Support.com, Inc.
Form 10-Q
November 07, 2018

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, 2018

OR

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

For the transition period from to

Commission File No. 000-30901

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

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

1200 Crossman Avenue, Suite 210-240
Sunnyvale, CA, 94089
(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 definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

Emerging growth company

If an emerging growth company, indicate by check mark if the Registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 October 31, 2018, 18,913,333 shares of the Registrant's Common Stock, $0.0001 par value, were outstanding.

SUPPORT.COM, INC.
FORM 10-Q
QUARTERLY PERIOD ENDED September 30, 2018

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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, 2018	December 31, 2017
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$16,112	$18,050
Short-term investments	31,806	31,183
Accounts receivable, net	12,539	11,951
Prepaid expenses and other current assets	980	802
Total current assets	61,437	61,986
Property and equipment, net	846	1,133
Intangible assets, net	250	250
Other assets	725	984
Total assets	$63,258	$64,353
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$408	$504
Accrued compensation	2,446	3,157
Other accrued liabilities	1,212	1,330
Accrued legal settlement	10,000	-
Short-term deferred revenue	1,244	2,006
Total current liabilities	15,310	6,997
Long-term deferred revenue	-	13
Other long-term liabilities	725	885
Total liabilities	16,035	7,895
Commitments and contingencies (Note 3)		

Stockholders' equity:		
Common stock; par value $0.0001, 50,000,000 shares authorized; 19,396,247 issued and 18,913,333 outstanding at September 30, 2018; 19,211,826 issued and 18,728,912 outstanding at December 31, 2017	2	2
Additional paid-in capital	268,600	267,857
Treasury stock, at cost (482,914 shares at September 30, 2018 and December 31, 2017)	(5,297)	(5,297)
Accumulated other comprehensive loss	(2,568)	(2,108)
Accumulated deficit	(213,514)	(203,996)
Total stockholders' equity	47,223	56,458
Total liabilities and stockholders' equity	$63,258	$64,353

See accompanying notes.

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,	
	2018	2017	2018	2017
Revenue:				
Services	$16,759	$13,682	$48,179	$39,744
Software and other	1,258	1,350	3,828	4,085
Total revenue	18,017	15,032	52,007	43,829
Cost of revenue:				
Cost of services	14,412	11,559	42,985	33,760
Cost of software and other	51	66	152	252
Total cost of revenue	14,463	11,625	43,137	34,012
Gross profit	3,554	3,407	8,870	9,817
Operating expenses:				
Research and development	690	631	2,082	2,429
Sales and marketing	424	621	1,383	2,011
General and administrative	1,800	1,996	5,623	6,847
Legal settlement	10,000	-	10,000	-
Amortization of intangible assets and other	-	-	-	16
Restructuring	-	128	-	128
Total operating expenses	12,914	3,376	19,088	11,431
Income (loss) from operations	(9,360)	31	(10,218)	(1,614)
Interest income and other, net	241	164	676	451
Income (loss) before income taxes	(9,119)	195	(9,542)	(1,163)
Income tax provision (benefit)	29	(36)	(24)	57
Net income (loss)	$(9,148)	$231	$(9,518)	$(1,220)
Basic and diluted earnings (loss) per share				

Basic	$(0.49)	$0.01	$(0.51)	$(0.07)
Diluted	$(0.49)	$0.01	$(0.51)	$(0.07)
Shares used in computing per share amounts				
Basic	18,805	18,692	18,786	18,613
Diluted	18,805	18,714	18,786	18,613

See accompanying notes.

SUPPORT.COM, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(in thousands)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income (loss)	$(9,148)	$231	(9,518)	$(1,220)
Other comprehensive income:				
Change in foreign currency translation adjustment	(194)	9	(473)	175
Change in net unrealized gain on investments	32	12	13	18
Other comprehensive income (loss)	(162)	21	(460)	193
Comprehensive income (loss)	$(9,310)	$252	$(9,978)	$(1,027)

See accompanying notes.

SUPPORT.COM, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2018	2017
Operating Activities:		
Net loss	$(9,518)	$(1,220)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	478	479
Amortization of premiums and discounts on investments	129	65
Amortization of intangible assets and other	-	16
Stock-based compensation	586	295
Changes in assets and liabilities:		
Accounts receivable, net	(588)	(2,188)
Prepaid expenses and other current assets	(191)	572
Other long-term assets	180	123
Accounts payable	(95)	(292)
Accrued compensation	(721)	(632)
Accrued legal settlement	10,000	-
Other accrued liabilities	(122)	(585)
Other long-term liabilities	(160)	(48)
Deferred revenue	(775)	(664)
Net cash used in operating activities	(797)	(4,079)
Investing Activities:		
Purchases of property and equipment	(191)	(32)
Purchases of investments	(22,893)	(14,939)
Maturities of investments	22,154	23,273
Net cash (used in) provided by investing activities	(930)	8,302
Financing Activities:		
Proceeds from employee stock purchase plan	35	27
Proceeds from exercise of stock options	121	-
Repurchase of common stock	-	(2)
Net cash provided by financing activities	156	25
Effect of exchange rate changes on cash and cash equivalents	(367)	116
Net (decrease) increase in cash and cash equivalents	(1,938)	4,364
Cash and cash equivalents at beginning of period	18,050	16,890
Cash and cash equivalents at end of period	$16,112	$21,254

Supplemental schedule of cash flow information:	62	
Income taxes paid	$89	$85

See accompanying notes.

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 September 30, 2018 and the consolidated statements of operations and comprehensive loss for the three and nine months ended September 30, 2018 and 2017 and the consolidated statements of cash flows for the nine months ended September 30, 2018 and 2017 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, 2017 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, 2017, filed with the SEC on March 22, 2018.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 and litigation accruals, the valuation 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

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

Disaggregation of Revenue

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

Revenue from Contracts with Customers:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Services	$16,759	$13,682	$48,179	$39,744
Software and other	1,258	1,350	3,828	4,085
Total revenue	$18,017	$15,032	$52,007	$43,829

We do not believe that further disaggregation of revenue is necessary as it would not depict information concerning the nature, amount, timing and uncertainties of revenue and cash flows that are affected by economic factors nor the financial performance evaluations performed by our chief operating decision maker.

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. All of our revenues are from contracts with our customers. Our customers may generally cancel our contract, without cause, upon written notice (typically ninety days). Our service contracts do have defined terms, however due to the facts stated above, our service contracts are recognized on a month-to-month basis. When the service is provided to customers, our performance obligation is typically satisfied.

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 referrals we bear substantially all risks associated with the transaction and 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 three 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 when control transfers to our partners.

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. Management has determined control transfers ratably over the contract period.

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

In certain cases, we are paid for services that are sold but not yet delivered. We initially record such balances as a contract liability included in 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 months ended September 30, 2018 and 2017, services breakage revenue was less than 1% of our total revenue. During the three and nine month periods ended September 30, 2018, the revenue that the Company recognized that was included in deferred revenue at December 31, 2017 was $0.3 million and $1.9 million, respectively.

Partners are generally invoiced monthly and payments are typically due within 30 to 45 days. 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 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 or usage basis during the term of the arrangement. In addition, services revenue includes fees from implementation services of our cloud-based software. Currently, revenues from implementation services are recognized ratably over the customer life which is estimated as the term of the arrangement once the Support.com Cloud services are made available to customers. We generally charge for these services on a time and material basis. As of September 30, 2018, revenues from implementation services are di minimus.

Software and Other Revenue

Software and other revenue is comprised primarily of fees for end-user software products provided through direct customer downloads and through the sale of these end-user software products via partners. Our software is sold to customers as a perpetual license or as a fixed period subscription. We offer when-and-if-available software upgrades to our end-user products. Management has determined that these upgrades are not distinct, as the upgrades are an input into a combined output. In addition, Management has determined that the frequency and timing of the when-and-if-available upgrades are unpredictable and therefore we recognize revenue consistent with the sale of the perpetual license or subscription. We generally control fulfillment, pricing, product requirements, and collection risk and therefore we record the gross amount of revenue. We provide a 30-day money back guarantee for the majority of our end-user software products.

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

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

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

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 in debt securities are classified as short-term investments, 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 short-term investments 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, 2018, 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, 2018 and December 31, 2017, the fair value of cash, cash equivalents and investments was $47.9 million and $49.2 million, respectively.

The following is a summary of cash, cash equivalents and investments at September 30, 2018 and December 31, 2017 (in thousands):

As of September 30, 2018	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Cash	$6,933	$—	$—	$6,933
Money market funds	5,683	—	—	5,683
Certificates of deposit	1,196	—	(2)	1,194
Commercial paper	7,168	—	(3)	7,165
Corporate notes and bonds	18,541	—	(63)	18,478
U.S. government agency securities	8,468	—	(3)	8,465
	$47,989	$—	$(71)	$47,918
Classified as:				
Cash and cash equivalents	$16,113	$—	$(1)	$16,112
Short-term investments	31,876	—	(70)	31,806
	$47,989	$—	$(71)	$47,918

As of December 31, 2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Cash	$7,408	$—	$—	$7,408
Money market funds	10,643	—	(1)	10,642
Certificates of deposit	1,207	—	(1)	1,206
Commercial paper	2,494	—	(1)	2,493
Corporate notes and bonds	22,846	—	(77)	22,769
U.S. government agency securities	4,719	—	(4)	4,715
	$49,317	$—	$(84)	$49,233
Classified as:				
Cash and cash equivalents	$18,051	$—	$(1)	$18,050
Short-term investments	31,266	—	(83)	31,183
	$49,317	$—	$(84)	$49,233

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

	September 30, 2018	December 31, 2017
Due within one year	$29,299	$22,228
Due within two years	2,507	8,955
	$31,806	$31,183

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Fair Value Measurements

Accounting Standards 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 according to 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, 2018 and December 31, 2017 (in thousands):

As of September 30, 2018	Level 1	Level 2	Level 3	Total
Money market funds	$5,683	$—	$—	$5.683
Certificates of deposit	—	1,194	—	1,194
Commercial paper	—	7,165	—	7,165
Corporate notes and bonds	—	18,478	—	18,478
U.S. government agency securities	—	8,465	—	8,465
Total	$5,683	$35,302	$—	$40,985

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

For short-term investments, measured at fair value using Level 2 inputs, we review trading activity and pricing for these investments as of the measurement date. When sufficient quoted pricing for identical securities is not available,

we use market pricing and other observable market inputs for similar securities obtained from various third party data providers. These inputs either represent quoted prices for similar assets in active markets or have been derived from observable market data. Our policy is 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 September 30, 2018, Comcast and Cox Communications accounted for 70% and 16%, respectively, of our total revenue. For the three months ended September 30, 2017, Comcast accounted for 62%, of our total revenue. For the nine months ended September 30, 2018, Comcast and Cox Communications accounted for 70% and 14%, respectively, of our total revenue. For the nine months ended September 30, 2017, Comcast accounted for 64% 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, 2018 and 2017.

As of September 30, 2018, Comcast and Cox Communications accounted for 73% and 17%, respectively, of our total accounts receivable. As of December 31, 2017, Comcast and Cox Communications accounted for 71% and 12% of our total accounts receivable, respectively. There were no other customers that accounted for 10% or more of our total accounts receivable as of September 30, 2018 and December 31, 2017.

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. We had an allowance for doubtful accounts of $18,000 and $9,000 at September 30, 2018 and December 31, 2017, respectively.

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, 2018, the Company had approximately $633,000 in reserve for its self-funded health insurance program. As of December 31, 2017, the Company had approximately $679,000 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):

	Foreign Currency Translation Losses	Unrealized Losses on Investments	Total

Balance as of December 31, 2017	$(2,024)	$(84)	$(2,108)
Current-period other comprehensive gain (loss)	(473)	13	(460)
Balance as of September 30, 2018	$(2,497)	$(71)	$(2,568)

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 condensed consolidated statements of comprehensive loss are shown before taking into account the related income tax impact. The income tax effect allocated to each component of other comprehensive 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 and nine months ended September 30, 2018 and 2017. There were stock option grants during the three months ended September 30, 2018.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Stock Option Plan:				
Risk-free interest rate	2.9%	—	2.4%	1.43%
Expected term	3.2 years	—	3.0 years	3.58 years
Volatility	39.5%	—	41.2%	46.21%
Expected dividend	—%	—	—%	0%
Weighted average fair value (per share)	$0.88	—	$0.84	$0.96

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Employee Stock Purchase Plan:				
Risk-free interest rate	2.09%	1.02%	2.09%	1.02%
Expected term	0.5 years	0.5 years	0.5 years	0.5 years
Volatility	32.55%	33.66%	32.55%	33.66%
Expected dividend	0%	0%	0%	0%
Weighted average fair value (per share)	$0.72	$0.59	$0.72	$0.59

We recorded the following stock-based compensation expense for the three and nine months ended September 30, 2018 and 2017 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Stock-based compensation expense related to grants of:				
Stock options	$38	$27	$358	$86
Employee Stock Purchase Plan (“ESPP”)	-	5	11	16
Restricted Stock Units (“RSU”)	64	(4)	217	193
	$102	$28	$586	$295
Stock-based compensation expense recognized in:				
Cost of services	$11	$19	$49	$83
Cost of software and other	—	—	—	3
Research and development	9	(18)	33	62
Sales and marketing	14	12	40	34
General and administrative	68	15	464	113
	$102	$28	$586	$295

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.

For the three months ended September 30, 2018 and September 30, 2017 and nine months ended September 30, 2018, diluted earnings per share was computed using our net income 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. For the nine months ended September 30, 2017, we were in a loss position, therefore all shares were anti-dilutive.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income (loss)	$(9,148)	$231	$(9,518)	$(1,220)
Basic:				
Weighted-average shares of common stock outstanding	18,805	18,692	18,786	18,613
Shares used in computing basic income (loss) per share	18,805	18,692	18,786	18,613
Basic earnings (loss) per share	(0.49)	0.01	(0.51)	(0.07)
Diluted:				
Weighted-average shares of common stock outstanding	18,805	18,692	18,786	18,613
Add: Common equivalent shares outstanding	-	22	-	-
Shares used in computing diluted earnings (loss) per share	18,805	18,714	18,786	18,613
Diluted earnings (loss) per share	$(0.49)	$0.01	$(0.51)	$(0.07)

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

As of September 30,	
2018	2017

Stock options	872	417
RSUs	96	-
	968	417

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 September 30, 2018, 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

Accounting Standards Adopted in the Current Period

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

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

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

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

New Accounting Standards to be adopted in Future Periods

Restricted cash
In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash ("ASU 2016-18"), which enhances and clarifies the guidance on the classification and presentation of restricted cash in the statement of cash flows. The Company will adopt ASU 2016-18 in its first quarter of 2019 utilizing the retrospective transition method. Currently, the Company's restricted cash balance is not significant.

Lease Accounting
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. In July 2018, the FASB issued ASU No. 2018-11 to amend the transition method of adoption for the new leases standard. We are currently evaluating the impact of the adoption of ASU

2016-02 on our consolidated financial statements. While we have not yet quantified the impact, we anticipate that adoption of ASU 2016-02 will have an impact to the financial statement presentation of right of use assets, lease liabilities, amortization expense, and lease expense.

Comprehensive Income

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

Note 2. Income Taxes

We recorded an income tax provision (benefit) of $27,000 and ($25,000) for the three and nine months ended September 30, 2018, respectively. The income tax provision for interim periods is determined using an estimate of the annual effective tax rate, adjusted for discrete items, if any, that are taken into account in the relevant period. Each quarter, the estimate of the annual effective tax rate is updated, and if the estimated effective tax rate changes, a cumulative adjustment is made. There is a potential for volatility of the effective tax rate due to several factors, including changes in the mix of the pre-tax income and the jurisdictions to which it relates, changes in tax laws and settlements with taxing authorities and foreign currency fluctuations.

As of September 30, 2018, 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 as of September 30, 2018.

Note 3. Commitments and Contingencies

Legal contingencies

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

On March 9, 2018, the FTC notified the Company that the FTC was willing to engage in settlement discussions. On November 6, 2018, the Company and the FTC entered into a proposed Stipulation to Entry of Order for Permanent Injunction and Monetary Judgment, or the Consent Order. The Consent Order is to be lodged with the U.S. District

Court for the Southern District of Florida. Upon final entry by the Court, the Consent Order resolves the FTC's multi-year investigation of the Company.

Pursuant to the Consent Order, under which the Company neither admitted nor denied the FTC's allegations (except as to the Court having jurisdiction over the matter), the FTC has agreed to accept a payment of $10 million in settlement of the $35 million judgement, subject to the factual accuracy of the information the Company has provided as part of our financial representations. The $10 million payment is made within seven (7) days of the entry of the Consent Order in the Southern District of Florida and is recognized in operating expenses within the Company's consolidated statements of operations for the three and nine months ended September 30, 2018.

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

Other Matters. On January 17, 2017 the Consumer Protection Division of the Office of Attorney General, State of Washington ("Washington AG"), issued a Civil Investigative Demand to the Company requiring the Company to produce certain documents and materials and to answer certain interrogatories relating to PC Healthcheck. The Washington AG has not alleged a factual basis underlying the issuance of the Civil Investigative Demand. On May 30, 2017, the Consumer Protection Division of the Office of Attorney General, State of Texas ("Texas AG"), issued a Civil Investigative Demand to the Company requiring the Company to produce certain documents and materials and to answer certain interrogatories relating to PC Healthcheck. The Texas AG has not alleged a factual basis underlying the issuance of the Civil Investigative Demand. The Company is in the process of responding to these Civil Investigative Demands and cooperating with the FTC, Washington AG and Texas AG with respect to these matters.

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

Lease Commitments

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

Total facility rent expense pursuant to all operating lease agreements was $114,000 and $290,000 for the three and nine months ended September 30, 2018.

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 and nine months ended September 30, 2018, 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 September 30, 2018 and December 31, 2017.

Note 4. Intangible Assets

The Company amortizes intangible assets, which consist of purchased technologies that have estimated useful lives ranging from 1 to 6 years, using the straight-line method when the consumption pattern of the asset is not apparent. The Company reviews such assets for impairment whenever an impairment indicator exists and continually monitors events and changes in circumstances that could indicate carrying amounts of the intangible assets may not be recoverable. When such events or changes in circumstances occur, the Company assesses recoverability by determining whether the carrying value of such assets exceed the estimates of future undiscounted future cash flows expected to be generated by such assets. Should impairment exist, the impairment loss would be measured based on the excess carrying value of the asset over the asset's estimated fair value. There was no impairment of intangible assets recorded for the nine months ended September 30, 2018.

Amortization of intangible assets and other for the three and nine months ended September 30, 2018 was $0. Amortization of intangible assets and other for the three and nine months ended September 30, 2017 was $0 and $16,000, respectively.

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

	Indefinite Life Intangibles
As of September 30, 2018	
Gross carrying value	$250
Accumulated amortization	—
Net carrying value	$250
As of December 31, 2017	
Gross carrying value	$250
Accumulated amortization	—
Net carrying value	$250

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.

Note 5. Other Accrued Liabilities

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

	September 30, 2018	December 31, 2017
Accrued expenses	$408	$462
Self-insurance accruals	633	679
Other accrued liabilities	171	189
Total other accrued liabilities	$1,212	$1,330

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Note 6. Stockholder's Equity

Stock Options

The following table represents the stock option activity for the nine months ended September 30, 2018:

	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, 2017	732,190	$3.72	8.17	$56
Granted	330,000	$2.75		
Exercised	(49,043)	$2.47		
Forfeited	(140,712)	$6.53		
Outstanding options at September 30, 2018	872,435	$2.97	8.61	$311
Options vested and expected to vest	848,495	$2.99	8.60	$297
Exercisable at September 30, 2018	555,707	$3.32	8.42	$143

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, 2018. 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 $3,000 and $20,000 during the three and nine months ended September 30, 2018, respectively, and zero during the three and nine months ended September 30, 2017. Total fair value of options vested was $24,000 and $48,000 during both three and nine months ended September 30, 2018, respectively, and $36,000 and $169,000 during the three and nine months ended September 30, 2017, respectively.

At September 30, 2018, there was $213,000 of unrecognized compensation cost related to existing options outstanding which is expected to be recognized over a weighted average period of 1.9 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 (the "Board") and stockholders approved an ESPP and reserved 333,333 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 nine-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, 2018, 15,435 shares were purchased under ESPP.

Restricted Stock Units

The following table represents RSU activity for the nine months ended September 30, 2018:

	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, 2017	136,329	$2.80	0.80	$329
Awarded	90,905	2.20		
Released	(119,943)	2.71		
Forfeited	(10,937)	2.67		
Outstanding RSUs at September 30, 2018	96,354	$2.36	0.84	$279

At September 30, 2018, there was $164,000 of unrecognized compensation cost related to RSUs which is expected to be recognized over a weighted average period of 0.84 years.

Stock Repurchase Program

On April 27, 2005, our Board authorized the repurchase of up to 666,666 outstanding shares of our common stock. As of September 30, 2018 the maximum number of shares remaining that can be repurchased under this program was 602,467. The Company does not intend to repurchase shares without further approval from its Board.

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, 2017. 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 is a leading provider of tech support and turnkey support center services, producer of SUPERAntiSpyware® anti-malware products, and the maker of Support.com® software. Our technology support services programs help leading brands create new revenue streams and deepen customer relationships. We offer turnkey, outsourced support services for service providers, retailers and technology companies. Our technology support services programs are designed for both the consumer and small and medium business ("SMB") markets, and include computer and mobile device set-up, security and support, virus and malware removal, wireless network set-up, and home security and automation system support. Our Support.com Cloud offering is a SaaS solution for companies to optimize support interactions with their customers using their own or third party support personnel. The solution enables companies to quickly resolve complex technology issues for their customers, boosting agent productivity and dramatically improving the customer experience.

Total revenue for the nine months period ended September 30, 2018 increased 19% year-over-year. Revenue from services increased 21% year-over-year primarily due to increased billable hours of Comcast. Revenue from software and other decreased 6% year-over-year due to new subscriptions and renewal being less than expirations of subscriptions.

Cost of services for the nine months period ended September 30, 2018 increased 27% year-over-year primarily as a result of higher compensation costs. Cost of software and other for the third quarter of 2018 decreased 40% year-over-year due to lower third party fees. Total gross margin decreased from 22% to 17% year-over-year due to the increase in revenue being less than the higher compensation and related employees' cost.

Operating expenses for the nine months period ended September 30, 2018 increased 67% year-over-year, primarily driven by a $10 million legal settlement accrual with FTC in November 2018 offset by a decrease in salary and employee related costs due to a decrease in headcount coupled with overall spending controls as a result of our cost reduction efforts initiated during 2017.

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, 2017 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 and nine months ended September 30, 2018.

Critical Accounting Policies

For a discussion of our critical accounting policies and estimates that require the use of significant estimates and judgments, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations-Critical Accounting Policies” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

Revenue Recognition. The Company adopted ASC 606 Revenue from Contracts with Customers effective January 1, 2018. As a result, the Company has changed its accounting policy for revenue recognition and applied ASC 606 using the modified retrospective method. Typically, this approach would result in recognizing the cumulative effect of initially applying ASC 606 as an adjustment to the opening retained earnings at January 1, 2018. Because the application of ASC 606 did not have a material impact in the financial position, results of operations, or cash flows, there is no cumulative impact recorded to opening retained earnings. In accordance with the new revenue standard, we have included additional qualitative and quantitative disclosures about our revenues.

RESULTS OF OPERATIONS

The following table sets forth the results of operations for the three and nine months ended September 30, 2018 and 2017 expressed as a percentage of total revenue:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenue:				
Services	93%	91%	93%	91%
Software and other	7	9	7	9
Total revenue	100	100	100	100
Costs of revenue:				
Cost of services	79	77	82	77
Cost of software and other	1	0	1	1
Total cost of revenue	80	77	83	78
Gross profit	20	23	17	22
Operating expenses:				
Research and development	4	4	4	6
Sales and marketing	2	4	3	5
General and administrative	10	13	11	16
Legal settlement	56	-	19	16

Restructuring	-	1	-	-
Total operating expenses	72	22	37	27
Income (loss) from operations	(52)	1	(20)	(5)
Interest and other income, net	1	1	1	1
Income (loss), before income taxes	(51)	2	(19)	(4)
Income tax provision	—	—	—	—
Net income (loss)	(51)%	2%	(19)%	(4)%

REVENUE

	Three Months Ended September 30,				Nine Months Ended September 30,			
In thousands, except percentages	2018	2017	$ Change	% Change	2018	2017	$ Change	% Change
Services	$16,759	$13,682	$3,077	22%	$48,179	$39,744	$8,435	21%
Software and other	1,258	1,350	(92)	(7)%	3,828	4,085	(257)	(6)%
Total revenue	$18,017	$15,032	$2,985	20%	$52,007	$43,829	$8,178	19%

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 our Support.com Cloud applications. Services revenue for the three and nine months ended September 30, 2018 increased by $3.1 million and $8.4 million from the same periods in 2017 mainly due to increases in billable hours and sales from our major customers. For the three and nine months ended September 30, 2018, services revenue generated from our partnerships was $16.0 million and $45.5 million, compared to $12.7 million and $36.6 million, respectively, for the same periods in 2017. Direct services revenue was $0.7 million and $2.7 million for the three months and nine months ended September 30, 2018 compared to $1.0 million and $3.2 million, respectively, for the same period in 2017. As with any market that is undergoing shifts, timing of downward pressures and growth opportunities in our services programs are difficult to predict. We are experiencing downward pressure with some of our services programs as PC and certain retail markets are subject to seasonal or other sector specific softness. However, we still see opportunity in the market for growth with our service partners as a result of the evolving support market trends.

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 and nine months ended September 30, 2018 decreased by $0.1 million and $0.3 million, or 7% and 6%, respectively, from the same period in 2017 due to new subscriptions being less than expirations of subscriptions. For the three-month periods ended September 30, 2018 and 2017, revenue from software and other generated from our direct sales was and $0.6 million and $0.7 million, respectively, and software and other revenue generated from our partnerships was $0.7 million for both periods. For the nine-month periods ended September 30, 2018 and 2017, revenue from software and other generated from our direct sales was $1.8 million and $2.1 million, respectively, and software and other revenue generated from our partnerships was $2.1 million and $2.0 million, respectively.

COST OF REVENUE

	Three Months Ended September 30,				Nine Months Ended September 30,			
In thousands, except percentages	2018	2017	$ Change	% Change	2018	2017	$ Change	% Change

Cost of services	$14,412	$11,559	$2,853	25%	$42,985	$33,760	$9,255	27%
Cost of software and other	51	66	(15)	(23)%	152	252	(100)	(40)%
Total cost of revenue	$14,463	$11,625	$2,838	24%	$43,137	$34,012	$9,125	27%

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 $2.9 million in cost of services for the three months ended September 30, 2018 as compared to the same period of 2017 was primarily attributable to increases in payroll and benefits charges. The increase of $9.3 million in cost of services for the nine months ended September 30, 2018 compared to the same period in 2017 included an increase in compensation costs of $11.1 million offset by lower self-insurance costs of $1.8 million due to lower medical claims.

Cost of software and other. Cost of software and other fees consists primarily of third-party royalty fees for our end-user software products. Certain of these products were developed using third-party research and development resources, and the third party receives royalty payments on sales of products it developed. The modest decrease in cost of software and other for the three and nine months ended September 30, 2018, respectively, compared to the same periods in 2017 was mainly driven by lower 3rd party fees.

OPERATING EXPENSES

	Three Months Ended September 30,				Nine Months Ended September 30,			
In thousands, except percentages	2018	2017	$ Change	% Change	2018	2017	$ Change	% Change
Research and development	$690	$631	$(59)	9%	$2,082	$2,429	$(347)	(14)%
Sales and marketing	$424	$621	$(197)	(32)%	$1,383	$2,011	$(628)	(31)%
General and administrative	$1,800	$1,996	$(196)	(10)%	$5,623	$6,847	$(1,224)	(18)%
Legal settlement	$10,000	$—	$10,000	100%	$10,000	$—	$10,000	100%
Amortization of intangibles assets and other	$—	$—	$—	0%	$—	$16	$(16)	(100)%
Restructuring	$—	$128	$(128)	(100)%	$—	$128	$(128)	(100)%

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 decreases of $0.1 million and $0.3 million in research and development expense for the three and nine months ended September 30, 2018, respectively, compared to the same periods in 2017 were the result of a decrease in salary and employee related expenses due to a decrease in headcount, primarily related to Support.com Cloud applications.

Sales and marketing. Sales and marketing expense consists primarily of compensation costs of business development, program management and marketing personnel, as well as expenses for lead generation and promotional activities, including public relations, advertising and marketing. The decrease of $0.2 million in sales and marketing expense for the three months ended September 30, 2018 compared to the same period in 2017 resulted from a decrease in salary and employee related expenses of $0.2 million due to a decrease in headcount in connection with cost-reduction efforts. Similarly, the decrease of $0.6 million in sales and marketing expense for the nine months ended September 30, 2018 compared to the same period in 2017 resulted from a decrease in salary and employee related expenses of $0.5 million and lower marketing expenses of $0.1 million due to a decrease in headcount in connection with cost-reduction efforts.

General and administrative. General and administrative expense consists primarily of compensation costs and related overhead costs for administrative personnel and professional fees for legal, accounting and other professional services. The decrease of $0.2 million in general and administrative expense for the three months ended September 30, 2018 as compared to the year-ago period was primarily due to a decrease in salary and employee related expenses due to a decrease in headcount. The decrease of $1.2 million in general and administrative expense for the nine months ended September 30, 2018 as compared to the same period a year ago was primarily due to $0.7 million decrease in salary and employee related expenses, including stock-based compensation, due to a decrease in headcount and $0.5 million decrease in rent and utility cost due to move to smaller building in Sunnyvale, CA.

Legal settlement. Legal settlement consists of a legal settlement with a FTC related investigation. On November 6, 2018, the FTC and the Company reached a $10 million settlement agreement and the Company agreed to record a $10.0 million legal settlement on the Condensed Consolidated Statements of Operations as of September 30, 2018. Please refer to Note 3 Commitments and Contingencies for details.

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

INTEREST INCOME AND OTHER, NET

	Three Months Ended September 30,				Nine Months Ended September 30,			
In thousands, except percentages	2018	2017	$ Change	% Change	2018	2017	$ Change	% Change
Interest income and other, net	$241	$164	$77	47%	$676	$451	$225	50%

Interest income and other, net. Interest income and other, net consists primarily of interest income on our cash, cash equivalents and short-term investments. The increase in interest income and other, net of $77,000 and $225,000 for the three months and nine months ended September 30, 2018 and 2017 was primarily due to increased interest on our investments.

INCOME TAX PROVISION

	Three Months Ended September 30,				Nine Months Ended September 30,			
In thousands, except percentages	2018	2017	$ Change	% Change	2018	2017	$ Change	% Change
Income tax provision (benefit)	$29	$(36)	$65	181%	$(24)	$57	$(81)	(142)%

Income tax provision. The income tax provision is comprised of estimates of current taxes due in domestic and foreign jurisdictions. For the three and nine months ended September 30, 2018 and 2017, the income tax provision primarily consisted of state income tax and foreign taxes.

LIQUIDITY AND CAPITAL RESOURCES

Total cash, cash equivalents and investments at September 30, 2018 and December 31, 2017 were $47.9 million and $49.2 million, respectively. The decrease in cash, cash equivalents and investments was primarily due to the use of cash in operating activities as we continue to invest in services and the Support.com Cloud product.

Operating Activities

Net cash used in operating activities was $0.8 million for the nine months ended September 30, 2018 and resulted primarily from a net loss for the period of $9.5 million adjusted for non-cash items totaling $1.2 million and net changes in operating assets and liabilities of $7.5 million. Adjustments for non-cash items primarily consisted of stock-based compensation expense of $0.6 million and depreciation of $0.5 million. The changes in operating assets

and liabilities primarily consisted of decreases in other long-term assets of $0.2 million and increase in accrued legal settlement of $10 million offset by increase in accounts receivable of $0.6 million, prepaid and other current assets of $0.2 million, and decreases in accounts payable of $0.1 million, accrued compensation of $0.7 million, other accrued liabilities of $0.1 million, other long term liabilities of $0.2 million and deferred revenue of $0.8 million.

Net cash used in operating activities was $4.1 million for the nine months ended September 30, 2017 and resulted primarily from a net loss for the period of $1.2 million adjusted for non-cash items totaling $0.9 million offset by net changes in operating assets and liabilities of $3.7 million. Adjustments for non-cash items primarily consisted of stock-based compensation expense of $0.3 million, amortization of intangible assets and other of $16,000, amortization of premiums and discounts on investments of $0.1 million, and depreciation of $0.5 million. The changes in operating assets and liabilities primarily consisted of an increase in accounts receivable of $2.2 million and decreases of $0.3 million, $0.6 million, $0.6 million, $0.7 million in accounts payable, accrued compensation, other accrued liabilities, and deferred revenue, respectively, offset by decreases of $0.6 million in prepaid expenses and other current assets and $0.1 million in other long-term assets.

Investing Activities

Net cash (used in) provided by investing activities was $(0.9) million and $8.3 million for the nine months ended September 30, 2018 and 2017, respectively. Net cash used in investing activities for the nine months ended September 30, 2018 was primarily due to purchases, net of maturities of investments of $0.7 million and purchases of property and equipment of $0.2 million. Net cash provided by investing activities for the nine months ended September 30, 2017 was primarily due to purchases of property and equipment of $32,000 and purchases of investments of $14.9 million offset by maturities of investments of $23.3 million.

Financing Activities

Net cash provided by financing activities was $0.2 million and $25,000 for the nine months ended September 30, 2018 and 2017, respectively. Net cash provided by financing activities for the nine months ended September 30, 2018 was primarily the $0.2 million in proceeds from the purchase of common stock under the Company's ESPP and from the exercise of stock options. Net cash provided by financing activities for the nine months ended September 30, 2017 was from the proceeds of purchase of common stock under the Company's ESPP of $27,000, offset by repurchases of common stock of $2,000.

Working Capital and Capital Expenditure Requirements

At September 30, 2018, we had stockholders' equity of $47.2 million and working capital of $46.1 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 current economic environment, however, could limit our ability to raise capital by issuing new equity or debt securities on acceptable terms, and lenders may be unwilling to lend funds on acceptable terms that would be required to support operations. The sale of additional equity or convertible debt securities could result in dilution to our existing stockholders. The issuance of debt securities would result in increased interest expenses, and could impose new restrictive covenants that would limit our operating flexibility.

We plan to continue to make investments in our business during 2018. 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 in debt securities. These debt 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 September 30, 2018, we held $31.8 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 2.0% at September 30, 2018.

A decline in interest rates over time would reduce our interest income from our investments. We have limited exposure to market risks from instruments that may impact our balance sheets, statement of comprehensive loss, and statement of cash flows. Such exposure is primarily due to changing interest rates.

Impact of Foreign Currency Rate Changes

The functional currencies of our international operating subsidiaries are the local currencies. We translate the assets and liabilities of our foreign subsidiaries at the exchange rates in effect on the balance sheet date. We translate their income and expenses at the average rates of exchange in effect during the period. We include translation gains and losses in the stockholders' equity section of our consolidated balance sheets. We include net gains and losses resulting from foreign exchange transactions in interest income and other in our consolidated statements of operations. Since we translate foreign currencies (primarily Canadian dollars and Indian rupees) into U.S. dollars for a small portion of our operations, currency fluctuations have had an immaterial impact on our consolidated statements of operations. We have both revenue and expenses that are denominated in foreign currencies. Neither a weaker or stronger U.S. dollar environment would have a material impact on our consolidated statement of operations. The historical impact of currency fluctuations on our consolidated statements of operations has generally been immaterial. As of September 30, 2018, 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 September 30, 2018 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

Federal Trade Commission Consent Order

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

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

Pursuant to the Consent Order, under which the Company neither admitted nor denied the FTC's allegations (except as to the Court having jurisdiction over the matter), the FTC has agreed to accept a payment of $10 million in settlement of the $35 million judgement, subject to the factual accuracy of the information the Company has provided as part of our financial representations. The $10 million payment is made within seven (7) days of the entry of the Consent Order in the Southern District of Florida and is recognized in operating expenses within the Company's consolidated statements of operations for the three and nine months ended September 30, 2018.

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

Other Proceedings

On October 11, 2016 the Wage and Hour Division of the U.S. Department of Labor ("DOL") notified the Company that it would be conducting an audit of the Company relating to compliance with the Fair Labor Standards Act ("FLSA"). The DOL indicated that the focus of the audit is directed to compliance with overtime requirements related to our customer support specialists who work from home providing customer support services. The audit commenced on October 20, 2016 and was resolved by settlement agreement on January 18, 2018. Pursuant to the settlement

agreement, as of December 31, 2017, the Company accrued $30,000 in back wages and related liquidated damages to some of our current and former employees. These payments were completed during the quarter ended March 31, 2018.

On January 17, 2017 the Consumer Protection Division of the Office of Attorney General, State of Washington ("Washington AG"), issued a Civil Investigative Demand to the Company requiring the Company to produce certain documents and materials and to answer certain interrogatories relating to PC Healthcheck. The Washington AG has not alleged a factual basis underlying the issuance of the Civil Investigative Demand. On May 30, 2017, the Consumer Protection Division of the Office of Attorney General, State of Texas ("Texas AG"), issued a Civil Investigative Demand to the Company requiring the Company to produce certain documents and materials and to answer certain interrogatories relating to PC Healthcheck. The Texas AG has not alleged a factual basis underlying the issuance of the Civil Investigative Demand. The Company is in the process of responding to these Civil Investigative Demands and cooperating with the FTC, Washington AG and Texas AG with respect to these matters.

ITEM 1A. RISK FACTORS.

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

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

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

Our ability to successfully license, implement and support our Support.com Cloud offering;

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

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

Our ability to expand and diversify our customer base;

Our ability to attract and retain qualified management and employees;

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

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

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

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

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

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

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

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

For the three and nine months ended September 30, 2018, two customers accounted for over 80% 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 has in the past adversely affected, and could in the future adversely affect our business. Generally, the agreements with our partners do not require them to conduct any minimum amount of business with us, and therefore they have decided in the past and could decide at any time in the future to reduce or eliminate their programs or the use of our services in such programs. They may also enter into multi-sourcing arrangements with other vendors for services previously provided exclusively by us. Further, we may not successfully obtain new partners or customers. There is also the risk that, once established, our programs with these and other partners may take longer than we expect to produce revenue or may not produce revenue at all, and the revenue produced may not be profitable if the costs of performing under the program are greater than anticipated or the program terminates before up-front investments can be recouped. One or more of our key partners may also choose not to renew their relationship with us, discontinue certain programs, offer them only on a limited basis or devote insufficient time and attention to promoting them to their customers. Some of our key partners may prefer not to work with us if we also partner with their competitors. If any of these key partners merge with one of their competitors, all of these risks could be exacerbated.

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

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

We are executing a plan to grow our business by providing customer support services, creating a robust, timely and innovative library of Guided Path® self-support tools, licensing our Support.com Cloud application, and providing end-user consumer software products. We may not be able to offer these services and software products successfully. Our customer support specialists are generally home-based, which requires a high degree of coordination and quality control of employees working from diverse and remote locations. We expect to invest cash generated from our existing business to support our growth initiatives. Our investments, which typically are made in advance of revenue, may not yield increased revenue to offset these expenses. As a result of these factors, the future revenue and income potential of our business is uncertain. Any evaluation of our business and our prospects must be considered in light of these factors and the risks and uncertainties often encountered by companies in our stage of development. Some of these risks and uncertainties relate to our ability to do the following:

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

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

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

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

Manage our employees and contract labor efficiently and effectively;

Maintain gross and operating margins;

Match staffing levels with demand for services and forecast requirements;

Obtain bonuses and avoid penalties in contractual arrangements;

Operate successfully in a time-based pricing model;

Operate effectively in the SMB market;

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

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

Realize benefits of any acquisitions we make;

Adapt to changes in the markets we serve;

Adapt to changes in our industry, including consolidation;

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

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

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

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

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

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

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

The performance of our partners;

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

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

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

The timing and ability to sell;

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

The efficiency and effectiveness of our technology specialists;

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

Our ability to manage contract labor;

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

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

Usage rates on the subscriptions we offer;

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

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

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

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

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

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

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

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

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

A number of competitive offerings exist in the market, providing various feature sets that may overlap with our Support.com service and software offerings 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 Support.com service and software offerings could fail to grow. Growth in Support.com 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 Support.com service and software offerings to customers, thereby affecting our reputation with existing and prospective customers and possibly resulting in monetary penalties or financial losses.

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

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

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

Our business is based on successfully attracting and retaining talented employees. The market for highly skilled workers and leaders in our industry is extremely competitive. If we are not successful in our recruiting efforts, or if we are unable to retain key employees and executive management, our ability to develop and deliver successful products and services may be adversely affected. 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 consumer support specialists in a manner that meets forecast requirements and provides an adequate level of support for our customers, our reputation and financial performance could be harmed.

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

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

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

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

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

licensees to fail to renew or to terminate their use of our offerings, and harm our reputation and our ability to attract new customers.

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

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

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

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

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

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

these techniques or to implement adequate preventative measures.

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

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

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

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

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

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

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

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

successfully integrate any licensed technology into our services or software, or maintain it through our own development work, which would harm our business and operating results.

Our business operates in regulated industries.

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

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

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

Certain software and services we provide, including our Support.com Cloud applications, enable remote access to and control of third-party computer systems and devices. We generally are not able to control how such access may be used or misused by licensees of our SaaS and other service and software offerings. If our services and software are 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 engaging in deceptive marketing products, committing unauthorized access to computers, devices, or protected information, or engaging in deceptive marketing practices, third parties (including governmental entities) 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.

Our business is subject to various governmental regulations, and compliance with these regulations may cause us to incur significant expense. If we fail to maintain compliance with applicable regulations, we may be forced to cease the distribution of certain products, and we may be subject to civil or criminal penalties.

Our business is subject to various laws and other legal requirements, such as the Federal Trade Commission Regulations. These laws and regulations are complex, change frequently, have generally become more stringent over time and may intensify under the current U.S. administration. We may be required to incur significant expense to comply with, or to remedy violations of, these regulations, or to discontinue the distribution of certain products. In addition, if our customers fail to comply with these regulations, we may be required to suspend sales to these customers, which could negatively impact our results of operations

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

Our business relies on the use and licensing of technology. Other parties may assert intellectual property infringement claims against us or our customers, and our products may infringe the intellectual property rights of third parties. For example, our products may infringe patents issued to third parties. In addition, as is increasingly common in the

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

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

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

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

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

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

Delaware law and our certificate of incorporation and amended and restated bylaws contain certain provisions, any of which could render more difficult, or discourage a merger, tender offer, or assumption of control of the Company that is not approved by our Board of Directors that some stockholders may consider favorable. In addition, on April 20, 2016, our Board acted to preserve the potential benefits of our NOLs from being limited pursuant to Section 382 of the Code by adopting a Section 382 Tax Benefits Preservation Plan (the "Section 382 Tax Benefits Preservation Plan"). The principal reason our Board adopted the Section 382 Tax Benefits Preservation Plan is that we believe that the NOLs are a potentially valuable asset and the Board believes it is in the Company's best interests to attempt to protect this asset by preventing the imposition of limitations on their use. While the Section 382 Tax Benefits Preservation Plan is not principally intended to prevent a takeover, it does have a potential anti-takeover effect because an

“acquiring person” thereunder may be diluted upon the occurrence of a triggering event. Accordingly, the overall effects of the Section 382 Tax Benefits Preservation Plan may be to render more difficult, or discourage a merger, tender offer, or assumption of control by a substantial holder of our securities. The Section 382 Tax Benefits Preservation Plan, however, should not interfere with any merger or other business combination approved by the Board.

ITEM 6. 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)

(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 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.

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.

SUPPORT.COM, INC.

November 7, 2018 By: /s/ Richard A. Bloom
Richard A. Bloom
President and Chief Executive Officer

EXHIBIT INDEX TO SUPPORT.COM, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED September 30, 2018

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