

Support.com, Inc.
Form 10-Q
November 04, 2016

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 September 30, 2016
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, 2nd Floor
Redwood City, CA 94063
(Address of Principal Executive Offices)
(Zip Code)

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

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

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

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

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

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

On October 31, 2016, 55,527,592 shares of the Registrant’s Common Stock, \$0.0001 par value, were outstanding.

SUPPORT.COM, INC.
 FORM 10-Q
 QUARTERLY PERIOD ENDED SEPTEMBER 30, 2016
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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)

	September 30, 2016 (Unaudited)	December 31, 2015 (1)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 15,731	\$ 27,598
Short-term investments	38,766	38,136
Accounts receivable, net	10,195	10,019
Prepaid expenses and other current assets	1,352	1,474
Total current assets	66,044	77,227
Property and equipment, net	1,940	1,989
Intangible assets, net	493	1,294
Other assets	988	982
Total assets	\$ 69,465	\$ 81,492
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 617	\$ 267
Accrued compensation	2,405	2,768
Other accrued liabilities	2,601	4,135
Short-term deferred revenue	2,658	2,184
Total current liabilities	8,281	9,354
Long-term deferred revenue	72	102
Other long-term liabilities	415	690
Total liabilities	8,768	10,146
Commitments and contingencies (Note 4)		
Stockholders' equity:		
Common stock; par value \$0.0001, 150,000,000 shares authorized; 56,762,766 issued and 55,385,052 outstanding at September 30, 2016; 56,152,317 issued and 54,860,883 outstanding at December 31, 2015	6	5
Additional paid-in capital	267,144	265,324
Treasury stock, at cost (1,377,714 shares at September 30, 2016 and 1,291,434 shares at December 31, 2015)	(5,239)	(5,167)
Accumulated other comprehensive loss	(2,233)	(2,302)
Accumulated deficit	(198,981)	(186,514)
Total stockholders' equity	60,697	71,346
Total liabilities and stockholders' equity	\$ 69,465	\$ 81,492

(1) Derived from the December 31, 2015 audited Consolidated Financial Statements included in our Annual Report on Form 10-K, as filed with the Securities and Exchange Commission (“SEC”) on March 7, 2016.

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 September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenue:				
Services	\$ 14,163	\$ 16,563	\$43,055	\$57,733
Software and other	1,364	1,302	3,998	3,889
Total revenue	15,527	17,865	47,053	61,622
Cost of revenue:				
Cost of services	11,847	14,357	38,403	48,555
Cost of software and other	120	128	377	409
Total cost of revenue	11,967	14,485	38,780	48,964
Gross profit	3,560	3,380	8,273	12,658
Operating expenses:				
Research and development	1,336	1,790	4,464	5,244
Sales and marketing	1,463	2,195	5,401	6,492
General and administrative	2,703	3,047	10,186	9,183
Amortization of intangible assets and other	267	267	801	802
Goodwill impairment	—	—	—	14,240
Restructuring	—	—	423	—
Total operating expenses	5,769	7,299	21,275	35,961
Loss from operations	(2,209)	(3,919)	(13,002)	(23,303)
Interest income and other, net	124	113	383	319
Loss from continuing operations, before income taxes	(2,085)	(3,806)	(12,619)	(22,984)
Income tax provision (benefit)	44	60	132	(1,041)
Loss from continuing operations, after income taxes	(2,129)	(3,866)	(12,751)	(21,943)
Income (loss) from discontinued operations, after income taxes	—	(5)	284	32
Net loss	\$ (2,129)	\$ (3,871)	\$ (12,467)	\$ (21,911)
Basic and diluted loss per share:				
Loss from continuing operations	\$ (0.04)	\$ (0.07)	\$ (0.23)	\$ (0.40)
Income (loss) from discontinued operations	(0.00)	(0.00)	0.00	(0.00)
Basic and diluted loss per share	\$ (0.04)	\$ (0.07)	\$ (0.23)	\$ (0.40)
Shares used in computing basic net loss per share	55,337	54,637	55,116	54,465
Shares used in computing diluted net loss per share	55,337	54,637	55,116	54,465

See accompanying notes.

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SUPPORT.COM, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(in thousands)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net loss	\$ (2,129)	\$ (3,871)	\$ (12,467)	\$ (21,911)
Other comprehensive income (loss):				
Change in foreign currency translation adjustment	25	(130)	(13)	(168)
Change in net unrealized gain (loss) on investments	(40)	20	82	44
Other comprehensive gain (loss)	(15)	(110)	69	(124)
Comprehensive loss	\$ (2,144)	\$ (3,981)	\$ (12,398)	\$ (22,035)

See accompanying notes.

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SUPPORT.COM, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2016	2015
Operating Activities:		
Net loss	\$(12,467)	\$(21,911)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	530	250
Goodwill impairment	—	14,240
Amortization of premiums and accretion of discounts on investments	244	366
Amortization of intangible assets and other	801	802
Stock-based compensation	1,776	2,229
Changes in assets and liabilities:		
Accounts receivable, net	(176)	3,419
Prepaid expenses and other current assets	122	(284)
Other long-term assets	(5)	92
Accounts payable	350	(1,056)
Accrued compensation	(363)	(815)
Other accrued liabilities	(1,534)	993
Other long-term liabilities	(324)	(1,377)
Deferred revenue	444	(551)
Net cash used in operating activities	(10,602)	(3,603)
Investing Activities:		
Purchases of property and equipment	(481)	(1,270)
Purchases of investments	(22,901)	(31,668)
Maturities of investments	22,109	39,965
Net cash provided by (used in) investing activities	(1,273)	7,027
Financing Activities:		
Proceeds from employee stock purchase plan	45	87
Repurchase of common stock	(72)	(100)
Net cash used in financing activities	(27)	(13)
Effect of exchange rate changes on cash and cash equivalents	35	(178)
Net increase (decrease) in cash and cash equivalents	(11,867)	3,233
Cash and cash equivalents at beginning of period	27,598	23,354
Cash and cash equivalents at end of period	\$15,731	\$26,587
Supplemental schedule of cash flow information:		
Income taxes paid	\$132	\$149

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” or “Support.com”, “We” or “Our”) and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated. The condensed consolidated balance sheet as of September 30, 2016 and the condensed consolidated statements of operations and comprehensive loss for the three and nine months ended September 30, 2016 and 2015 and the condensed consolidated statements of cash flows for the nine months ended September 30, 2016 and 2015 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, 2015 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, 2015, filed with the SEC on March 7, 2016.

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, assumptions used to estimate self-insurance accruals, 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.

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.

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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 and nine month periods ended September 30, 2016 and September 30, 2015, services breakage revenue accounted for less than 1% of our total revenue.

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 Support.com cloud-based software. In such arrangements, customers receive a right to use our Support.com cloud applications in their own technology support organizations. We license our cloud based software 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 our cloud based software. Currently, revenues from implementation services are recognized ratably over the customer life which is estimated as the term of the arrangement once the Support.com Cloud services are made available to customers. We generally charge for these services on a time and material basis.

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.

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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 September 30, 2016, 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 September 30, 2016 and December 31, 2015, the fair value of cash, cash equivalents and investments was \$54.5 million and \$65.7 million, respectively.

The following is a summary of cash, cash equivalents and investments at September 30, 2016 and December 31, 2015 (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
As of September 30, 2016				
Cash	\$ 6,737	\$ —	\$ —	\$ 6,737
Money market funds	8,994	—	—	8,994
Certificates of deposit	1,780	1	—	1,781
Commercial paper	5,976	—	—	5,976
Corporate notes and bonds	21,061	7	(24)	21,044
U.S. government agency securities	9,958	7	—	9,965

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\$ 54,506 \$ 15 \$ (24) \$ 54,497

Classified as:

Cash and cash equivalents	\$ 15,731	\$ —	\$ —	\$ 15,731
Short-term investments	38,775	15	(24)	38,766
	\$ 54,506	\$ 15	\$ (24)	\$ 54,497

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	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
As of December 31, 2015				
Cash	\$ 8,486	\$ —	\$ —	\$ 8,486
Money market funds	19,112	—	—	19,112
Certificates of deposit	2,980	—	(1)	2,979
Commercial paper	996	—	—	996
Corporate notes and bonds	31,255	—	(83)	31,172
U.S. government agency securities	2,996	—	(7)	2,989
	\$ 65,825	\$ —	\$ (91)	\$ 65,734

Classified as:

Cash and cash equivalents	\$ 27,598	\$ —	\$ —	\$ 27,598
Short-term investments	38,227	—	(91)	38,136
	\$ 65,825	\$ —	\$ (91)	\$ 65,734

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):

	September 30, 2016	December 31, 2015
Due within one year	\$ 27,713	\$ 23,588
Due within two years	11,053	14,548
	\$ 38,766	\$ 38,136

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 under ASC 820 must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value, which are the following:

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

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

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

In accordance with ASC 820, the following table represents our fair value hierarchy for our financial assets (cash equivalents and investments) measured at fair value on a recurring basis as of September 30, 2016 and December 31,

2015 (in thousands):

As of September 30, 2016	Level 1	Level 2	Level 3	Total
Money market funds	\$ 8,994	\$—	\$	—\$8,994
Certificates of deposit	—	1,781	—	1,781
Commercial paper	—	5,976	—	5,976
Corporate notes and bonds	—	21,044	—	21,044
U.S. government agency securities	—	9,965	—	9,965
Total	\$ 8,994	\$38,766	\$	—\$47,760

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As of December 31, 2015	Level 1	Level 2	Level 3	Total
Money market funds	\$19,112	\$—	\$—	\$19,112
Certificates of deposit	—	2,979	—	2,979
Commercial paper	—	996	—	996
Corporate notes and bonds	—	31,172	—	31,172
U.S. government agency securities	—	2,989	—	2,989
Total	\$19,112	\$38,136	\$—	\$57,248

For short-term investments, measured at fair value using Level 2 inputs, we review trading activity and pricing for these investments as of the measurement date. When sufficient quoted pricing for identical securities is not available, we use market pricing and other observable market inputs for similar securities obtained from various third party data providers. These inputs either represent quoted prices for similar assets in active markets or have been derived from observable market data. Our policy is 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 condition at the time we enter into business and reasonably short payment terms.

For the three months ended September 30, 2016, Comcast and Office Depot accounted for 60% and 15%, respectively, of our total revenue. For the three months ended September 30, 2015, Comcast and Office Depot accounted for 67% and 17%, respectively, of our total revenue. For the nine months ended September 30, 2016, Comcast and Office Depot accounted for 59% and 16%, respectively, of our total revenue. For the nine months ended September 30, 2015, Comcast and Office Depot accounted for 68% and 15%, respectively, of our total revenue. There were no other customers that accounted for 10% or more of total revenue for the three and nine months ended September 30, 2016 and 2015.

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 September 30, 2016, Comcast and Office Depot accounted for 72% and 9%, respectively, of our total accounts receivable. As of December 31, 2015, Comcast and Office Depot accounted for 73% and 13%, respectively, of our total accounts receivable. There were no other customers that accounted for 10% or more of our total accounts receivable as of September 30, 2016 and December 31, 2015.

Trade Accounts Receivable and Allowance for Doubtful Accounts

Trade accounts receivable are recorded at the invoiced amount. We perform evaluations of our customers' financial conditions 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 September 30, 2016 and December 31, 2015, we had an allowance for doubtful accounts of approximately \$8,000 and \$6,000, respectively.

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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, 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 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.

For the quarter ended June 30, 2015, based on various quantitative and qualitative factors which included, among others, the continuing decline in the Company’s market capitalization, the Company determined that sufficient indicators existed warranting a review to determine if the fair value of its single reporting unit had been reduced to below its carrying value. As a result, the Company performed goodwill impairment testing using the required two-step process.

The Company determined the fair value of its single reporting unit by using a weighted combination of income-based approach and market-based approach, as this combination was deemed the most indicative of the Company’s fair value in an orderly transaction between market participants. Under the income-based approach, the Company used a discounted cash flow methodology which recognizes that current value is premised on the expected receipt of future economic benefits. Indications of value are developed by discounting projected future net cash flows to their present value at a rate that reflects both the current return requirements of the market and the risks inherent in the specific investment. The discounted cash flow methodology requires significant judgment by management in selecting an appropriate discount rate, terminal growth rate, weighted average cost of capital, and projection of future net cash flows, which are inherently uncertain. The inputs and assumptions used in this test are classified as Level 3 inputs within the fair value hierarchy. Due to these significant judgments, the fair value of the Company’s single reporting unit determined in connection with the goodwill impairment test may not necessarily be indicative of the actual value that would be recognized in a future transaction. Under the market-based approach, the Company considered its market capitalization and estimated control premium which was based on a review of comparative market transactions.

The result of the Company’s step one test indicated that the carrying value of the Company’s single reporting unit exceeded its estimated fair value. Accordingly, the Company performed the second step test and concluded that its goodwill was fully impaired and thus recorded a non-cash impairment charge of \$14.2 million for the quarter ended June 30, 2015. The goodwill impairment charge was reported as a separate line item in the consolidated statements of operations. The tax benefit associated with the goodwill impairment charge was \$1.3 million for the three months ended June 30, 2015. The goodwill impairment charge and the associated tax benefit are non-cash in nature and do not affect the Company’s current or future liquidity.

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 September 30, 2016, the Company had approximately \$1.0 million in reserve for its self-funded health insurance program. As of December 31, 2015, the Company had approximately \$953,000 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):

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	Foreign Currency Translation Losses	Unrealized Losses on Investments	Total
Balance as of December 31, 2015	\$ (2,211)	\$ (91)	\$(2,302)
Current-period other comprehensive income (loss)	(13)	82	69
Balance as of September 30, 2016	\$ (2,224)	\$ (9)	\$(2,233)

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 and nine months ended September 30, 2016 and 2015:

	Three Months Ended September 30, 2016		2015		Nine Months Ended September 30, 2016		2015	
Stock Option Plan:								
Risk-free interest rate	0.99	%	1.33	%	0.92	%	1.25	%
Expected term	3.90 years		3.77 years		3.89 years		3.75 years	
Volatility	48.89	%	51.42	%	48.34	%	54.65	%
Expected dividend	0	%	0	%	0	%	0	%
Weighted average fair value (per share)	\$ 0.33		\$ 0.51		\$ 0.32		\$ 0.71	

	Three Months Ended September 30, 2016		2015		Nine Months Ended September 30, 2016		2015	
Employee Stock Purchase Plan:								
Risk-free interest rate	0.38	%	0.09	%	0.38	%	0.09	%
Expected term	0.5 years		0.5 years		0.5 years		0.5 years	
Volatility	48.86	%	39.25	%	48.86	%	39.25	%
Expected dividend	0	%	0	%	0	%	0	%
Weighted average fair value (per share)	\$ 0.28		\$ 0.38		\$ 0.28		\$ 0.38	

We recorded the following stock-based compensation expense for the three and nine months ended September 30, 2016 and 2015 (in thousands):

Three Months Ended September 30,		Nine Months Ended September 30,	
2016	2015	2016	2015

Stock-based compensation expense related to grants of:

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Stock options	\$ 266	\$ 242	\$ 679	\$ 747
Employee Stock Purchase Plan (“ESPP”)	10	14	32	52
Restricted Stock Units (“RSU”)	385	479	1,065	1,430
	\$ 661	\$ 735	\$ 1,776	\$ 2,229
Stock-based compensation expense recognized in:				
Cost of services	\$ 43	\$ 62	\$ 134	\$ 187
Cost of software and other	1	2	4	8
Research and development	156	156	346	442
Sales and marketing	79	110	121	276
General and administrative	382	405	1,171	1,316
	\$ 661	\$ 735	\$ 1,776	\$ 2,229

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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.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net loss	\$(2,129)	\$(3,871)	\$(12,467)	\$(21,911)
Basic:				
Weighted-average shares of common stock outstanding	55,337	54,637	55,116	54,465
Shares used in computing basic loss per share	55,337	54,637	55,116	54,465
Basic loss per share	\$(0.04)	\$(0.07)	\$(0.23)	\$(0.40)
Diluted:				
Weighted-average shares of common stock outstanding	55,337	54,637	55,116	54,465
Add: Common equivalent shares outstanding	—	—	—	—
Shares used in computing diluted loss per share	55,337	54,637	55,116	54,465
Diluted loss per share	\$(0.04)	\$(0.07)	\$(0.23)	\$(0.40)

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):

	As of September 30,	
	2016	2015
Stock options	4,475	3,733
RSUs	1,375	1,788
Warrants	324	490
Total common share equivalents	6,174	6,011

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.

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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 September 30, 2016, we have not been required to make any payment resulting from infringement claims asserted against our customers and have not recorded any related accruals.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“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.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which provides guidance for accounting for leases. Under ASU 2016-02, the Company will be required to recognize the assets and liabilities for the rights and obligations created by leased assets. ASU 2016-02 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. We are currently evaluating the impact of the adoption of ASU 2016-02 on our consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting which includes multiple provisions intended to simplify various aspects of the accounting for share-based payments. Excess tax benefits for share-based payments will be recorded as a reduction of income taxes and reflected in operating cash flows upon the adoption of this ASU. Excess tax benefits are currently recorded in equity and as financing activity under the current rules. ASU 2016-09 is effective for annual and interim reporting periods beginning after December 15, 2016. We are currently evaluating the impact of the adoption of ASU 2016-02 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 first tranche, consisting of warrants to purchase 166,000 shares, expired on September 30, 2016. The right to receive the final tranche expired on March 31, 2014 due to the termination of the Customer Agreement on such date.

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Note 3. Income Taxes

We recorded an income tax provision of \$44,000 and \$132,000 for the three and nine months ended September 30, 2016, respectively, and an income tax provision of \$60,000 and income tax benefit of \$1.0 million for the three and nine months ended September 30, 2015, respectively. The income tax provision (benefit) is comprised of estimates of current taxes due in domestic and foreign jurisdictions. The income tax provision (benefit) for continuing operations reflects tax expense associated with state income tax accrual, foreign income tax accrual, and interest accrued on ASC 740-10 reserves.

During Q1 2016, ASC 740-10 reserves and related interest were released in the amount of \$284,000 due to the expiration of statutes which resulted in a tax benefit to discontinued operations.

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. During the quarter ended June 30, 2015, the Company recorded a tax benefit of \$1.3 million associated with a non-cash goodwill impairment charge as described in Note 1 in the accompanying condensed consolidated financial statements.

As of September 30, 2016, 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 September 30, 2016.

Note 4. Commitments and Contingencies

Legal contingencies

On October 11, 2016 the Wage and Hour Division of the U.S. Department of Labor notified the Company that it would be conducting an audit of the Company. The audit commenced on October 20, 2016 and is ongoing.

From time to time, we are subject to 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. No costs were incurred during the three and nine months ended September 30, 2016 and 2015. We have not accrued any liabilities related to such obligations in the condensed consolidated financial statements as of September 30, 2016 and December 31, 2015.

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Note 5. Intangible Assets

Amortization expense and other related to intangible assets for the three and nine months ended September 30, 2016 was \$267,000 and \$801,000, respectively. Amortization expense and other related to intangible assets for the three and nine months ended September 30, 2015 was \$267,000 and \$802,000, 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
As of September 30, 2016							
Gross carrying value	\$ 593	\$ 145	\$ 641	\$ 5,330	\$ 760	\$ 250	\$7,719
Accumulated amortization	(575)	(145)	(614)	(5,144)	(748)	—	(7,226)
Net carrying value	\$ 18	\$ —	\$ 27	\$ 186	\$ 12	\$ 250	\$493
As of December 31, 2015							
Gross carrying value	\$ 593	\$ 145	\$ 641	\$ 5,330	\$ 760	\$ 250	\$7,719
Accumulated amortization	(555)	(145)	(545)	(4,474)	(706)	—	(6,425)
Net carrying value	\$ 38	\$ —	\$ 96	\$ 856	\$ 54	\$ 250	\$1,294

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 September 30, 2016 is as follows (in thousands):

<u>Fiscal Year</u>	Amount
2016 (October-December)	\$ 227
2017	16
Total	\$ 243

Weighted average remaining useful life 0.26 years

Note 6. Other Accrued Liabilities

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

	As of September 30, 2016	As of December 31, 2015
Accrued expenses	\$ 836	\$ 2,490
Self-insurance accruals	1,023	953
Customer deposits	541	570
Restructuring obligations	31	-
Other accrued liabilities	170	122
Total other accrued liabilities	\$ 2,601	\$ 4,135

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Note 7. Stockholder's Equity

Stock Options

The following table represents the stock option activity for the nine months ended September 30, 2016:

	Number of Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (in thousands)
Outstanding options at December 31, 2015	3,669,469	\$ 2.74	6.66	\$ -
Granted	1,962,093	\$ 0.84		
Exercised	(555)	\$ 0.84		
Forfeited	(1,155,747)	\$ 2.56		
Outstanding options at September 30, 2016	4,475,260	\$ 1.95	7.36	\$ 23
Options vested and expected to vest	4,278,402	\$ 1.99	7.28	\$ 21
Exercisable at September 30, 2016	2,031,446	\$ 2.72	5.34	\$ 3

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 September 30, 2016. This amount changes based on the fair market value of our stock. The aggregate intrinsic value of options exercised under our stock option plans was zero during the three and nine months ended September 30, 2016, and zero during the three and nine months ended September 30, 2015. Total fair value of options vested was \$270,000 and \$689,000 during the three and nine months ended September 30, 2016, respectively, and \$263,000 and \$523,000 during the three and nine months ended September 30, 2015, respectively.

At September 30, 2016, there was \$971,000 of unrecognized compensation cost related to existing stock options outstanding which is expected to be recognized over a weighted average period of 2.38 years.

On June 15, 2016, pursuant to approval by the Company's Compensation Committee, the Company issued approximately 992,000 time-based stock options to its corporate employees. These time-based stock options vest monthly over three years.

Employee Stock Purchase Plan

In the second quarter of 2011, to advance the interests of the Company and its stockholders by providing an incentive to attract, retain and reward eligible employees and by motivating such persons to contribute to the growth and profitability of the Company, the Company's Board of Directors and stockholders approved 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 nine months ended September 30, 2016, 63,311 shares were purchased under ESPP.

Restricted Stock Units

The following table represents RSU activity for the nine months ended September 30, 2016:

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	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, 2015	1,697,897	\$ 2.25	1.41	\$ 1,715
Awarded	610,349			