Support.com, Inc.
Form 10-Q
August 06, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended June 30, 2010

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	**(I.R.S. Employer**
Incorporation or Organization)	**Identification No.)**

1900 Seaport Boulevard, 3rd Floor

Redwood City, CA 94063

(Address of Principal Executive Offices)

(Zip Code)

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

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

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

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

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

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

On July 31, 2010, 46,870,845 shares of the Registrant s Common Stock, $0.0001 par value, were outstanding.

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SUPPORT.COM, INC.

FORM 10-Q

QUARTERLY PERIOD ENDED JUNE 30, 2010

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SUPPORT.COM, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)

	June 30, 2010 (Unaudited)	December 31, 2009 (1)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 32,486	$ 23,547
Short-term investments	43,524	56,488
Auction-rate securities put option		1,289
Accounts receivable, net	3,328	3,190
Prepaid expenses and other current assets	2,174	1,252
Total current assets	81,512	85,766
Long-term investments	2,954	3,444
Property and equipment, net	472	447
Goodwill	10,181	10,171
Purchased technology, net	268	309
Intangible assets, net	1,259	1,450
Other assets	523	372
Total assets	$ 97,169	$ 101,959
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 1,126	$ 99
Accrued compensation	2,291	745
Other accrued liabilities	3,863	3,045
Deferred revenue	950	726
Total current liabilities	8,230	4,615
Other long-term liabilities	842	992
Total Liabilities	9,072	5,607
Stockholders equity:		
Common stock	5	5
Additional paid-in capital	224,075	221,822
Accumulated other comprehensive loss	(1,348)	(1,233)
Accumulated deficit	(134,635)	(124,242)
Total stockholders equity	88,097	96,352
Total liabilities and stockholders equity	$ 97,169	$ 101,959

(1) Derived from the December 31, 2009 audited Consolidated Financial Statements included in the Annual Report on Form 10-K, as filed with the Securities and Exchange Commission (SEC) on March 12, 2010.

See accompanying notes.

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SUPPORT.COM, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Revenue:				
Services	$ 6,882	$ 3,374	$ 13,612	$ 6,926
Software and other	3,004	59	6,133	121
Total revenue	9,886	3,433	19,745	7,047
Cost of revenue:				
Cost of services	7,346	4,283	12,830	8,656
Cost of software and other	335		683	
Total cost of revenue	7,681	4,283	13,513	8,656
Gross profit (loss)	2,205	(850)	6,232	(1,609)
Operating expenses:				
Research and development	1,281	1,605	2,624	3,303
Sales and marketing	4,320	2,007	8,291	4,058
General and administrative	2,887	2,980	5,839	6,578
Amortization of intangible assets	93	42	181	84
Total operating expenses	8,581	6,634	16,935	14,023
Loss from operations	(6,376)	(7,484)	(10,703)	(15,632)
Interest income and other, net	149	422	335	120
Loss from continuing operations, before income taxes	(6,227)	(7,062)	(10,368)	(15,512)
Income tax provision (benefit)	10	(2,841)	22	(2,837)
Loss from continuing operations, after income taxes	(6,237)	(4,221)	(10,390)	(12,675)
Income (loss) from discontinued operations, after income taxes	2	6,460	(3)	7,518
Net income (loss)	$ (6,235)	$ 2,239	$ (10,393)	$ (5,157)
Earnings (loss) per share:				
Basic and diluted earnings per share				
Loss from continuing operations	$ (0.13)	$ (0.09)	$ (0.22)	$ (0.27)
Income (loss) from discontinued operations	0.00	0.14	(0.00)	0.16
Net earnings (loss) per share	$ (0.13)	$ 0.05	$ (0.22)	$ (0.11)
Shares used in computing per share amounts:				
Basic	46,534	46,360	46,503	46,345

Diluted	46,534	46,360	46,503	46,345

See accompanying notes.

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SUPPORT.COM, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Operating Activities:		
Net loss	$ (10,393)	$ (5,157)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Gain on the sale of discontinued operations, net of tax		(4,740)
Depreciation	157	387
Write-off of fixed assets		104
Realized gain on investments	(10)	
Amortization of premiums and discounts on investments	434	(31)
Amortization of purchased technology	41	132
Amortization of intangible assets	181	84
Realized loss on put option re-valuation	1,289	3,724
Realized gain on auction-rate securities	(1,289)	(3,724)
Stock-based compensation	1,888	2,158
Changes in assets and liabilities:		
Accounts receivable, net	(138)	3,035
Prepaid expenses and other current assets	(928)	(52)
Other long-term assets	(172)	(112)
Accounts payable	1,024	(737)
Accrued compensation	1,540	(488)
Other accrued liabilities	799	(6,811)
Other long-term liabilities	(89)	179
Deferred revenue	224	(1,466)
Net cash used in operating activities	(5,442)	(13,515)
Investing Activities:		
Proceeds from sale of discontinued operations		20,475
Purchases of property and equipment	(181)	(66)
Purchases of investments	(24,318)	(13,392)
Sales of investments	17,473	
Maturities of investments	21,054	7,900
Net cash provided by investing activities	14,028	14,917
Financing Activities:		
Proceeds from issuances of common stock	365	265
Net cash provided by financing activities	365	265
Effect of exchange rate changes on cash and cash equivalents	(12)	26
Net increase in cash and cash equivalents	8,939	1,693
Cash and cash equivalents at beginning of period	23,547	64,306

Cash and cash equivalents at end of period	$ 32,486	$ 65,999
Supplemental schedule of cash flow information:		
Income taxes paid	$ 61	$ 130

See accompanying notes.

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SUPPORT.COM, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of Support.com, Inc. (the Company or Support.com) and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated. The balance sheet as of June 30, 2010 and the statements of operations for the three and six months ended June 30, 2010 and 2009 and cash flows for the six months ended June 30, 2010 and 2009 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, 2009 is derived from audited financial statements as of that date. These unaudited interim condensed consolidated financial statements should be read with the consolidated financial statements and related notes included in the Company s Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 12, 2010.

Use of Estimates

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

Reclassifications

Certain amounts in the condensed consolidated financial statements and accompanying notes for the prior period have been reclassified to conform to the current periods presentation. On December 7, 2009 we acquired substantially all of the assets of Xeriton, Inc. and began to report software, and other revenues and cost of revenues on our condensed consolidated financial statements. Following this change in presentation, certain royalty revenues previously reported in the services line have been reclassified to software and other. Net operating results have not been affected by these reclassifications.

Subsequent Events Evaluation

In accordance with Accounting Standard Codification (ASC) 855 (formerly, Financial Standards Accounting Board, FASB 165, Subsequent Events), management has reviewed and evaluated material subsequent events through the filing date of the Company s Form 10Q for the period ended June 30, 2010. All appropriate subsequent event disclosures, if any, have been made in the notes to our condensed consolidated financial statements.

Revenue Recognition

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

- Persuasive evidence of an arrangement exists;

Delivery has occurred;

Collection is considered probable; and

The fees are fixed or determinable.

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

SUPPORT.COM, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Services Revenue

Services revenues are comprised primarily of fees for technology support services, including the set-up, protection, optimization and repair of new and existing computers as well as peripheral devices. We provide these services remotely, using work-from-home Personal Technology Experts who utilize our proprietary technology to deliver the services.

We provide services to consumers and small businesses, either through our channel partners (which include brick and mortar and online retailers, anti-virus providers, PC/consumer electronics (PC/CE) manufacturers, internet service providers (ISP s), and others) or directly via our website (www.support.com). We transact with customers via reseller programs, referral programs and direct transactions. In reseller programs, the channel partner generally executes the financial transactions with the consumer and pays a fee to us which we recognize as revenue when the service is provided. In referral programs, we transact with the consumer directly and pay a referral fee to the referring party. In such instances, since we are the transacting party and bear substantially all risks associated with the transaction, we record the gross amount of revenue. In direct-to-consumer transactions, we sell directly to the consumer at the retail price.

Our services are of three types for revenue recognition purposes:

- 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.

- Subscriptions Customers purchase subscriptions or service plans under which certain services are provided over a fixed subscription period. Revenues for subscriptions are recognized ratably using the daily convention over the respective subscription periods.

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

For certain direct and channel partnerships, we are paid for services that are sold but not yet delivered. We initially record such balances as deferred revenue, and recognize revenue when the service has been provided or, on the non-subscription portion of these balances, when the likelihood of the service being redeemed by the customer is remote (services breakage). Based upon 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.

Channel partners are generally invoiced monthly. Fees from consumers 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 consumers under certain circumstances, including inability to resolve certain support issues. For our channel sales, the refund period varies by partner, but is generally between 5 and 10 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.

Software and Other Revenue

Software and other revenue is comprised primarily of fees for software products provided through direct consumer downloads and, to a lesser extent, through the sale of this software via channel partners. Our software is sold to consumers as a perpetual license. We act as the primary obligor and generally control fulfillment, pricing, product requirements, and collection risk and therefore we recognize revenues using the gross method. We provide a limited amount of free technical support assistance to customers. We do not defer the recognition of any revenue associated with sales of these products, since the cost of providing this free technical support is insignificant. The technical support is generally provided within one year after the associated revenue is recognized and free product enhancements are minimal and infrequent. 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 as it is earned.

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SUPPORT.COM, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Cash, Cash Equivalents and Investments

All liquid instruments with an original maturity at the date of purchase of ninety days or less are classified as cash equivalents. Cash equivalents and short-term investments consist primarily of money market funds, commercial paper, corporate and municipal bonds and auction-rate securities (ARS) held by UBS, which have a put option exercisable within one year. On June 30, 2010, we exercised our rights under the Rights Agreement with UBS and settled the ARS for cash on June 30 and July 1, 2010. Long-term investments consist of other ARS positions not held with UBS. Other than the ARS held by UBS, our cash equivalents and short-term investments are classified as available-for-sale, and are reported at fair value with unrealized gains(losses) (when deemed to be temporary) included in accumulated other comprehensive income within stockholders equity on the condensed consolidated balance sheets. The ARS held by UBS are classified as trading securities and are reported at fair value with realized gains(losses) included in interest income(expense) and other, net in the condensed consolidated statements of operations. We have designated all long-term investments as available-for-sale and they are therefore reported at fair value, with unrealized gains(losses) recorded in accumulated other comprehensive income. For the three months ended June 30, 2010, we recorded a realized loss of $817,000 on re-valuation of the ARS put option, offset with a realized gain of $817,000 on the ARS held by UBS, for a net realized gain (loss) of zero. For the six months ended June 30, 2010, we recorded a realized loss of $1.3 million on re-valuation of the ARS put option, offset with a realized gain of $1.3 million on the ARS held by UBS, for a net realized gain (loss) of zero. For the three months ended June 30, 2009, we recorded a realized losses of $1.6 million on the ARS put option re-valuation, offset by a realized gains of $1.8 million on the UBS ARS, for net realized gains of $218,000. For the six months ended June 30, 2009, we had net realized gains(losses) of zero as the put option re-valuation fully offset the UBS ARS re-valuation. We recorded net unrealized losses on available-for-sale securities of $171,000 and $61,000 at June 30, 2010 and December 31, 2009, respectively.

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 June 30, 2010, the Company evaluated its unrealized gains(losses) on available-for-sale securities and determined them to be temporary. The ARS investments have been in a continuous unrealized loss position for more than 12 months. In accordance with ASC 320 (formerly, FSP No. 115-2, Investments-Debt and Equity Securities), the Company concluded that it does not intend to sell a security with an unrealized loss and it will not be required to sell the security before the recovery of its amortized cost basis.

The following is a summary of cash, cash equivalents and investments at June 30, 2010 and December 31, 2009 (in thousands):

As of June 30, 2010	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Gross Realized Losses**	**Fair Value**
Cash	$ 6,252	$	$	$	$ 6,252
Money Market Funds	23,234				23,234
Certificates of Deposit	480	0			480
Commercial Paper	7,494	0	(2)		7,492
Corporate Bonds	20,433	4	(34)		20,403
Corporate Notes	4,040	11			4,051
Treasuries	5,002	0	(4)		4,998
Auction-rate Securities	12,200		(146)		12,054
	$ 79,135	$ 15	$ (186)	$	$ 78,964

Classified as:										
Cash and cash equivalents	$	32,486	$		$		$		$	32,486
Short-term investments		43,549		15		(40)				43,524
Long-term investments		3,100				(146)				2,954
	$	79,135	$	15	$	(186)	$		$	78,964

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SUPPORT.COM, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

As of December 31, 2009	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Gross Realized Losses	Fair Value
Cash	$ 3,429	$	$	$	$ 3,429
Money Market Fund	20,118				20,118
Certificates of Deposit	1,200				1,200
Agency Bonds	3,500	2	(1)		3,501
Commercial Paper	7,895	1	(0)		7,896
Corporate Bonds	12,384	27	(7)		12,404
Corporate Notes	8,203	73			8,276
U.S. Government Agency Securities	4,000	0			4,000
Auction-rate Securities[1]	24,100		(156)	(1,289)	22,655[1]
	$ 84,829	$ 103	$ (164)	$ (1,289)	$ 83,479[1]
Classified as:					
Cash and cash equivalents	$ 23,547	$	$	$	$ 23,547
Short-term investments	57,682	103	(8)	(1,289)	56,488
Long-term investments	3,600		(156)		3,444
	$ 84,829	$ 103	$ (164)	$ (1,289)	$ 83,479[1]

(1) In addition to the fair value of our auction-rate securities holdings, we hold the auction-rate security put option, which is classified as a short-term asset valued at $1.3 million as of December 31, 2009. At December 31, 2009, the fair value of cash, cash equivalents, investments and the auction-rate security put option was $84.8 million.

The following tables summarize the estimated fair value of our available-for-sale and trading debt securities classified by the stated maturity date of the security at June 30, 2010 and December 31, 2009:

As of June 30, 2010	
Due within one year	$ 42,362
Due within two years	$ 4,162
Due after three years	$ 2,954

As of December 31, 2009	
Due within one year	$ 33,591
Due within two years	$ 3,686
Due after three years	$ 22,655

At June 30, 2010 and December 31, 2009 we had investments in AAA-rated ARS with various state student loan authorities with estimated fair values of $12.1 million and $22.7 million, respectively. The student loans made by these authorities are substantially guaranteed by the federal government through the Federal Family Education Loan Program (FFELP). ARS are long-term floating rate bonds tied to short-term interest rates. After the initial issuance of the securities, the interest rate on the securities is reset periodically, at intervals established at the time of issuance (e.g., every seven days, twenty-eight days, thirty-five days, or every six months), based on market demand, if the auctions are successful. ARS are bought and sold in the marketplace through a competitive bidding process often referred to as a Dutch auction. If there is insufficient interest in the securities at the time of an auction, the auction may not be completed and the ARS then pays a default interest rate. Following such a failed auction, we cannot access our funds that are invested in the corresponding ARS until a future auction of these investments is successful, new buyers express interest in purchasing these securities in between reset dates, issuers establish a different form of financing to replace these securities or final payments become due according to contractual maturities. Commencing in February 2008, conditions in the global credit markets resulted in failed auctions for all of our ARS. In the near term, our ability to liquidate our investments or fully recover the carrying values may be limited or not exist.

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SUPPORT.COM, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

In October 2008, UBS extended an offer of rights to us to sell our eligible ARS at par value back to UBS beginning June 30, 2010 through July 2, 2012. All of the UBS ARS qualify as eligible for purposes of the rights offer. In November 2008, we elected to accept the offer of rights from UBS, which gave us the option to sell to UBS a total of $20.2 million at par value at any time beginning June 30, 2010 through July 2, 2012. Upon acceptance of the UBS rights offer, we elected to value the ARS put option at fair value as allowed under ASC 825 (formerly, SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities).* Refer to the Auction-Rate Securities Put Option section below for further discussion. Given the UBS rights offer, we have elected a one-time transfer of our UBS ARS from available-for-sale to trading securities in accordance with ASC 320 (formerly FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities* (SFAS 115)). The transfer to trading securities reflects management s intent to exercise its ARS put option during the period June 30, 2010 to July 2, 2012. On June 30, 2010, we exercised our rights under the Rights Agreement with UBS. Of the $20.2 million par value we held immediately prior to exercising the put, $11.1 million was settled on June 30, 2010 while the remaining $9.1 million was settled on July 1, 2010.

We determined that the gross unrealized losses on our available-for-sale investments as of June 30, 2010 are temporary in nature. The fair value of our ARS at June 30, 2010 reflects an unrealized loss of $146,000, entirely related to securities classified as available-for-sale.

Given the exercise of our rights under the Rights Agreement on June 30, 2010, guaranteeing the Company redemption of the UBS ARS at par value, the fair value of our UBS ARS holdings was valued at par at June 30, 2010. Fair value for non-UBS ARS, classified as available-for sale, was based on a discounted cash flow valuation that takes into account a number of factors including the weighted average remaining term (WART) of the underlying securities, the expected return, and the discount rate. The actual WART from servicing reports was used where available. For securities where the actual WART was not available an estimate based on other securities held was used. The expected return was calculated based on the last twelve months average for the 91 day T-bill plus a spread. This rate is the typical default rate for ARS held by us. The discount rate was calculated using the 3-month LIBOR rate plus adjustments for the security type. Changes in any of the above estimates, especially the weighted average remaining term or the discount rate, could result in a material change to the fair value. Presently we have determined the decline in value for the available-for-sale ARS to be temporary because i) we have no intent to sell the security, and we believe that we will not be required to sell the security before the recovery of its amortized cost due to our cash reserves; ii) through June 30, 2010 all of the securities have maintained AAA credit ratings; and iii) loans made by the issuers are backed by the federal government. In accordance with FSP No. 115-2, we also conclude that we do not intend to sell an impaired available-for-sale security and will not be required to sell such a security before the recovery of our amortized cost.

However, if circumstances change, we may be required to record an other-than-temporary impairment charge on the available-for-sale ARS. We may similarly be required to record other-than-temporary impairment charges if the ratings on any of these securities are reduced or if any of the issuers default on their obligations. In addition to impairment charges, any of these events could cause us to lose part or all of our investment in these securities. Any of these events could materially affect our results of operations and our financial condition. We currently believe these securities are not significantly impaired for the reasons described above; however, it could take until the final maturity of the underlying notes (up to 30 years) to realize our investments recorded value.

Auction-Rate Securities Put Option

In November 2008, we signed a Rights Agreement with UBS concerning the disposition of our ARS. The UBS agreement gives us the right to sell our ARS back to UBS, at par value, beginning June 30, 2010 through July 2, 2012. The rights represent a freestanding financial instrument for accounting purposes. As noted above, we elected to value this put option at fair value as allowed under ASC 825 (formerly SFAS No. 159). As such, we recognized the value of the repurchase right as an asset with the corresponding gain recorded in earnings. Fair value was determined using a with and without approach based on a discounted cash flow valuation comparing the value of the auction rate securities with the put option and without it. We took into account the same factors as those used to value the auction rate securities noted above, adjusted to account for differences in cash flow timing and UBS credit risk. The value of the rights offer was recorded in interest income and expense, net. On June 30, 2010, we exercised our rights under the Rights Agreement with UBS. The value of the ARS put option at June 30, 2010 and December 31, 2009 was zero and $1.3 million, respectively.

As of June 30, 2010, our UBS ARS are presented as short-term investments on our condensed consolidated balance sheet. Since we exercised our rights under the Rights Agreement on June 30, 2010, the value of the ARS put option was zero.

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SUPPORT.COM, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Fair Value Measurements

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

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

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

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

The Company recognizes transfers between levels at the end of each reporting period. In accordance with ASC 820, the following table represents our fair value hierarchy for our financial assets (cash equivalents and investments) and the UBS put contract measured at fair value on a recurring basis as of June 30, 2010 and December 31, 2009 (in thousands):

As of June 30, 2010	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash	$ 6,252	$	$	$ 6,252
Money Market Funds	23,234			23,234
Certificates of Deposit	480			480
Commercial Paper		7,492		7,492
Corporate Bonds		20,403		20,403
Corporate Notes		4,051		4,051
Treasuries		4,998		4,998
Auction-rate Securities			12,054	12,054
Total	$ 29,966	$ 36,944	$ 12,054	$ 78,964

As of December 31, 2009	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash	$ 3,429	$	$	$ 3,429
Money Market Funds	21,318			21,318
Agency Bonds		3,501		3,501
Commercial Paper		7,896		7,896
Corporate Bonds		12,404		12,404

Corporate Notes		8,276		8,276
U.S Government Agency Securities		4,000		4,000
Auction-rate Securities			22,655	22,655
Auction-rate Securities Put Option			1,289	1,289
Total	$ 24,747	$ 36,077	$ 23,944	$ 84,768

Level 2 securities are priced using quoted market prices for similar instruments, nonbinding market prices that are corroborated by observable market data, or discounted cash flow techniques. There have been no transfers between Level 1 and Level 2 measurements during the six months ended June 30, 2010.

Level 3 assets consist of non-UBS ARS with various state student loan authorities and (for reporting periods prior to June 30, 2010) the ARS put option. Beginning in February 2008, all auctions for the ARS have failed. Based on the continued failure of these auctions and the underlying maturities of the securities, we continue to classify our non-UBS holdings as long-term assets. The fair value of the auction-rate securities as of June 30, 2010 and December 31, 2009 was estimated by management.

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SUPPORT.COM, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The following table provides a summary of changes in fair value of our Level 3 financial assets as of June 30, 2010 and 2009 (in thousands):

	Three Months Ended June 30, 2010		Three Months Ended June 30, 2009	
	Auction-Rate Securities	Auction-Rate Securities Put Option	Auction-Rate Securities	Auction-Rate Securities Put Option
Beginning balance at March 31	$ 22,805	$ 817	$ 18,216	$ 5,037
Transfer into Level 3				
Sales	(11,500)			
Total gains/(losses):				
Included in interest income (expense) and other, net	817	(817)	1,831	(1,613)
Included in other comprehensive income	(68)		259	
Ending balance at June 30	$ 12,054	$	$ 20,306	$ 3,424

	Six Months Ended June 30, 2010		Six Months Ended June 30, 2009	
	Auction-Rate Securities	Auction-Rate Securities Put Option	Auction-Rate Securities	Auction-Rate Securities Put Option
Beginning balance at December 31	$ 22,655	$ 1,289	$ 15,766	$ 7,148
Transfer into Level 3				
Sales	(11,800)			
Total gains/(losses):				
Included in interest income (expense) and other, net	1,289	(1,289)	3,724	(3,724)
Included in other comprehensive income	(90)		816	
Ending balance at June 30	$ 12,054	$	$ 20,306	$ 3,424

Concentrations of Credit Risk

Financial instruments that potentially subject us to concentrations of credit risk consist principally of cash equivalents, investments and trade accounts receivable. Our investment portfolio consists of investment grade securities. Except for obligations of the United States government and securities issued by agencies of the United States government, we diversify our investments by limiting our holdings with any individual issuer. We are exposed to credit risks in the event of default by the issuers to the extent of the amount recorded on the balance sheet. At June 30, 2010, we held approximately $12.1 million of AAA-rated student loan auction-rate debt securities. See the Cash, Cash Equivalents and Investments section of this Note 1 to the condensed consolidated financial statements for more information.

The credit risk in our trade accounts receivable is mitigated by our credit evaluation process and reasonably short payment terms. At June 30, 2010, Customer A and Customer B accounted for 54% and 28%, respectively, of our total accounts receivable. No other customers accounted for 10% of our total accounts receivable. At December 31, 2009, Customer A accounted for 80% of our total accounts receivable. No other customers accounted for 10% or over of our total accounts receivable.

For the three months ended June 30, 2010, Customer A and Customer B accounted for 42% and 13% of our total revenue. There were no other customers that accounted for 10% or more of total revenue. For the three months ended June 30, 2009, Customer A accounted for 87% of our total revenue. There were no other customers that accounted for 10% or more of total revenue. For the six months ended June 30, 2010, Customer A accounted for 47% of our total revenue. There were no other customers that accounted for 10% or more of total revenue. For the six months ended June 30, 2009, Customer A accounted for 88% of our total revenue. There were no other customers that accounted for 10% or more of total revenue.

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SUPPORT.COM, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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. Provisions are made based upon a specific review of all significant outstanding invoices. For those invoices not specifically provided for, provisions are recorded at differing rates, based upon the age of the receivable. In determining these percentages, we analyze our historical collection experience and current payment trends. The determination of past-due accounts is based on contractual terms. At June 30, 2010 and December 31, 2009, we had an allowance for doubtful accounts of $6,000 and $9,000, respectively.

Property and Equipment

Property and equipment is stated at cost, less accumulated depreciation which is determined using the straight-line method over the estimated useful lives of 2 years for computer equipment and software, 3 years for furniture and fixtures, and the shorter of the estimated useful lives or the lease term for leasehold improvements. Repairs and maintenance costs are expensed as incurred.

Business Combinations Purchase Accounting

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

Purchased Technology and Internal Use Software

We capitalize costs related to software that we license and incorporate into our product and service offerings or develop for internal use. In July 2009, we licensed source code for technology associated with remote computer access in the amount of $350,000. For the three and six months ended June 30, 2010, we recorded amortization expense related to this technology of $21,000 and $42,000, respectively. In addition, as of June 30, 2010, we are carrying $68,000 of capitalized costs incurred during the development of software for internal use. This software is not yet implemented. We will amortize this cost over the useful life of this software once it is placed into service.

Accounting for Goodwill and Other Intangible Assets

We assess the impairment of goodwill annually or more often if events or changes in circumstances indicate that the carrying value may not be recoverable. We perform our annual impairment test on September 30 each year. An impairment loss would be recognized if the fair value of the reporting unit is less than the carrying value of the reporting unit s net assets on the date of the evaluation. The estimate of cash flow is based upon, among other things, certain assumptions about expected future operating performance and an appropriate discount rate determined by our management. Our estimates of discounted cash flows may differ from actual cash flows due to, among other things, economic conditions, changes to the business model or changes in operating performance. If our estimates were to change, our assessment of goodwill impairment could change and could result in write-downs of goodwill, which would be reflected by charges to our operating results for any period presented.

We assess the impairment of identifiable intangible assets whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss would be recognized when the sum of the future net cash flows expected to result from the use of the asset and its eventual disposition is less than its carrying amount. If our estimates regarding future cash flows derived from such assets were to change, we may record an impairment to the value of these assets. Such impairment loss would be measured as the difference between the carrying amount of the asset and its fair value.

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SUPPORT.COM, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Stock-Based Compensation

We comply with ASC 718 (formerly SFAS 123R) which requires the measurement and recognition of compensation expense for all stock-based payment awards, including grants of stock and options to purchase stock, made to employees and directors based on estimated fair values.

In the second quarter of 2009 we sold our Enterprise business to Consona Corporation (Consona). This sale qualified as the sale of substantially all the assets of the business, and according to the terms of our Employee Stock Purchase Plan (ESPP), such a sale automatically terminated the ESPP. As a result of the automatic termination of the ESPP, the company reversed all ESPP expenses related to the current purchase period and refunded all amounts to the employees. The fair value of our stock options granted to employees for the three and six months ended June 30, 2010 and 2009 was estimated using the following assumptions:

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Stock Option Plan:				
Risk-free interest rate	1.5%	2.1%	1.8%	2.1%
Expected term	3.6 years	4.4 years	3.6 years	4.4 years
Volatility	66.9%	60.2%	67.7%	60.2%
Expected dividend	0%	0%	0%	0%
Weighted average fair value	$ 1.75	$ 1.09	$ 1.53	$ 1.09

We recorded the following stock-based compensation expense for the three and six months ended June 30, 2010 and 2009 (in thousands):

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Stock option compensation expense recognized in:				
Cost of service	$ 40	$ 31	$ 79	$ 65
Cost of software	0		1	
Research and development	149	93	298	197
Sales and marketing	291	132	442	360
General and administrative	552	388	1,068	771
	$ 1,032	$ 644	$ 1,888	$ 1,393
ESPP compensation expense recognized in:				
Cost of service	$	$ (4)	$	$ 3
Research and development		(3)		2
Sales and marketing		(1)		2
General and administrative		(3)		2
	$	$ (11)	$	$ 9
Stock-based compensation expense included in total costs and expenses	$ 1,032	$ 633	$ 1,888	$ 1,402

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SUPPORT.COM, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The following table represents stock option activity for the six months ended June 30, 2010:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in 000 s)
Outstanding options at the beginning of the period	10,679,057	$ 2.70	5.08	$ 2,559
Granted	1,079,100	3.58		
Exercised	(155,808)	2.35		
Forfeited	(238,190)	2.73		
Outstanding options at the end of the period	11,364,159	$ 2.73	4.54	$ 16,727
Options vested and expected to vest	11,198,661	$ 2.74	4.53	$ 16,454
Outstanding and exercisable at the end of the period	3,184,682	$ 3.44	3.83	$ 2,785

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 June 30, 2010. This amount changes based on the fair market value of our stock. During the three and six months ended June 30, 2010, the aggregate intrinsic value of options exercised under our stock option plans were $265,000 and $273,000. During the three and six months ended June 30, 2009, the aggregate intrinsic value of options exercised under our stock option plans was $180,000. Total fair value of options vested during the three and six months ended June 30, 2010 was $0.9 million and $1.8 million. Total fair value of options vested during the three and six months ended June 30, 2009 was $0.9 million and $2.1 million, respectively.

At June 30, 2010 there was $7.6 million of unrecognized compensation cost related to existing options outstanding, which is expected to be recognized over a weighted average period of 2.6 years.

Net Loss Per Share

Basic net loss per share is computed using our net loss and the weighted average number of common shares outstanding during the reporting period. Diluted net loss per share is computed using our net loss and the weighted average number of common shares outstanding, including the effect from the potential issuance of common stock such as stock issuable pursuant to the exercise of stock options using the treasury stock method when dilutive. For the three and six months ended June 30, 2010 and 2009, the outstanding options were excluded from the computation of diluted net loss per share since their effect would have been anti-dilutive.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Loss from continuing operations	$ (6,237)	$ (4,221)	$ (10,390)	$ (12,675)
Income (loss) from discontinued operations	2	6,460	(3)	7,518

Net income (loss)	$ (6,235)	$ 2,239	$ (10,393)	$ (5,157)
Shares used in computing basic net gain (loss) per share	46,534	46,360	46,503	46,345
Shares used in computing diluted net gain (loss) per share	46,534	46,360	46,503	46,345
Basic and diluted net loss per share from continuing operations	$ (0.13)	$ (0.09)	$ (0.22)	$ (0.27)
Basic and diluted net income per share from discontinued operations	0.00	0.14	(0.00)	0.16
Basic and diluted net gain (loss) per share	$ (0.13)	$ 0.05	$ (0.22)	$ (0.11)

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SUPPORT.COM, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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 channel sales, the refund period varies by channel partner, but is generally between 5-10 days. For referral programs and direct transactions, the refund period is generally 5 days. For all sales channels, we recognize revenue net of refunds and cancellations during the period. Refunds and cancellations have not been material.

We generally agree to indemnify our customers against legal claims that our software products infringe certain third-party intellectual property rights. As of June 30, 2010 and 2009, we have not been required to make any payment resulting from infringement claims asserted against our customers and have not recorded any related accruals.

Recent Accounting Pronouncements

In September 2009, the FASB issued Accounting Standards Update No. 2009-13, Multiple-Deliverable Revenue Arrangements a consensus of the FASB Emerging Issues Task Force (ASU 2009-13) which updates the existing multiple-element revenue arrangements guidance currently included under ASC 605, which originated primarily from the guidance in EITF Issue No. 00-21, Revenue Arrangements with Multiple Deliverables (EITF 00-21). The revised guidance primarily makes two significant changes: (1) it eliminates the need for objective and reliable evidence of the fair value for the undelivered element in order for a delivered item to be treated as a separate unit of accounting, and (2) it eliminates the residual method to allocate the arrangement consideration. In addition, the guidance also expands the disclosure requirements for revenue recognition. ASU 2009-13 will be effective for the first annual reporting period beginning on or after June 15, 2010, with early adoption permitted provided that the revised guidance is retroactively applied to the beginning of the year of adoption. This update is not expected to have a significant impact on our financial position.

Note 2. Discontinued Operations

Support.com, Inc., formerly SupportSoft, Inc., was founded as an enterprise software provider. In 2007, we launched a premium technology services business focused on consumers and, in 2008, reported two operating segments. The two segments were the Enterprise business (comprised of the enterprise software and related services businesses) and the Consumer business (comprised of the consumer services business). During the second quarter of 2009 we sold substantially all of the assets and transferred certain of the liabilities of our Enterprise business to Consona Corporation (Consona). The operations and cash flows of the disposed business have been completely eliminated from the ongoing operations, and in accordance with ASC 360 (formerly SFAS 131) have been presented as a discontinued operation as of June 23, 2009, and for all periods.

Operating results for the discontinued operation are listed below for the three and six months ended June 30, 2009:

	Three Months Ended June 30, 2009	Six Months Ended June 30, 2009
Revenue:		
License	$ 432	$ 1,238
Maintenance	3,115	6,783
Services	2,215	4,659
Total revenue	5,762	12,680

Costs and expenses:		
Costs of license	105	215
Cost of maintenance	338	728
Cost of services	1,885	4,141
Research and development	416	849
Sales and marketing	1,403	3,970
Total costs and expenses	4,147	9,903
Income from discontinued operations, before income taxes	$ 1,615	$ 2,777

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SUPPORT.COM, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Summary results from discontinued operations, including gain on sale and tax impact, are summarized as follows:

	Three Months Ended June 30, 2009	Six Months Ended June 30, 2009
Income from discontinued operations, before income taxes	$ 1,615	$ 2,777
Gain on sale of discontinued operations	9,509	9,509
Taxes on discontinued operations	(4,664)	(4,768)
Income from discontinued operations, after income taxes	$ 6,460	$ 7,518

Income (loss) from discontinued operations, before income taxes, represents the Enterprise Business historic segment reporting, including all directly attributable revenues and costs. These revenues and costs are consistent with prior reporting methodologies, but exclude all corporate costs, primarily facilities and information technology, which were previously allocated to the segment.

Tax expenses have been attributed to discontinued operations or continuing operations based on specific analysis for federal, state and international amounts. We recorded approximately $(2,000) and $3,000 of income tax (benefit) expense related to our discontinued operations for the three and six months ended June 30, 2010. This tax benefit and expense is a result of additional foreign interest build netted against releases of previously booked tax reserves.

Note 3. Comprehensive Loss

Comprehensive net income/loss includes the impact of foreign currency translation adjustments and changes in the fair value of available-for-sale securities. The following are the components of comprehensive loss (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Net income/(loss)	$ (6,235)	$ 2,239	$ (10,393)	$ (5,157)
Net unrealized gain on available-for-sale securities	131	350	110	901
Foreign currency translation gain/(loss)	(33)	(79)	5	(133)
Total comprehensive income/(loss)	$ (6,137)	$ 2,510	$ (10,278)	$ (4,389)
Income tax provision netted against unrealized gain (loss) on available-for-sale securities	$	$	$	$
Income tax benefit netted against foreign currency translation loss	$ (36)	$ (23)	$ (61)	$ (61)

Note 4. Income Taxes

As a result of the sale of our Enterprise Business to Consona (see Note 2 for details), we are reporting all historical financial activity for that segment including revenues, direct expenses, gain on sale, and the tax impact of the gain on the sale as discontinued operations. The income tax provision reported in this footnote relates to the tax position of our continuing operations.

We recorded an income tax provision of $10,000 and $22,000 for the three months and six months ended June 30, 2010, respectively. These provisions primarily reflect tax expense associated with state income taxes. For the three and six months ended June 30, 2009 the Company recorded an income tax benefit of $2.8 million and $2.8 million, respectively. These provisions primarily reflected the benefit of utilization of continuing operations tax attributes given the impact of the tax on the income from discontinued operations (for the 2009 periods) (see Note 2).

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(Unaudited)

As of June 30, 2010, 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 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 full valuation allowance on certain foreign deferred tax assets. We reassess the need for our valuation allowance on a quarterly basis. If it is later determined that a portion of the valuation allowance should be reversed it generally will be a benefit to the income tax provision.

Note 5. Contingencies

Tax contingencies

We are required to make periodic filings in the jurisdictions where we are deemed to have a presence for tax purposes. We have undergone audits in the past and have paid assessments arising from these audits. During the fourth quarters of 2008 and 2009, our India entity was issued notices of income tax assessment pertaining to the 2004-2005 and 2005-2006 fiscal years. The notices claimed that the transfer price used in our inter-company agreements with our India entity was too low, and that the rate should be increased. We believe our current transfer pricing position is more likely than not to be sustained. We believe that this will be resolved through the normal judicial appeal process used in India, and have submitted our case to the court.

We may be subject to other income tax assessments in the future. We evaluate estimated losses that could arise from those assessments in accordance with ASC 740. We consider such factors as the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate on the amount of loss. We record the estimated liability amount for those assessments that we consider to be more likely than not in our balance sheet.

Legal contingencies

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

We are also subject to other routine legal proceedings, as well as demands, claims and threatened litigation, that arise in the normal course of its 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, and unfavorable outcomes could have a material negative impact on our financial condition and operating results. Regardless of outcome, litigation can have an adverse impact on us because of defense costs, negative publicity, diversion of management resources and other factors.

Note 6. Restructuring Obligations and Other Charges

In the first quarter of 2009, we implemented a reduction in our workforce and closed certain facilities worldwide in order to reduce our ongoing cost structure. We reduced our workforce by 17 employees, or approximately 6% of our non-agent headcount. All of the affected employees were terminated as of March 31, 2009. As a result, we recorded a restructuring charge of $896,000 in the first quarter of 2009. The restructuring charge was primarily comprised of employee termination costs, professional services costs and facilities impairment costs. Restructuring and impairment expenses included in the condensed consolidated statement of operations totaled $821,000 in discontinued operations and $75,000 in continuing operations, including $6,000 for sales and marketing and $69,000 for general and administrative. As of June 30, 2010, the remaining balance of the restructuring obligation was $231,000, related to one facility in the United Kingdom, which we expect to pay through 2011.

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SUPPORT.COM, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

In the third quarter of 2009, we ceased using a portion of our headquarters office in order to align our facilities usage with our current size. As a result, we impaired approximately 46% of our Redwood City facility. We recorded a restructuring charge of approximately $1.3 million, which related to the facility impairment and is included in our general and administrative expenses in our consolidated statement of operations. As of June 30, 2010, the remaining balance on this restructuring obligation was $717,000, which we expect to pay through 2012.

The following table summarizes activity associated with the restructuring and related expenses incurred from December 31, 2009 through June 30, 2010 (in thousands):

	Facilities(1)	Total
Restructuring obligations, December 31, 2009	$ 1,242	$ 1,242
Cash payments	(294)	(294)
Restructuring obligations, June 30, 2010	$ 948	$ 948

(1) Facilities costs include obligations under non-cancelable leases for facilities that we will no longer occupy, as well as penalties associated with early terminations of leases and disposal of fixed assets. No sublease income has been included because subleasing is not permitted under the terms of our lease.

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

The following discussion of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and the related notes included elsewhere in this Form 10-Q (the Report) and the section entitled Management s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2008. The following discussion includes forward-looking statements. Please see Risk Factors in Item 1A of Part II of this Report for important information to consider when evaluating these statements.

Overview

Support.com provides services and software that help consumers and small businesses with their technology needs.

Our technology services and software products install, set-up, connect, repair and protect personal computers and related devices that are essential to our customers. We offer one-time services and subscription service plans, and we also license software products to consumers who prefer do-it-yourself solutions.

Our Personal Technology Experts deliver our services online and by telephone, leveraging our proprietary technology platform. They are based in North America and work from their homes rather than in brick and mortar facilities. Our software products include award-winning tools designed to address some of the most common PC problem areas, including Windows registry errors, hard disk management and computer memory optimization.

We market our services through channel partners and directly to consumers. Our channel partners include leading retail, software, PC/CE and internet service brands. We market our software products directly to consumers and through channel partners using free trial versions. Our sales and marketing efforts principally target North American consumers.

In the second quarter of 2010, our revenue grew substantially over 2009 results, but remained flat against first quarter 2010 results. Our year-over-year growth was driven by the addition of new service programs, the expansion of existing programs, and increased sales of our software products, acquired in December 2009. Our performance against first quarter results was impacted by negative second quarter seasonality offsetting growth from newer services programs expansion. In order to support the growth of our services program and to address service level requirements, especially launches of in-store remote services for newer programs, we hired a substantial number of Personal Technology Experts during the first and second quarters. When newer programs grew more slowly than anticipated, the increase to our staffing had a material impact on our margins for the second quarter. Despite the adverse effect on our second quarter margins, we believe that these staffing investments will drive long term success for both our partners and the Company.

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In the third quarter of 2010, we expect total revenue to grow as compared to the second quarter of 2010. We expect our operating losses to be consistent with the first quarter or to decline.

Critical Accounting Policies and Estimates

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

Revenue Recognition

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

Fair Value Measurements

Effective January 1, 2008, we adopted ASC 820, *Fair Value Measurements and Disclosures,* which defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosures about fair value measurements. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value, which are the following:

Level 1 - Quoted prices in active markets for identical assets or liabilities. Therefore, determining fair value for Level 1 instruments generally does not require significant management judgment, and the estimation is not difficult.

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

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Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. The determination of fair value for Level 3 instruments requires the most management judgment and subjectivity.

Our Level 2 securities are priced using quoted market prices for similar instruments, nonbinding market prices that are corroborated by observable market data, or discounted cash flow techniques. There have been no transfers between Level 1 and Level 2 measurements during the three and six months ended June 30, 2010.

Our Level 3 assets consist of auction-rate securities (ARS) with various state student loan authorities, and an ARS put option with UBS (as described below). Beginning February 2008, all auctions for the ARS have failed. Based on the continued failure of these auctions and the underlying maturities of the securities, we continue to classify our non-UBS holdings as long-term assets. On June 30, 2010, we exercised our rights under the Rights Agreement with UBS and we settled the cash on June 30, 2010 and July 1, 2010. The fair value of our ARS holdings was estimated by management using assumptions regarding market volatility and discount rates. If any of these estimates change, the value of Level 3 assets could change in future periods.

Fair Value Estimates- ARS Put Option

In November, 2008, we signed a Rights Agreement with UBS concerning the disposition of its ARS. The UBS agreement gave us the right to sell our ARS holdings back to UBS, at par value, beginning June 30, 2010 through July 2, 2012. On June 30, 2010, we exercised our rights under the Rights Agreement with UBS. This right represented a freestanding financial instrument for accounting purposes. We elected to value this put option at fair value. We recognized the value of the repurchase right as an asset with corresponding gain/loss recorded in earnings. Fair value was determined using a with and without approach, based on a discounted cash flow valuation comparing the value of the auction rate securities with the put option and without it. We took into account the same factors as those used to value the auction rate securities noted above. The value of the rights offer was recorded in interest income (expense), net on our consolidated statement of operations.

We previously made certain estimates in calculating the fair value of the ARS put option for our UBS securities, including estimates for the weighted average remaining term (WART) of the underlying securities in which actual WART from servicing reports was unavailable, the expected return, and the discount rate. Since our rights under the Rights Agreement were exercised on June 30, 2010, the value of the ARS Put Option was written down to zero as of June 30, 2010.

Business Combinations - Purchase Accounting

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

Accounting for Goodwill and Other Intangible Assets

We assess the impairment of goodwill annually or more often if events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss would be recognized if the fair value of the reporting unit is less than the carrying value of the reporting unit s net assets on the date of the evaluation. The estimate of cash flow is based upon, among other things, certain assumptions about expected future operating performance and an appropriate discount rate determined by our management. Our estimates of discounted cash flows may differ from actual cash flows due to, among other things, economic conditions, changes to the business model or changes in operating performance. If our estimates were to change, our assessment of goodwill impairment could change and could result in write-downs of goodwill, which would be reflected by charges to our operating results for any period presented.

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We assess the impairment of identifiable intangible assets whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss would be recognized when the sum of the future net cash flows expected to result from the use of the asset and its eventual disposition is less than its carrying amount. If our estimates regarding future cash flows derived from such assets were to change, we may record an impairment to the value of these assets. Such impairment loss would be measured as the difference between the carrying amount of the asset and its fair value.

Stock-Based Compensation

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

Accounting for Income Taxes

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

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

RESULTS OF OPERATIONS

The following table sets forth the results of operations for the three and six months ended June 30, 2010 and 2009 expressed as a percentage of total revenue.

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2010	**2009**	**2010**	**2009**
Revenue:				
Services	70%	98%	69%	98%
Software and other	30	2	31	2
Total revenue	100	100	100	100
Costs of revenue:				
Cost of services	74	125	65	123
Cost of software and other	3	0	3	0
Total cost of revenue	77	125	68	123
Gross profit (loss)	23	(25)	32	(23)

Operating expenses:				
Research and development	13	47	13	47
Sales and marketing	44	58	42	58
General and administrative	29	87	30	93
Amortization of intangible assets	1	1	1	1
Total operating expenses	87	193	86	199
Loss from operations	(64)	(218)	(54)	(222)
Interest and other income, net	2	12	2	2
Loss from continuing operations, before income taxes	(62)	(206)	(52)	(220)
Provision/(benefit) for income taxes	0	(83)	0	(40)
Loss from continuing operations	(62)	(123)	(52)	(180)
Income from discontinued operations, after income taxes	0	188	0	107
Net income/(loss)	(62)%	65%	(52)%	(73)%

REVENUE

	Three Months Ended June 30,				Six Months Ended June 30,			
In thousands, except percentages	**2010**	**2009**	**$ Change**	**% Change**	**2010**	**2009**	**$ Change**	**% Change**
Services	$ 6,882	$ 3,374	$ 3,508	104%	$ 13,612	$ 6,926	$ 6,686	97%
Software and other	3,004	59	2,945	4,992%	6,133	121	6,012	4,969%
Total revenue	$ 9,886	$ 3,433	$ 6,453	188%	$ 19,745	$ 7,047	$ 12,698	180%

Services revenue consists primarily of fees for technology services provided either through our channel partners or directly via our website www.support.com. The increase in services revenue for the three and six months ended June 30, 2010 compared to the same quarters of 2009 was primarily the result of expansion in our channel partnerships.

Software and other revenue was comprised primarily of fees for software products provided through direct consumer downloads and, to a lesser extent, through the sale of this software via channel partners. The increase in software and other revenue for the three and six months ended June 30, 2010 compared to the same quarters of 2009 was the result of growing revenue from the Sammsoft line of software products acquired from Xeriton, Inc. in December 2009.

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COSTS AND EXPENSES

Costs of Revenue

	Three Months Ended June 30,				Six Months Ended June 30,			
In thousands, except percentages	**2010**	**2009**	**$ Change**	**% Change**	**2010**	**2009**	**$ Change**	**% Change**
Cost of services	$ 7,346	$ 4,283	$ 3,063	72%	$ 12,830	$ 8,656	$ 4,174	48%
Cost of software and other	335		335	100%	683		683	