision consisted of \$42,000 for foreign taxes, \$71,000 for amortization for income tax purposes of acquisition-related goodwill and \$12,000 for state income tax.

## LIQUIDITY AND CAPITAL RESOURCES

Total cash, cash equivalents and investments at March 31, 2015 and December 31, 2014 were \$73.0 million and \$73.8 million, respectively. The decrease in cash, cash equivalents and investments was primarily due to cash used in operating activities.

## Operating Activities

Net cash provided by (used in) operating activities was (\$465,000) and \$3.4 million for the three months ended March 31, 2015 and 2014, respectively. Net cash provided by (used in) operating activities primarily reflected the net loss for the period, adjusted for non-cash items such as depreciation, amortization of premiums and discounts on investments, stock-based compensation expense and amortization of intangible assets and changes in operating assets and liabilities. The sum of these non-cash items totaled \$1.2 million in the three months ended March 31, 2015 and 2014. Net cash used in operating activities during the three months ended March 31, 2015 was the result of a net loss of \$2.4 million, non-cash items of \$1.2 million, an increase in accounts receivable, net of \$748,000 due to an increase in revenues, offset by net increase in accounts payable, accrued compensation and other accrued liabilities of \$1.5 million due to the timing of payments.

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Investing Activities

Net cash used in investing activities was \$6.1 million and \$238,000 for the three months ended March 31, 2015 and 2014, respectively. For the three months ended March 31, 2015, net cash used in investing activities was primarily due to the purchase of marketable securities for \$21.7 million offset by maturities of \$15.8 million and \$160,000 for purchases of property and equipment. For the three months ended March 31, 2014, net cash used in investing activities was primarily due to the purchase of marketable securities for \$15.3 million offset by maturities of \$15.1 million and \$34,000 for purchases of property and equipment.

Financing Activities

Net cash provided by financing activities was zero and \$59,000 for the three months ended March 31, 2015 and 2014, respectively. Net cash provided by financing activities for the three months ended March 31, 2014 was due to the proceeds from exercise of employee stock options of \$59,000.

Working Capital and Capital Expenditure Requirements

At March 31, 2015, we had stockholders' equity of \$94.0 million and working capital of \$78.3 million. We believe that our existing cash balances will be sufficient to meet our working capital requirements, as well as our planned capital expenditures for at least the next 12 months.

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

We plan to continue to make investments in our business during 2015. We believe these investments are essential to creating sustainable growth in our business in the future. Additionally, we may choose to acquire other businesses or complimentary technologies to enhance our product capabilities and such acquisitions would likely require the use of cash.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate and Market Risk

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

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

As of March 31, 2015, we held \$56.2 million in short-term investments (excluding cash and cash equivalents), which consisted primarily of certificates of deposits, government debt securities, corporate notes and bonds, and commercial

paper. The weighted average interest rate of our portfolio was approximately 0.43% at March 31, 2015. 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 on our financial condition.

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Impact of Foreign Currency Rate Changes

The functional currencies of our international operating subsidiaries are the local currencies. We translate the assets and liabilities of our foreign subsidiaries at the exchange rates in effect on the balance sheet date. We translate their income and expenses at the average rates of exchange in effect during the period. We include translation gains and losses in the stockholders' equity section of our consolidated balance sheets. We include net gains and losses resulting from foreign exchange transactions in interest income and other in our consolidated statements of operations. Since we translate foreign currencies (primarily Canadian dollars and Indian rupees) into U.S. dollars for a small portion of our operations, currency fluctuations have had an immaterial impact on our consolidated statements of operations. We have both revenue and expenses that are denominated in foreign currencies. Neither a weaker or stronger U.S. dollar environment would have a material impact on our consolidated statement of operations. The historical impact of currency fluctuations on our consolidated statements of operations has generally been immaterial. As of March 31, 2015, we did not engage in foreign currency hedging activities.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

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

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended March 31, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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



ITEM 1A. RISK FACTORS.

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

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Our expectations and beliefs regarding future financial results;

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

Our ability to successfully license, implement and support our Nexus SaaS offering;

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

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

Our ability to expand and diversify our customer base;

Our ability to execute effectively in the small business market;

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

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

Our ability to attract and retain qualified management and employees;

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

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

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

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

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

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

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

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

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

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

Our ability to deliver projected levels of profitability;

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

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

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Our ability to successfully operate in markets that are subject to extensive regulation, such as support for home security systems;

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

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

The expected effects of the adoption of new accounting standards.

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

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

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

Through the fourth quarter of 2013, we delivered six consecutive quarters of profitability. Since then we have sustained significant changes in our largest partner program that materially affect our revenue and margins. We also are making significant investments in support of our Nexus SaaS offering, and expect to continue to experience periods of losses in the future. If we fail to achieve revenue growth as a result of our additional investments and efforts, or if such revenue growth does not result in our achieving profitability, the market price of our common stock will likely decline. A period of losses normally results in usage of cash to fund our operating activities and a corresponding reduction in our cash balance.

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

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

Maintain our current relationships and service programs, and develop new relationships, with service partners and licensees of Nexus SaaS offering on acceptable terms or at all;

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

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

    Successfully license our Nexus SaaS

    offering;

Attract and retain qualified management and employees in competitive markets for talent;

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

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Manage substantial headcount changes over short periods of time;  
Manage contract labor efficiently and effectively;  
Meet revenue targets;  
Maintain gross and operating margins;  
Match staffing levels with demand for services and forecast requirements;  
Obtain bonuses and avoid penalties in contractual arrangements;  
Operate successfully in a time-based pricing model;  
Operate effectively in the small business market;  
Offer subscriptions to our services in a profitable manner;  
Successfully introduce new, and adapt our existing, services and products for consumers and businesses;  
Respond effectively to changes in the market for technology support services;  
Respond effectively to changes in the online advertising markets in which we participate;  
Respond effectively to competition;  
    Respond to changes in macroeconomic conditions as they affect our and our partners' operations;  
Realize benefits of any acquisitions we make;  
Adapt to changes in the markets we serve, including the decline in sales of personal computers, the proliferation of tablets and other mobile devices and the introduction of new devices into the connected home and the "Internet of Things";  
Adapt to changes in our industry, including consolidation;  
Respond to government regulations relating to our current and future business;  
Manage and respond to present, threatened, and future litigation; and  
Manage our expanding operations and implement and improve our operational, financial and management controls.

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

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

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

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

Demand for our services and products;  
The performance of our partners;  
Change in or discontinuance of our principal programs with partners;  
Our reliance on a small number of partners for a substantial majority of our revenue;  
Instability or decline in the global macroeconomic climate and its effect on our and our partners' operations;  
Our ability to successfully license our Nexus SaaS offering;  
The availability and cost-effectiveness of advertising placements for our software products and our ability to respond to changes in the online advertising markets in which we participate;  
Our ability to serve the small business market;  
Our ability to attract and retain qualified management and employees in competitive markets;  
The efficiency and effectiveness of our technology specialists;  
Our ability to effectively match staffing levels with service volumes on a cost-effective basis;  
Our ability to manage contract labor;  
Our ability to hire, train, manage and retain our home-based technology specialists and enhance the flexibility of our staffing model in a cost-effective fashion and in quantities sufficient to meet forecast requirements;  
Our ability to manage substantial headcount changes over short periods of time;

Our ability to manage sales costs in programs where we are responsible for sales;  
Our ability to operate successfully in a time-based pricing model;  
Our ability to attract and retain partners;  
The price and mix of products and services we or our competitors offer;

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Pricing levels and structures in the market for technology support services;  
Our ability to successfully monetize customers who receive free versions of our consumer software;  
Usage rates on the subscriptions we offer;  
The rate of expansion of our offerings and our investments therein;  
Changes in the markets for computers and other technology devices relating to unit volume, pricing and other factors, including changes driven by declines in sales of personal computers and the growing popularity of tablets, and other mobile devices and the introduction of new devices into the connected home;  
Our ability to adapt to our customers' needs in a market space defined by frequent technological change;  
The amount and timing of operating costs and capital expenditures in our business;  
Diversion of management's attention from other business concerns and disruption of our ongoing business activities as a result of acquisitions or divestitures by us;  
Costs related to the defense and settlement of litigation which can also have an additional adverse impact on us because of negative publicity, diversion of management resources and other factors;  
Potential losses on investments, or other losses from financial instruments we may hold that are exposed to market risk; and  
The exercise of judgment by our management in making accounting decisions in accordance with our accounting policies.

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

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

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

For the three months ended March 31, 2015, Comcast (68%) and Office Depot (15%) accounted for 10% or more of our total revenue. The loss of these or other significant relationships, the change of the terms or terminations of our arrangements with any of these firms, the reduction or discontinuance of programs with any of these firms, or the failure of any of these firms to achieve their targets could adversely affect our business. Generally, the agreements with our partners do not require them to conduct any minimum amount of business with us, and therefore they have decided in the past and could decide at any time in the future to reduce or eliminate their programs or the use of our services in such programs. They may also enter into multi-sourcing arrangements with other vendors for services previously provided exclusively by us. Further, we may not successfully obtain new partners or customers. There is also the risk that, once established, our programs with these and other partners may take longer than we expect to produce revenue or may not produce revenue at all, and the revenue produced may not be profitable if the costs of performing under the program are greater than anticipated or the program terminates before up-front investments can be recouped. One or more of our key partners may also choose not to renew their relationship with us, discontinue certain programs, offer them only on a limited basis or devote insufficient time and attention to promoting them to their customers. Some of our key partners may prefer not to work with us if we also partner with their competitors. If



any of these key partners merge with one of their competitors (as occurred with Office Depot and OfficeMax in 2013), all of these risks could be exacerbated.

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

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

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

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

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

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

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

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

Our business is based on successfully attracting and retaining talented employees. The market for highly skilled workers and leaders in our industry is extremely competitive. If we are not successful in our recruiting efforts, or if we are unable to retain key employees and executive management, our ability to develop and deliver successful products and services may be adversely affected. Effective succession planning is also important to our long-term success. Failure to ensure effective transfer of knowledge and smooth transitions involving key employees and executive management could hinder our strategic planning and execution.

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

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

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

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

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

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

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

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

reputation and our ability to attract new customers. We maintain insurance programs with highly rated carriers using policies that are designed for businesses in the technology sector and that expressly address, among other things, cyber-attacks and potential harm resulting from incidents such as data privacy breaches; but depending on the type of damages, the amount, and the cause, all or part of any financial losses experienced may be excluded by the policies resulting in material financial losses for us.

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

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

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

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

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

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

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

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

Unanticipated costs and liabilities and unforeseen accounting charges or fluctuations;  
Delays and difficulties in delivery of services and products;



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

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

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

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

Our software and services contain features that allow our technology specialists and other personnel to access, control, monitor and collect information from computers and other devices. Federal, state and foreign government bodies and agencies, however, have adopted or are considering adopting laws and regulations restricting or otherwise regulating



the collection, use and disclosure of personal information obtained from consumers and individuals. Those regulations could require costly compliance measures, could reduce the efficiency of our operations, or could require us to modify or cease to provide our systems or services. Liability for violation of, costs of compliance with, and other burdens imposed by such laws and regulations may limit the use and adoption of our services and reduce overall demand for them. Even the perception of privacy concerns, whether or not valid, may harm our reputation and inhibit adoption of our solutions by current and future customers. In addition, we may face claims about invasion of privacy or inappropriate disclosure, use, storage, or loss of information obtained from our customers. Any imposition of liability could harm our reputation, cause us to lose customers and cause our operating results to suffer.

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

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

Our business operates in regulated industries.

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

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

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

We expect to support, among other programs, partners offering home security services and other devices and programs for us in the connected home. Because these services related to programs intended to help protect the lives and property, real and personal, of consumers, we may have greater exposure to liability and litigation risks than businesses that provide support for other consumer and small business products and services. Our ability to limit our liability for the acts or omissions of our employees in our contract terms with partners and consumers in relation to such programs may be substantially less than in other markets we serve, which is to say, we may have much greater inherent legal liability exposure in such programs than is customarily seen in programs for markets we have offered

historically. In the event of litigation with respect to such matters, it is possible that our risk-mitigation provisions in contracts may be deemed not applicable or unenforceable exposing us to substantial liability exposure, and, regardless of the ultimate outcome, we may incur significant costs of defense that could materially and adversely affect our business, financial condition, results of operations and cash flows.

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

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

We 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 or claims of intellectual property infringement, and we may receive more claims in the future. We may also be required to pursue litigation to protect our intellectual property rights or defend against allegations of infringement. Intellectual property litigation is expensive and time-consuming and could divert management's attention from our business. The outcome of any litigation is uncertain and could significantly impact our financial results. If there is a successful claim of infringement, we may be required to develop non-infringing technology or enter into royalty or license agreements, which may not be available on acceptable terms, if at all. Our failure to develop non-infringing technologies or license proprietary rights on a timely basis would harm our business.

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

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

Our long-term success depends, in part, on our ability to expand sales to customers located outside of the United States, and thus our business is susceptible to risks associated with international sales and operations.

We currently have sales personnel only within the United States but anticipate expanding our international operations. Our international expansion efforts may not be successful. In addition, conducting international operations subjects us to new risks that we have not generally faced in the United States. These risks include:

Localization of our services, including translation into foreign languages and adaptation for local practices and regulatory requirements;

Lack of familiarity with and unexpected changes in foreign regulatory requirements;

Longer accounts receivable payment cycles and difficulties in collecting accounts receivable;

Difficulties in managing and staffing international operations;

Fluctuations in currency exchange rates;

Potentially adverse tax consequences, including the complexities of foreign value added or other tax systems and restrictions on the repatriation of earnings;

Dependence on certain third parties, including channel partners with whom we do not have extensive experience;

The burdens of complying with a wide variety of foreign laws and legal standards;

Increased financial accounting and reporting burdens and complexities;

Political, social and economic instability abroad, terrorist attacks and security concerns in general; and

Reduced or varied protection for intellectual property rights in some countries.

Operating in international markets also requires significant management attention and financial resources. The investment and additional resources required to establish operations and manage growth in other countries may not produce desired levels of revenue or profitability.

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

Goodwill and identifiable intangible assets were recorded in part due to our acquisition of substantially all of the assets and liabilities of YourTechOnline.com in May 2008, our acquisition of substantially all of the assets of Xeriton Corporation in December 2009, our acquisition of certain assets and assumed liabilities of SUPERAntiSpyware in June 2011 and our acquisition of certain assets and assumed liabilities of RightHand IT Corporation in January 2012. We also have certain intangible assets with indefinite lives. We assess the impairment of goodwill and indefinite lived intangible assets annually or more often (as occurred during the first quarter of 2015) 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.

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ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 6. EXHIBITS

Exhibits.

31.1 Chief Executive Officer Section 302 Certification

31.2 Chief Financial Officer Section 302 Certification

32.1 Statement of the Chief Executive Officer under 18 U.S.C. § 1350(1)

32.2 Statement of the Chief Financial Officer under 18 U.S.C. § 1350(1)

The certifications filed as Exhibits 32.1 and 32.2 are not deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934 and are not to be incorporated by reference into any filing of the Company under the (1) Securities Exchange Act of 1933 or the Securities Exchange Act of 1934, whether made before or after the date hereof irrespective of any general incorporation by reference language contained in any such filing, except to the extent that the registrant specifically incorporates it by reference.



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SIGNATURE

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

May 5, 2015 SUPPORT.COM, INC.

By: /s/ ROOP K. LAKKARAJU  
Roop K. Lakkaraju  
Executive Vice President, Chief Financial Officer and  
Officer and Chief Operating Officer

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EXHIBIT INDEX TO SUPPORT.COM, INC.

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTER ENDED MARCH 31, 2015

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