LAKELAND BANCORP INC
Form 10-K
March 16, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

(MARK ONE)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010.**

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM _________ TO _________.**

Commission file number: 000-17820

LAKELAND BANCORP, INC.

(Exact name of registrant as specified in its charter)

New Jersey	**22-2953275**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
250 Oak Ridge Road, Oak Ridge, New Jersey	**07438**
(Address of principal executive offices)	**(Zip code)**

Registrant s telephone number, including area code: (973) 697-2000

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, no par value

Title of each Class

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ¨ No x

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

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 ¨ Not Applicable

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

Large accelerated filer ¨	Accelerated filer x
Non-accelerated filer ¨	Smaller Reporting Company ¨

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

As of June 30, 2010, the aggregate market value of the registrant s common stock held by non-affiliates of the registrant was approximately $175,000,000, based on the closing sale price as reported on the NASDAQ Global Select Market.

The number of shares outstanding of the registrant s common stock, as of February 1, 2011, was 25,415,421.

DOCUMENTS INCORPORATED BY REFERENCE:

Lakeland Bancorp, Inc s. Proxy Statement for its 2011 Annual Meeting of Shareholders (Part III).

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PART I

ITEM 1 Business

GENERAL

Lakeland Bancorp, Inc. (the Company or Lakeland Bancorp) is a bank holding company headquartered in Oak Ridge, New Jersey. The Company was organized in March of 1989 and commenced operations on May 19, 1989, upon the consummation of the acquisition of all of the outstanding stock of Lakeland Bank, formerly named Lakeland State Bank (Lakeland or the Bank). Through Lakeland, the Company operates 47 banking offices, located in Bergen, Essex, Morris, Passaic, Sussex and Warren counties in New Jersey. Lakeland offers a full range of lending services, including commercial loans and leases, real estate and consumer loans to small and medium-sized businesses, professionals and individuals located in its markets.

Over the last decade, the Company has shown substantial growth through a combination of organic growth and acquisitions. Since 1998, Lakeland has opened eighteen new branch offices and the Company has also acquired four community banks with an aggregate asset total of approximately $780 million. All of the acquired banks have been merged into Lakeland and their holding companies, if applicable, have been merged into the Company.

At December 31, 2010, the Company had total consolidated assets of $2.8 billion, total consolidated deposits of $2.2 billion, total consolidated loans, net of the allowance for loan and lease losses, of $2.0 billion and total consolidated stockholders equity of $260.7 million.

This Annual Report on Form 10-K contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (Forward-Looking Statements). Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those projected in such Forward-Looking Statements. Certain factors which could materially affect such results and the future performance of the Company are described in Item 1A Risk Factors of this Annual Report on Form 10-K.

Unless otherwise indicated, all weighted average, actual shares and per share information contained in this Annual Report on Form 10-K have been adjusted retroactively for the effect of stock dividends, including the Company s 5% stock dividend which was distributed on February 16, 2011.

Commercial Bank Services

Through Lakeland, the Company offers a broad range of lending, depository, and related financial services to individuals and small to medium sized businesses located primarily in northern New Jersey. In the lending area, these services include short and medium term loans, lines of credit, letters of credit, inventory and accounts receivable financing, real estate construction loans, mortgage loans and merchant credit card services. In addition to commercial real estate loans, Lakeland makes commercial and industrial loans, which are not always secured by real estate. These types of loans can diversify the Company s exposure in a depressed real estate market.

Lakeland s equipment leasing division provides a solution to small and medium sized companies who prefer to lease equipment over other financial alternatives. During 2010, the Company continued its strategy of lessening its exposure in the leasing area by reducing the size of its lease portfolio. Leasing loans represented 3% of total loans at December 31, 2010, as compared to 6% of total loans at December 31, 2009. Lakeland s asset based loan department provides commercial borrowers with another lending alternative.

Depository products include demand deposits, as well as savings, money market and time accounts. The Company also offers wire transfer, internet banking and night depository services to the business community. In addition, Lakeland offers cash management services, such as remote capture of deposits and overnight sweep repurchase agreements.

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Consumer Banking

Lakeland also offers a broad range of consumer banking services, including checking accounts, savings accounts, NOW accounts, money market accounts, certificates of deposit, internet banking, secured and unsecured loans, consumer installment loans, mortgage loans, and safe deposit services.

Other Services

Investment and advisory services for individuals and businesses are also available.

Competition

Lakeland faces considerable competition in its market areas for deposits and loans from other depository institutions. Many of Lakeland s depository institution competitors have substantially greater resources, broader geographic markets, and higher lending limits than Lakeland and are also able to provide more services and make greater use of media advertising. In recent years, intense market demands, economic pressures, increased customer awareness of products and services, and the availability of electronic services have forced banking institutions to diversify their services and become more cost-effective.

Lakeland also competes with credit unions, brokerage firms, insurance companies, money market mutual funds, consumer finance companies, mortgage companies and other financial companies, some of which are not subject to the same degree of regulation and restrictions as Lakeland in attracting deposits and making loans. Interest rates on deposit accounts, convenience of facilities, products and services, and marketing are all significant factors in the competition for deposits. Competition for loans comes from other commercial banks (including de novo banks in Lakeland s market area), savings institutions, insurance companies, consumer finance companies, credit unions, mortgage banking firms and other institutional lenders. Lakeland primarily competes for loan originations through its structuring of loan transactions and the overall quality of service. Competition is affected by the availability of lendable funds, general and local economic conditions, interest rates, and other factors that are not readily predictable.

The Company expects that competition will continue in the future.

Concentration

The Company is not dependent for deposits or exposed by loan concentrations to a single customer or a small group of customers the loss of any one or more of which would have a material adverse effect upon the financial condition of the Company.

Employees

At December 31, 2010, the Company had 529 full-time equivalent employees. None of these employees is covered by a collective bargaining agreement. The Company considers relations with its employees to be good.

SUPERVISION AND REGULATION

General

The Company is a registered bank holding company under the federal Bank Holding Company Act of 1956, as amended (the Holding Company Act), and is required to file with the Federal Reserve Board an annual report and such additional information as the Federal Reserve Board may require pursuant to the Holding Company Act. The Company is subject to examination by the Federal Reserve Board.

Lakeland is a state chartered banking association subject to supervision and examination by the Department of Banking and Insurance of the State of New Jersey (the Department) and the Federal Deposit Insurance Corporation (the FDIC). The regulations of the State of New Jersey and FDIC govern most aspects of

Lakeland s business, including reserves against deposits, loans, investments, mergers and acquisitions, borrowings, dividends, and location of branch offices. Lakeland is subject to certain restrictions imposed by law on, among other things, (i) the maximum amount of obligations of any one person or entity which may be outstanding at any one time, (ii) investments in stock or other securities of the Company or any subsidiary of the Company, and (iii) the taking of such stock or securities as collateral for loans to any borrower.

The Holding Company Act

The Holding Company Act limits the activities which may be engaged in by the Company and its subsidiaries to those of banking, the ownership and acquisition of assets and securities of banking organizations, and the management of banking organizations, and to certain non-banking activities which the Federal Reserve Board finds, by order or regulation, to be so closely related to banking or managing or controlling a bank as to be a proper incident thereto. The Federal Reserve Board is empowered to differentiate between activities by a bank holding company or a subsidiary thereof and activities commenced by acquisition of a going concern.

With respect to non-banking activities, the Federal Reserve Board has by regulation determined that several non-banking activities are closely related to banking within the meaning of the Holding Company Act and thus may be performed by bank holding companies. Although the Company s management periodically reviews other avenues of business opportunities that are included in that regulation, the Company has no present plans to engage in any of these activities other than providing investment brokerage services.

With respect to the acquisition of banking organizations, the Company is required to obtain the prior approval of the Federal Reserve Board before it may, by merger, purchase or otherwise, directly or indirectly acquire all or substantially all of the assets of any bank or bank holding company, if, after such acquisition, it will own or control more than 5% of the voting shares of such bank or bank holding company.

Regulation of Bank Subsidiaries

There are various legal limitations, including Sections 23A and 23B of the Federal Reserve Act, which govern the extent to which a bank subsidiary may finance or otherwise supply funds to its holding company or its holding company s non-bank subsidiaries. Under federal law, no bank subsidiary may, subject to certain limited exceptions, make loans or extensions of credit to, or investments in the securities of, its parent or the non-bank subsidiaries of its parent (other than direct subsidiaries of such bank which are not financial subsidiaries) or take their securities as collateral for loans to any borrower. Each bank subsidiary is also subject to collateral security requirements for any loans or extensions of credit permitted by such exceptions.

Commitments to Affiliated Institutions

The policy of the Federal Reserve Board provides that a bank holding company is expected to act as a source of financial strength to its subsidiary banks and to commit resources to support such subsidiary banks in circumstances in which it might not do so absent such policy.

Interstate Banking

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 permits bank holding companies to acquire banks in states other than their home state, regardless of applicable state law. New Jersey enacted legislation to authorize interstate banking and branching and the entry into New Jersey of foreign country banks. New Jersey did not authorize de novo branching into the state. However, under federal law, federal savings banks, which meet certain conditions, may branch de novo into a state, regardless of state law. The Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) removes the restrictions on interstate branching contained in the Riegle-Neal Act, and allows national banks and state banks to establish branches in any state if, under the laws of the state in which the branch is to be located, a state bank chartered by that state would be permitted to establish the branch.

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Gramm-Leach Bliley Act of 1999

The Gramm-Leach-Bliley Financial Modernization Act of 1999 (the Modernization Act) became effective in early 2000. The Modernization Act:

- allows bank holding companies meeting management, capital, and Community Reinvestment Act standards to engage in a substantially broader range of non-banking activities than previously was permissible, including insurance underwriting and making merchant banking investments in commercial and financial companies; if a bank holding company elects to become a financial holding company, it files a certification, effective in 30 days, and thereafter may engage in certain financial activities without further approvals;
- allows insurers and other financial services companies to acquire banks;
- removes various restrictions that previously applied to bank holding company ownership of securities firms and mutual fund advisory companies; and
- establishes the overall regulatory structure applicable to bank holding companies that also engage in insurance and securities operations.

The Modernization Act also modified other financial laws, including laws related to financial privacy and community reinvestment.

The USA PATRIOT Act

In response to the events of September 11, 2001, the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the USA PATRIOT Act), was signed into law on October 26, 2001. The USA PATRIOT Act gave the federal government new powers to address terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing, and broadened anti-money laundering requirements. By way of amendments to the Bank Secrecy Act, Title III of the USA PATRIOT Act encourages information sharing among bank regulatory agencies and law enforcement bodies. Further, certain provisions of Title III impose affirmative obligations on a broad range of financial institutions, including banks, thrifts, brokers, dealers, credit unions, money transfer agents and parties registered under the Commodity Exchange Act.

Among other requirements, Title III of the USA PATRIOT Act imposes the following requirements with respect to financial institutions:

- All financial institutions must establish anti-money laundering programs that include, at a minimum: (i) internal policies, procedures, and controls; (ii) specific designation of an anti-money laundering compliance officer; (iii) ongoing employee training programs; and (iv) an independent audit function to test the anti-money laundering program.
- The Secretary of the Department of the Treasury, in conjunction with other bank regulators, was authorized to issue regulations that provide for minimum standards with respect to customer identification at the time new accounts are opened.
- Financial institutions that establish, maintain, administer, or manage private banking accounts or correspondence accounts in the United States for non-United States persons or their representatives (including foreign individuals visiting the United States) are required to establish appropriate, specific and, where necessary, enhanced due diligence policies, procedures, and controls designed to detect and report money laundering.

Financial institutions are prohibited from establishing, maintaining, administering or managing correspondent accounts for foreign shell banks (foreign banks that do not have a physical presence in any country), and will be subject to certain record keeping obligations with respect to correspondent accounts of foreign banks.

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Bank regulators are directed to consider a holding company s effectiveness in combating money laundering when ruling on Federal Reserve Act and Bank Merger Act applications.

The United States Treasury Department has issued a number of implementing regulations which address various requirements of the USA PATRIOT Act and are applicable to financial institutions such as Lakeland. These regulations impose obligations on financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing and to verify the identity of their customers.

Sarbanes-Oxley Act of 2002

On July 30, 2002, the Sarbanes-Oxley Act of 2002 (the SOA) was signed into law. The stated goals of the SOA are to increase corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies and to protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws.

The SOA generally applies to all companies, both U.S. and non-U.S., that file or are required to file periodic reports with the Securities and Exchange Commission (the SEC) under the Securities Exchange Act of 1934 (the Exchange Act).

The SOA includes very specific additional disclosure requirements and new corporate governance rules, requires the SEC and securities exchanges to adopt extensive additional disclosure, corporate governance and other related rules and mandates further studies of certain issues by the SEC and the Comptroller General. The SOA represents significant federal involvement in matters traditionally left to state regulatory systems, such as the regulation of the accounting profession, and to state corporate law, such as the relationship between a board of directors and management and between a board of directors and its committees.

The SOA addresses, among other matters:

audit committees for all reporting companies;

certification of financial statements by the chief executive officer and the chief financial officer;

the forfeiture of bonuses or other incentive-based compensation and profits from the sale of an issuer s securities by directors and senior officers in the twelve month period following initial publication of any financial statements that later require restatement;

a prohibition on insider trading during pension plan black out periods;

disclosure of off-balance sheet transactions;

a prohibition on personal loans to directors and officers (other than loans made by an insured depository institution (as defined in the Federal Deposit Insurance Act), if the loan is subject to the insider lending restrictions of section 22(h) of the Federal Reserve Act);

expedited filing requirements for Form 4 s;

disclosure of a code of ethics and filing a Form 8-K for a change or waiver of such code;

real time filing of periodic reports;

the formation of a public accounting oversight board;

auditor independence; and

various increased criminal penalties for violations of the securities laws.

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The SEC has enacted various rules to implement various provisions of the SOA with respect to, among other matters, disclosure in periodic filings pursuant to the Exchange Act.

Regulation W

Transactions between a bank and its affiliates are quantitatively and qualitatively restricted under the Federal Reserve Act. The Federal Deposit Insurance Act applies Sections 23A and 23B to insured nonmember banks in the same manner and to the same extent as if they were members of the Federal Reserve System. The Federal Reserve Board has also issued Regulation W, which codifies prior regulations under Sections 23A and 23B of the Federal Reserve Act and interpretative guidance with respect to affiliate transactions. Regulation W incorporates the exemption from the affiliate transaction rules but expands the exemption to cover the purchase of any type of loan or extension of credit from an affiliate. Affiliates of a bank include, among other entities, the bank s holding company and companies that are under common control with the bank. The Company is considered to be an affiliate of Lakeland. In general, subject to certain specified exemptions, a bank or its subsidiaries are limited in their ability to engage in covered transactions with affiliates:

- to an amount equal to 10% of the bank s capital and surplus, in the case of covered transactions with any one affiliate; and
- to an amount equal to 20% of the bank s capital and surplus, in the case of covered transactions with all affiliates.

In addition, a bank and its subsidiaries may engage in covered transactions and other specified transactions only on terms and under circumstances that are substantially the same, or at least as favorable to the bank or its subsidiary, as those prevailing at the time for comparable transactions with nonaffiliated companies. A covered transaction includes:

- a loan or extension of credit to an affiliate;
- a purchase of, or an investment in, securities issued by an affiliate;
- a purchase of assets from an affiliate, with some exceptions;
- the acceptance of securities issued by an affiliate as collateral for a loan or extension of credit to any party; and
- the issuance of a guarantee, acceptance or letter of credit on behalf of an affiliate.

In addition, under Regulation W:

- a bank and its subsidiaries may not purchase a low-quality asset from an affiliate;
- covered transactions and other specified transactions between a bank or its subsidiaries and an affiliate must be on terms and conditions that are consistent with safe and sound banking practices; and
- with some exceptions, each loan or extension of credit by a bank to an affiliate must be secured by certain types of collateral with a market value ranging from 100% to 130%, depending on the type of collateral, of the amount of the loan or extension of credit.

Regulation W generally excludes all non-bank and non-savings association subsidiaries of banks from treatment as affiliates, except to the extent that the Federal Reserve Board decides to treat these subsidiaries as affiliates.

Community Reinvestment Act

Under the Community Reinvestment Act (CRA), as implemented by FDIC regulations, a state bank has a continuing and affirmative obligation consistent with its safe and sound operation to help meet the credit needs of

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its entire community, including low and moderate income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions nor does it limit an institution s discretion to develop the types of products and services that it believes are best suited to its particular community. The CRA requires the FDIC, in connection with its examination of a state non-member bank, to assess the bank s record of meeting the credit needs of its community and to take that record into account in its evaluation of certain applications by the bank. Under the FDIC s CRA evaluation system, the FDIC focuses on three tests: (i) a lending test, to evaluate the institution s record of making loans in its service areas; (ii) an investment test, to evaluate the institution s record of investing in community development projects, affordable housing and programs benefiting low or moderate income individuals and businesses; and (iii) a service test, to evaluate the institution s delivery of services through its branches, ATMs and other offices.

Securities and Exchange Commission

The common stock of the Company is registered with the SEC under the Exchange Act. As a result, the Company and its officers, directors, and major stockholders are obligated to file certain reports with the SEC. The Company is subject to proxy and tender offer rules promulgated pursuant to the Exchange Act. You may read and copy any document the Company files with the SEC at the SEC s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information about the Public Reference Room. The SEC maintains a website at http://www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, such as the Company.

The Company maintains a website at http://www.lakelandbank.com. The Company makes available on its website the proxy statements and reports on Forms 8-K, 10-K and 10-Q that it files with the SEC as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. Additionally, the Company has adopted and posted on its website a Code of Ethics that applies to its principal executive officer, principal financial officer and principal accounting officer. The Company intends to disclose any amendments to or waivers of the Code of Ethics on its website.

Effect of Government Monetary Policies

The earnings of the Company are and will be affected by domestic economic conditions and the monetary and fiscal policies of the United States government and its agencies. The monetary policies of the Federal Reserve Board have had, and will likely continue to have, an important impact on the operating results of commercial banks through the Board s power to implement national monetary policy in order to, among other things, curb inflation or combat a recession. The Federal Reserve Board has a major effect upon the levels of bank loans, investments and deposits through its open market operations in United States government securities and through its regulation of, among other things, the discount rate of borrowings of banks and the reserve requirements against bank deposits. It is not possible to predict the nature and impact of future changes in monetary fiscal policies.

Dividend Restrictions

The Company is a legal entity separate and distinct from Lakeland. Virtually all of the revenue of the Company available for payment of dividends on its capital stock will result from amounts paid to the Company by Lakeland. All such dividends are subject to various limitations imposed by federal and state laws and by regulations and policies adopted by federal and state regulatory agencies. Under state law, a bank may not pay dividends unless, following the dividend payment, the capital stock of the bank would be unimpaired and either (a) the bank will have a surplus of not less than 50% of its capital stock, or, if not, (b) the payment of the dividend will not reduce the surplus of the bank.

On February 6, 2009, as part of the U.S. Department of the Treasury s (the Treasury) Troubled Asset Relief Program (TARP) Capital Purchase Program, the Company (i) issued and sold, and the Treasury purchased, 59,000 shares (the Series A Preferred Shares) of the Company s Fixed Rate Cumulative Perpetual Preferred Stock, Series A, having a liquidation preference of $1,000 per share for an aggregate purchase price of $59 million in cash, and (ii) issued to the Treasury a ten-year warrant (the Warrant) to purchase up to 997,049 (as adjusted for the Company s most recent 5% stock dividend) shares of the Company s common stock at an exercise price of $8.88 (as adjusted) per share. The Securities Purchase Agreement between the Company and the Treasury contains limitations on the payment of dividends. Specifically, the Company is unable to declare dividend payments on its common stock (and certain preferred stock if the Company issues additional series of preferred stock) if the Company is in arrears in the payment of dividends on the Series A Preferred Shares. Further, until the third anniversary of the investment or when all of the Series A Preferred Shares have been redeemed or transferred, the Company is not permitted to increase the amount of the quarterly cash dividend above $0.095 per share, which was the amount of the last regular dividend (as adjusted) declared by the Company prior to October 14, 2008.

On August 4, 2010, the Company redeemed $20 million of the Company s outstanding $59 million in Series A Preferred Shares. The Company paid approximately $20.2 million to the Treasury, which included payment for accrued and unpaid dividends. This redemption will result in annualized savings of $1.2 million due to the elimination of the associated preferred dividends and related discount accretion. A one-time, non-cash charge of $898,000 was incurred in the third quarter of 2010 due to the acceleration of the Series A Preferred Shares discount accretion. On March 10, 2011, the Company was informed by the Treasury that the Treasury has approved the redemption of 20,000 additional shares of the Company s Series A Preferred Shares. At the closing, scheduled for March 16, 2011, the Company will pay approximately $20.1 million to the Treasury, which will include $20.0 million of principal and $86,000 of accrued and unpaid dividends. As a result of the early payment, the Company will also accelerate the accretion of $745,000 of the preferred stock discount. The above mentioned warrant issued to the Treasury remains outstanding.

If, in the opinion of the FDIC, a bank under its jurisdiction is engaged in or is about to engage in an unsafe or unsound practice (which could include the payment of dividends), the FDIC may require, after notice and hearing, that such bank cease and desist from such practice or, as a result of an unrelated practice, require the bank to limit dividends in the future. The Federal Reserve Board has similar authority with respect to bank holding companies. In addition, the Federal Reserve Board and the FDIC have issued policy statements which provide that insured banks and bank holding companies should generally only pay dividends out of current operating earnings. Regulatory pressures to reclassify and charge off loans and to establish additional loan loss reserves can have the effect of reducing current operating earnings and thus impacting an institution s ability to pay dividends. Further, as described herein, the regulatory authorities have established guidelines with respect to the maintenance of appropriate levels of capital by a bank or bank holding company under their jurisdiction. Compliance with the standards set forth in these policy statements and guidelines could limit the amount of dividends which the Company and Lakeland may pay. Under the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), banking institutions which are deemed to be undercapitalized will, in most instances, be prohibited from paying dividends. See FDICIA.

Capital Adequacy Guidelines

The Federal Reserve Board has adopted risk-based capital guidelines. These guidelines establish minimum levels of capital and require capital adequacy to be measured in part upon the degree of risk associated with certain assets. Under these guidelines all banks and bank holding companies must have a core or Tier 1 capital to risk-weighted assets ratio of at least 4% and a total capital to risk-weighted assets ratio of at least 8%. At December 31, 2010, the Company s Tier 1 capital to risk-weighted assets ratio and total capital to risk-weighted assets ratio were 12.43% and 13.68%, respectively.

In addition, the Federal Reserve Board and the FDIC have approved leverage ratio guidelines (Tier 1 capital to average quarterly assets, less goodwill) for bank holding companies such as the Company. These guidelines provide for a minimum leverage ratio of 3% for bank holding companies that meet certain specified criteria,

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including that they have the highest regulatory rating. All other holding companies are required to maintain a leverage ratio of 3% plus an additional cushion of at least 100 to 200 basis points. The Company s leverage ratio was 9.21% at December 31, 2010.

Under FDICIA, federal banking agencies have established certain additional minimum levels of capital which accord with guidelines established under that act. See FDICIA.

FDICIA

Enacted in December 1991, FDICIA substantially revised the bank regulatory provisions of the Federal Deposit Insurance Act and several other federal banking statutes. Among other things, FDICIA requires federal banking agencies to broaden the scope of regulatory corrective action taken with respect to banks that do not meet minimum capital requirements and to take such actions promptly in order to minimize losses to the FDIC. Under FDICIA, federal banking agencies were required to establish minimum levels of capital (including both a leverage limit and a risk-based capital requirement) and specify for each capital measure the levels at which depository institutions will be considered well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized or critically undercapitalized.

Under regulations adopted under these provisions, for an institution to be well capitalized it must have a total risk-based capital ratio of at least 10%, a Tier 1 risk-based capital ratio of at least 6% and a Tier 1 leverage ratio of at least 5% and not be subject to any specific capital order or directive. For an institution to be adequately capitalized it must have a total risk-based capital ratio of at least 8%, a Tier 1 risk-based capital ratio of at least 4% and a Tier 1 leverage ratio of at least 4% (or in some cases 3%). Under the regulations, an institution will be deemed to be undercapitalized if it has a total risk-based capital ratio that is less than 8%, a Tier 1 risk-based capital ratio that is less than 4%, or a Tier 1 leverage ratio of less than 4% (or in some cases 3%). An institution will be deemed to be significantly undercapitalized if it has a total risk-based capital ratio that is less than 6%, a Tier 1 risk-based capital ratio that is less than 3%, or a leverage ratio that is less than 3% and will be deemed to be critically undercapitalized if it has a ratio of tangible equity to total assets that is equal to or less than 2%. An institution may be deemed to be in a capitalization category that is lower than is indicated by its actual capital position if it receives an unsatisfactory examination rating or is deemed to be in an unsafe or unsound condition or to be engaging in unsafe or unsound practices. As of December 31, 2010, the Company and Lakeland met all regulatory requirements for classification as well capitalized under the regulatory framework.

Additional Regulation of Capital

The federal regulatory authorities risk-based capital guidelines are based upon the 1988 capital accord (Basel I) of the Basel Committee on Banking Supervision (the Basel Committee). The Basel Committee is a committee of central banks and bank supervisors/regulators from the major industrialized countries that develops broad policy guidelines for use by each country s supervisors in determining the supervisory policies and regulations to which they apply. Actions of the Committee have no direct effect on banks in participating countries. In 2004, the Basel Committee published a new capital accord (Basel II) to replace Basel I. Basel II provides two approaches for setting capital standards for credit risk an internal ratings-based approach tailored to individual institutions circumstances and a standardized approach that bases risk weightings on external credit assessments to a much greater extent than permitted in existing risk-based capital guidelines. Basel II also would set capital requirements for operational risk and refine the existing capital requirements for market risk exposures. The Company is not required to comply with the advanced approaches of Basel II.

In 2009, the United States Treasury Department issued a policy statement (the Treasury Policy Statement) entitled Principles for Reforming the U.S. and International Regulatory Capital Framework for Banking Firms, which contemplates changes to the existing regulatory capital regime involving substantial revisions to major parts of the Basel I and Basel II capital frameworks and affecting all regulated banking organizations. The

Treasury Policy Statement calls for, among other things, higher and stronger capital requirements for all banking firms, with changes to the regulatory capital framework to be phased in over a period of several years.

On December 17, 2009, the Basel Committee issued a set of proposals (the 2009 Capital Proposals) that would significantly revise the definitions of Tier 1 capital and Tier 2 capital. Among other things, the 2009 Capital Proposals would re-emphasize that common equity is the predominant component of Tier 1 capital. Concurrently with the release of the 2009 Capital Proposals, the Basel Committee also released a set of proposals related to liquidity risk exposure (the 2009 Liquidity Proposals). The 2009 Liquidity Proposals include the implementation of (i) a liquidity coverage ratio or LCR, designed to ensure that a bank maintains an adequate level of unencumbered, high-quality assets sufficient to meet the bank s liquidity needs over a 30-day time horizon under an acute liquidity stress scenario and (ii) a net stable funding ratio or NSFR, designed to promote more medium and long-term funding of the assets and activities of banks over a one-year time horizon.

The Dodd-Frank Act includes certain provisions, often referred to as the Collins Amendment, concerning the capital requirements of the United States banking regulators. These provisions are intended to subject bank holding companies to the same capital requirements as their bank subsidiaries and to eliminate or significantly reduce the use of hybrid capital instruments, especially trust preferred securities, as regulatory capital. Under the Collins Amendment, trust preferred securities issued by a bank holding company such as Lakeland Bancorp (with total consolidated assets between $500 million and $15 billion) before May 19, 2010 and treated as regulatory capital are grandfathered, but any such securities issued later are not eligible as regulatory capital. The banking regulators must develop regulations setting minimum risk-based and leverage capital requirements for holding companies and banks on a consolidated basis that are no less stringent than the generally applicable requirements in effect for depository institutions under the prompt corrective action regulations. The banking regulators also must seek to make capital standards countercyclical so that the required levels of capital increase in times of economic expansion and decrease in times of economic contraction. The Dodd-Frank Act requires these new capital regulations to be adopted by the Federal Reserve in final form 18 months after the date of enactment of the Dodd-Frank Act (July 21, 2010).

In December 2010 and January 2011, the Basel Committee published the final texts of reforms on capital and liquidity generally referred to as Basel III. Although Basel III is intended to be implemented by participating countries for large, internationally active banks, its provisions are likely to be considered by United States banking regulators in developing new regulations applicable to other banks in the United States, including Lakeland.

For banks in the United States, among the most significant provisions of Basel III concerning capital are the following:

- A minimum ratio of common equity to risk-weighted assets reaching 4.5%, plus an additional 2.5% as a capital conservation buffer, by 2019 after a phase-in period.
- A minimum ratio of Tier 1 capital to risk-weighted assets reaching 6.0% by 2019 after a phase-in period.
- A minimum ratio of total capital to risk-weighted assets, plus the additional 2.5% capital conservation buffer, reaching 10.5% by 2019 after a phase-in period.
- An additional countercyclical capital buffer to be imposed by applicable national banking regulators periodically at their discretion, with advance notice.
- Restrictions on capital distributions and discretionary bonuses applicable when capital ratios fall within the buffer zone.
- Deduction from common equity of deferred tax assets that depend on future profitability to be realized.
- Increased capital requirements for counterparty credit risk relating to OTC derivatives, repos and securities financing activities.

For capital instruments issued on or after January 13, 2013 (other than common equity), a loss-absorbency requirement such that the instrument must be written off or converted to common equity if a trigger event occurs, either pursuant to applicable law or at the direction of the banking regulator. A trigger event is an event under which the banking entity would become nonviable without the write-off or conversion, or without an injection of capital from the public sector. The issuer must maintain authorization to issue the requisite shares of common equity if conversion were required.

The Basel III provisions on liquidity include complex criteria establishing the LCR and NSFR. Although Basel III is described as a final text, it is subject to the resolution of certain issues and to further guidance and modification, as well as to adoption by United States banking regulators, including decisions as to whether and to what extent it will apply to United States banks that are not large, internationally active banks.

Federal Deposit Insurance and Premiums

Substantially all of the deposits of Lakeland are insured up to applicable limits by the Deposit Insurance Fund (DIF) of the FDIC and are subject to deposit insurance assessments to maintain the DIF. As a result of the Dodd-Frank Act, the basic federal deposit insurance limit was permanently increased from at least $100,000 to at least $250,000. In addition, on November 9, 2010 and January 18, 2011, the FDIC (as mandated by Section 343 of the Dodd-Frank Act) adopted rules providing for unlimited deposit insurance for traditional noninterest-bearing transaction accounts and IOLTA accounts beginning December 31, 2010 until December 31, 2012. This coverage, which applies to all insured deposit institutions, does not charge any additional FDIC assessment to the institution. Furthermore, this unlimited coverage is separate from, and in addition to, the coverage provided to depositors with respect to other accounts held at an insured institution.

Under current regulations, the FDIC utilizes a risk-based assessment system that imposes insurance premiums based upon a risk matrix that takes into account a bank s capital level and supervisory rating, known as a CAMELS rating. The assessment rate for an individual institution is determined according to a formula based on a weighted average of the institution s individual CAMELS component ratings plus six financial ratios. Well-capitalized institutions (generally those with CAMELS composite ratings of 1 or 2) are grouped in Risk Category I and their initial assessment base rate for deposit insurance is set at an annual rate of between 12 and 16 basis points. The initial base assessment rate for institutions in Risk Categories II, III, and IV is set at annual rates of 22, 31 and 50 basis points, respectively. These base rates are then adjusted to a final assessment rate based on an institution s brokered deposits, secured liabilities and unsecured debt. The Company paid a total of $3.8 million in FDIC assessments in 2010 (including the $220,000 FICO premium referred to below).

On May 22, 2009, the Board of Directors of the FDIC adopted a final rule imposing a special assessment on the entire banking industry. The special assessment was calculated as five basis points times each insured depository institution s assets minus Tier I capital, as reported in the report of condition as of June 30, 2009 and would not exceed ten times the institution s assessment base for the second quarter of 2009 risk-based assessment. This special assessment, which totaled $1.2 million, was remitted by the Company on September 30, 2009.

On November 12, 2009, the FDIC adopted the final rule which required insured depository institutions to prepay their quarterly risk-based assessments for the fourth quarter of 2009 through the fourth quarter of 2012. On December 30, 2009, the Company remitted an FDIC prepayment in the amount of $18.0 million. An institution s prepaid assessment was based on the total base assessment rate that the institution paid for the third quarter of 2009, adjusted quarterly by an estimated annual growth rate of 5% through the end of 2012, plus, for 2011 and 2012, an increase in the total base assessment rate on September 30, 2009 by an annualized three basis points. Any prepaid assessment in excess of the amounts that are subsequently determined to be actually due to the FDIC by June 30, 2013, will be returned to the institution at that time.

In November 2010, the FDIC approved a rule to change the assessment base from adjusted domestic deposits to average consolidated total assets minus average tangible equity, as required by the Dodd-Frank Act.

These new assessment rates will begin in the second quarter of 2011 and will be payable at the end of September 2011. Since the new base is larger than the current base, the FDIC s rule would lower total base assessment rates to between 2.5 and 9 basis points for banks in the lowest risk category, and 30 to 45 basis points for banks in the highest risk category.

In addition to deposit insurance assessments, the FDIC is required to continue to collect from institutions payments for the servicing of obligations of the Financing Corporation (FICO) that were issued in connection with the resolution of savings and loan associations, so long as such obligations remain outstanding. Lakeland paid a FICO premium of approximately $220,000 in 2010 and expects to pay a similar premium in 2011.

Legislation Implemented in Response to Recent Periods of Economic Turmoil

In response to recent unprecedented market turmoil, the Emergency Economic Stabilization Act of 2008 (EESA) was enacted on October 3, 2008. Under EESA, the Treasury established the TARP Capital Purchase Program, pursuant to which the Treasury purchases preferred stock and warrants from financial institutions. In February 2009, the Company received $59,000,000 under the TARP Capital Purchase Program.

Participants in the TARP Capital Purchase Program were required to accept several compensation-related limitations associated with this Program. In February 2009, the named executive officers of the Company at that time agreed in writing to accept the compensation standards in existence at that time under the Capital Purchase Program and thereby cap or eliminate some of their contractual or legal rights. The provisions agreed to were as follows:

No golden parachute payments. The term golden parachute payment under the TARP Capital Purchase Program (as distinguished from the definition under the Stimulus Bill referred to below) refers to a severance payment resulting from involuntary termination of employment, or from bankruptcy of the employer, that exceeds three times the terminated employee s average annual base salary over the five years prior to termination. The Company s senior executive officers have agreed to forego all golden parachute payments for as long as they remain senior executive officers (the CEO, the CFO and the next three highest-paid executive officers) of the Company and the Treasury continues to hold the equity securities that the Company issued to it under the TARP Capital Purchase Program (the period during which the Treasury holds those securities is referred to herein as the CPP Covered Period.).

Clawback of Bonus and Incentive Compensation if Based on Certain Material Inaccuracies. Our senior executive officers agreed to a clawback provision. Any bonus or incentive compensation paid to them during the CPP Covered Period is subject to recovery or clawback by the Company if the payments were based on materially inaccurate financial statements or any other materially inaccurate performance metric criteria. The senior executive officers acknowledged that each of the Company s compensation, bonus, incentive and other benefit plans, arrangements and agreements (including golden parachute, severance and employment agreements) (collectively, Benefit Plans) with respect to them was deemed amended to the extent necessary to give effect to such clawback and the restriction on golden parachute payments.

No Compensation Arrangements That Encourage Excessive Risks. The Company is required to review its Benefit Plans to ensure that they do not encourage senior executive officers to take unnecessary and excessive risks that threaten the value of the Company. To the extent any such review requires revisions to any Benefit Plan with respect to the senior executive officers, they agreed to negotiate such changes promptly and in good faith.

During the CPP Covered Period, the Company is not permitted to take federal income tax deductions for compensation paid to the senior executive officers in excess of $500,000 per year, subject to certain exceptions.

On February 17, 2009, the American Recovery and Reinvestment Act of 2009 (the Stimulus Bill) was enacted. The Stimulus Bill contains several provisions designed to establish executive compensation and governance standards for financial institutions (such as the Company) that received or will receive financial assistance under TARP. In certain instances, the Stimulus Bill modified the compensation-related limitations contained in the TARP Capital Purchase Program; in addition, the Stimulus Bill created additional compensation-related limitations and directed the Treasury to establish standards for executive compensation applicable to participants in the TARP. The compensation-related limitations applicable to the Company which have been added or modified by the Stimulus Bill are as follows, which provisions are expected to be included in standards established by the Treasury:

No severance payments. Under the Stimulus Bill, the term golden parachutes is defined to include any severance payment resulting from involuntary termination of employment, except for payments for services performed or benefits accrued. Under the Stimulus Bill, the Company is prohibited from making any severance payment to its senior executive officers (defined in the Stimulus Bill as the five highest paid senior executive officers) and the Company s next five most highly compensated employees during the period that the Series A Preferred Shares are outstanding.

Recovery of Incentive Compensation if Based on Certain Material Inaccuracies. The Stimulus Bill contains the clawback provision discussed above but extends its application to any bonus awards and other incentive compensation paid to any of the Company s senior executive officers and the next 20 most highly compensated employees during the period that the Series A Preferred Shares are outstanding that is later found to have been based on materially inaccurate financial statements or other materially inaccurate measurements of performance.

No Compensation Arrangements That Encourage Earnings Manipulation. Under the Stimulus Bill, during the period that the Series A Preferred Shares are outstanding, the Company is prohibited from entering into compensation arrangements that encourage manipulation of the reported earnings of the Company to enhance the compensation of any of the Company s employees.

Limit on Incentive Compensation. The Stimulus Bill contains a provision that prohibits the payment or accrual of any bonus, retention award or incentive compensation to the Company s five most highly compensated employees while the Series A Preferred Shares are outstanding other than awards of long-term restricted stock that (i) do not fully vest while the Series A Preferred Shares are outstanding, (ii) have a value not greater than one-third of the total annual compensation of such employee and (iii) are subject to such other restrictions as will be determined by the Treasury. The prohibition on bonuses does not preclude payments required under written employment contracts entered into on or prior to February 11, 2009.

Compensation Committee Functions. The Stimulus Bill requires that the Company s Compensation Committee be comprised solely of independent directors and that it meet at least semiannually to discuss and evaluate the Company s employee compensation plans in light of an assessment of any risk posed to the Company from such compensation plans.

Compliance Certifications. The Stimulus Bill requires an annual written certification by the Company s chief executive officer and chief financial officer with respect to the Company s compliance with the provisions of the Stimulus Bill.

Treasury Review of Excessive Bonuses Previously Paid. The Stimulus Bill directs the Treasury to review all compensation paid to the Company s senior executive officers and its next 20 most highly compensated employees to determine whether any such payments were inconsistent with the purposes of the Stimulus Bill or were otherwise contrary to the public interest. If the Treasury makes such a finding, the Treasury is directed to negotiate with the Company and the applicable employee for appropriate reimbursements to the federal government with respect to the compensation and bonuses.

Say on Pay. Under the Stimulus Bill, the Company is required to have an advisory say on pay vote by the shareholders on executive compensation at the Company s shareholder meetings during the period that the Series A Preferred Shares are outstanding. This requirement will apply to the Company s 2011 annual meeting of shareholders.

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Recent Regulatory Reform-The Dodd-Frank Wall Street Reform and Consumer Protection Act

The Dodd-Frank Act, which was signed into law on July 21, 2010, will have a broad impact on the financial services industry, including significant regulatory and compliance changes. Many of the requirements called for in the Dodd-Frank Act will be implemented over time and most will be subject to implementing regulations over the course of several years.

Among other things, the Dodd-Frank Act:

- eliminates, effective one year after the date of enactment, the federal prohibitions on paying interest on demand deposits, thus allowing businesses to have interest bearing checking accounts. Depending on competitive responses, this significant change to existing law could have an adverse impact on the Bank s interest expense.

- broadens the base for FDIC insurance assessments. Assessments will now be based on the average consolidated total assets less tangible equity capital of a financial institution.

- permanently increases the maximum amount of deposit insurance for banks, savings institutions and credit unions to $250,000 per depositor, retroactive to January 1, 2009, and non-interest bearing transaction accounts have unlimited deposit insurance through December 31, 2012.

- requires publicly traded companies like Lakeland Bancorp to give shareholders a non-binding vote on executive compensation and so-called golden parachute payments in certain circumstances, even after repayment of the TARP investment.

- authorizes the SEC to promulgate rules that would allow stockholders to nominate their own candidates using a company s proxy materials.

- directs the Federal Reserve Board to promulgate rules prohibiting the payment of excessive compensation to bank holding company executives.

- creates a new Consumer Financial Protection Bureau with broad powers to supervise and enforce consumer protection laws. The Consumer Financial Protection Bureau has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit unfair, deceptive or abusive acts and practices. The Consumer Financial Protection Bureau has examination and enforcement authority over all banks and savings institutions with more than $10 billion in assets. Institutions with $10 billion or less in assets, such as the Bank, will continue to be examined for compliance with the consumer laws by their primary bank regulators.

- restricts the preemption of state consumer financial protection law by federal law.

- requires new capital rules and the application of the same leverage and risk-based capital requirements that apply to insured depository institutions to most bank holding companies. In addition to making bank holding companies subject to the same capital requirements as their bank subsidiaries, these provisions (often referred to as the Collins Amendment to the Dodd-Frank Act) were also intended to eliminate or significantly reduce the use of hybrid capital instruments, especially trust preferred securities, as regulatory capital. Under the Collins Amendment, trust preferred securities issued by a bank holding company such as Lakeland Bancorp (with total consolidated assets between $500 million and $15 billion) before May 19, 2010 and treated as regulatory capital are grandfathered, but any such securities issued later are not eligible as regulatory capital.

requires that interchange transaction fees for debit transactions must be reasonable and proportional (although banks with less than $10 billion of assets are exempt from this requirement, competitive pressures may cause Lakeland to reduce the fees it charges).

requires banking regulators to seek to make capital standards countercyclical, so that the required levels of capital increase in times of economic expansion and decrease in times of economic contraction.

allows de novo interstate branching by banks.

While it is difficult to predict at this time what specific impact the Dodd-Frank Act and the yet to be written implementing rules and regulations will have on the Company, management expects that at a minimum the Company s operating and compliance costs will increase, and our interest expense could increase.

Proposed Legislation

From time to time proposals are made in the United States Congress, the New Jersey Legislature, and before various bank regulatory authorities, which would alter the powers of, and place restrictions on, different types of banking organizations. It is impossible to predict the impact, if any, of potential legislative trends on the business of the Company and its subsidiaries.

In accordance with federal law providing for deregulation of interest on all deposits, banks and thrift organizations are now unrestricted by law or regulation from paying interest at any rate on most time deposits. It is not clear whether deregulation and other pending changes in certain aspects of the banking industry will result in further increases in the cost of funds in relation to prevailing lending rates.

ITEM 1A Risk Factors.

Our business, financial condition, operating results and cash flows can be affected by a number of factors, including, but not limited to, those set forth below, any one of which could cause our actual results to vary materially from recent results or from our anticipated future results.

Recent legislation regarding the financial services industry may have a significant adverse effect on our operations.

On July 21, 2010, the Dodd-Frank Act was signed into law. The Dodd-Frank Act implements a variety of far-reaching changes, as described under Business-Supervision and Regulation. Many provisions in the Dodd-Frank Act remain subject to regulatory rule-making and implementation over several years. Given the uncertainty associated with the manner in which the provisions of the Dodd-Frank Act will be implemented by the various regulatory agencies, the full extent of the impact such requirements will have on our operations is unclear. Provisions in the legislation that affect deposit insurance assessments and payment of interest on demand deposits could increase the costs associated with the Bank s deposits, which may adversely affect our results of operations, financial condition or liquidity. Provisions that require revisions to the capital requirements of the Company and the Bank could require us to seek additional sources of capital in the future.

The Company and the Bank may be subject to more stringent capital and liquidity requirements.

The Dodd-Frank Act also imposes more stringent capital requirements on bank holding companies such as Lakeland Bancorp by, among other things, imposing leverage ratios on bank holding companies and prohibiting new trust preferred issuances from counting as Tier I capital. These restrictions will limit our future capital strategies. Under the Dodd-Frank Act, our currently outstanding trust preferred securities will continue to count as Tier I capital, but we will be unable to issue replacement or additional trust preferred securities which would count as Tier I capital.

In addition, as described under Business-Supervision and Regulation, in December 2010 and January 2011, the Basel Committee published the final texts of reforms on capital and liquidity generally referred to as Basel III. Although Basel III is intended to be implemented by participating countries for large, internationally active banks, its provisions are likely to be considered by United States banking regulators in developing new regulations applicable to other banks in the United States, including the Bank. Banking regulators in the U.S. could implement changes to the capital adequacy standards applicable to the Company and Lakeland in light of Basel III. The effect of any new capital and liquidity requirements cannot be determined at this time.

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Recent negative developments in the financial services industry and U.S. and global credit markets may adversely impact our operations and results.

The general economic downturn during the past few years, including a decline in the value of the collateral supporting loans, has resulted in the deterioration of loan portfolio performances at many institutions. The competition for our deposits has increased significantly due to liquidity concerns at many of these same institutions. Stock prices of bank holding companies, like ours, have been negatively affected by the current condition of the financial markets, as has our ability, if needed, to raise capital or borrow in the debt markets compared to prior years. As a result, recent legislation, such as the Dodd-Frank Act, will require new regulations regarding lending and funding practices and liquidity standards, and financial institution regulatory agencies are expected to be very aggressive in responding to concerns and trends identified in examinations, including the expected issuance of many formal enforcement actions. Negative developments in the financial services industry and the impact of new legislation, including Dodd-Frank, in response to those developments could negatively impact our operations by restricting our business operations, including our ability to originate or sell loans, and adversely impact our financial performance.

A decrease in our ability to borrow funds could adversely affect our liquidity.

Our ability to obtain funding from the Federal Home Loan Bank or through our overnight federal funds lines with other banks could be negatively affected if we experienced a substantial deterioration in our financial condition or if such funding became restricted due to a further deterioration in the financial markets. While we have a contingency funds management plan to address such a situation if it were to occur (such plan includes deposit promotions, the sale of securities and the curtailment of loan growth, if necessary), a significant decrease in our ability to borrow funds could adversely affect our liquidity.

We are subject to interest rate risk and variations in interest rates may negatively affect our financial performance.

We are unable to predict actual fluctuations of market interest rates. Rate fluctuations are influenced by many factors, including:

- inflation or deflation;
- excess economic growth or recession;
- a rise or fall in unemployment;
- tightening or expansion of the money supply;
- domestic and international disorder; and
- instability in domestic and foreign financial markets.

Both increases and decreases in the interest rate environment may reduce our profits. We expect that we will continue to realize income from the difference or spread between the interest we earn on loans, securities and other interest-earning assets, and the interest we pay on deposits, borrowings and other interest-bearing liabilities. Our net interest spreads are affected by the differences between the maturities and repricing characteristics of our interest-earning assets and interest-bearing liabilities. Our interest-earning assets may not reprice as slowly or rapidly as our interest-bearing liabilities. Changes in market interest rates could materially and adversely affect our net interest spread, asset quality, levels of prepayments, cash flows, the market value of our securities portfolio, loan and deposit growth, costs and yields on loans and deposits and our overall profitability.

The Company may incur impairment to goodwill.

We review our goodwill at least annually. Significant negative industry or economic trends, including fluctuations in our common stock price, reduced estimates of future cash flows or disruptions to our businesses, could indicate that goodwill might be impaired. Our valuation methodology for assessing impairment requires management to make judgments and assumptions based on historical experience and to rely on projections of future operating performance. We operate in a competitive environment and projections of future operating results and cash flows may vary significantly from actual results. Additionally, if our analysis results in an impairment to our goodwill, we would be required to record a non-cash charge to earnings in our financial statements during the period in which such impairment is determined to exist. Any such charge could have a material adverse effect on our results of operations and our stock price.

The extensive regulation and supervision to which we are subject impose substantial restrictions on our business.

The Company, Lakeland and certain non-bank subsidiaries are subject to extensive regulation and supervision. Banking regulations are primarily intended to protect depositors funds, federal deposit insurance funds and the banking system as a whole. Such laws are not designed to protect our shareholders. These regulations affect our lending practices, capital structure, investment practices, dividend policy and growth, among other things. Lakeland is also subject to a number of laws which, among other things, govern its lending practices and require the Bank to establish and maintain comprehensive programs relating to anti-money laundering and customer identification. The United States Congress and federal regulatory agencies continually review banking laws, regulations and policies for possible changes. Changes to statutes, regulations or regulatory policies, including changes in interpretation or implementation of statutes, regulations or policies, could affect us in substantial and unpredictable ways. Such changes could subject us to additional costs, limit the types of financial services and products we may offer and/or increase the ability of non-banks to offer competing financial services and products, among other things. Failure to comply with laws, regulations or policies could result in sanctions by regulatory agencies, civil money penalties and/or reputational damage, which could have a material adverse effect on our business, financial condition and results of operations.

Because of our participation in the Treasury s Capital Purchase Program, we are subject to several restrictions, including restrictions on our ability to declare or pay dividends and repurchase our shares as well as restrictions on our executive compensation.

As a result of our participation in the Treasury s Capital Purchase Program, our ability to declare or pay dividends on any of our shares is subject to restrictions. Specifically, we are unable to declare dividend payments on common, junior preferred or *pari passu* preferred shares if we are in arrears in the payment of dividends on the Series A Preferred Shares. Further, until the third anniversary of the investment or when all of the Series A Preferred Shares have been redeemed or transferred, we are not permitted to increase the quarterly cash dividends on our common stock above $0.095 per share without the Treasury s approval. Additionally, our ability to repurchase our shares of outstanding common stock is restricted. The Treasury s consent generally is required for us to make any stock repurchase until the third anniversary of the investment by the Treasury unless all of the Series A Preferred Shares have been redeemed or transferred. Further, common, junior preferred or *pari passu* preferred shares may not be repurchased if we are in arrears in the payment of dividends on the Series A Preferred Shares.

Pursuant to the terms by which we participated in the Treasury s Capital Purchase Program and the terms of the Stimulus Bill, we and several of our senior employees are subject to substantial limitations on executive compensation and are subject to new corporate governance standards. Such requirements may adversely affect our ability to attract and retain senior officers and employees who are critical to the operation of our business.

The documents that we executed with the Treasury when the Treasury purchased our Series A Preferred Shares allow the Treasury to unilaterally change the terms of the Series A Preferred Shares or impose additional requirements on the Company if there is a change in law. These changes or additional requirements could restrict our ability to conduct business, could subject us to additional cost and expense or could change the terms of the Series A Preferred Shares to the detriment of our common shareholders. We have redeemed an aggregate of $20 million of the Series A Preferred Shares and intend to repay another $20 million on March 16, 2011, having

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received the required approvals to do so. While it may be possible for us to redeem the remaining Series A Preferred Shares in the future in the event that the Treasury imposes any changes or additional requirements that we believe are detrimental, there can be no assurances that our federal regulator will approve any future redemption or that we will have the ability to implement such redemption.

Our issuance of securities to the Treasury imposes certain restrictions on us that may have a negative impact on the price of our common stock.

In connection with our sale of Series A Preferred Shares to the Treasury, we also issued to the Treasury a Warrant to purchase 997,049 (as adjusted for the Company s most recent 5% stock dividend) shares of our common stock. The terms of the transaction with the Treasury will result in limitations on our ability to repurchase our shares and to pay dividends, as described above. Until February 6, 2012, or until the Treasury no longer holds any Series A Preferred Shares, we will not be able to increase the amount of our quarterly cash dividend above $0.095, the amount of our last regular dividend (as adjusted) declared by the Company prior to October 14, 2008, nor repurchase any of our shares without the Treasury s approval, with limited exception, most significantly purchases in connection with benefit plans. In addition, we will not be able to pay any dividends at all on our common stock unless we are current on our dividend payments on the Series A Preferred Shares. These restrictions, as well as the dilutive effect of the Warrant, may have a negative effect on the market price of our common stock.

Current levels of volatility in the capital markets are unprecedented and may adversely impact our operations and results.

The capital markets have been experiencing unprecedented volatility for over three years. Such negative developments and disruptions have resulted in uncertainty in the financial markets and a general economic downturn. Bank and bank holding company stock prices have been negatively affected, as has the ability of banks and bank holding companies to raise capital or borrow in the debt markets compared to prior years. If current levels of market disruption and volatility continue or worsen, there can be no assurance that we will not experience an adverse effect, which may be material, on our business, financial condition and results of operations or our ability to access capital.

Lakeland s ability to pay dividends is subject to regulatory limitations which, to the extent that our holding company requires such dividends in the future, may affect our holding company s ability to pay its obligations and pay dividends to shareholders.

As a bank holding company, the Company is a separate legal entity from Lakeland and its subsidiaries, and we do not have significant operations of our own. We currently depend on Lakeland s cash and liquidity to pay our operating expenses and dividends to shareholders. The availability of dividends from Lakeland is limited by various statutes and regulations. The inability of the Company to receive dividends from Lakeland could adversely affect our financial condition, results of operations, cash flows and prospects and the Company s ability to pay dividends.

Our allowance for loan and lease losses may not be adequate to cover actual losses.

Like all commercial banks, Lakeland maintains an allowance for loan and lease losses to provide for loan and lease defaults and non-performance. If our allowance for loan and lease losses is not adequate to cover actual loan and lease losses, we may be required to significantly increase future provisions for loan and lease losses, which could materially and adversely affect our operating results. In 2010, we recorded a provision for loan and lease losses of $19.3 million, compared to $51.6 million in 2009. The 2009 loan loss provision included an allocation of $36.5 million for the leasing division and $11.2 million for commercial loans. Our allowance for loan and lease losses is determined by analyzing historical loan and lease losses, current trends in delinquencies and charge-offs, plans for problem loan and lease resolution, the opinions of our regulators, changes in the size and composition of the loan and lease portfolio and industry information. We also consider the possible effects of economic events, which are difficult to predict. The amount of future losses is affected by changes in economic, operating and other conditions, including changes in interest rates, many of which are beyond our control. These losses may exceed our current estimates. Federal regulatory agencies, as an integral part of their examination process, review our loans and the allowance for loan and lease losses. While we believe that our allowance for loan and lease losses in relation to our current loan portfolio is adequate to cover current losses, we cannot assure you that we will not need to increase our allowance for loan and lease losses or that regulators will not require us to increase this allowance. Future increases in our allowance for loan and lease losses could materially and adversely affect our earnings and profitability.

We are subject to various lending and other economic risks that could adversely affect our results of operations and financial condition.

Economic, political and market conditions, trends in industry and finance, legislative and regulatory changes, changes in governmental monetary and fiscal policies and inflation affect our business. These factors are beyond our control. A further deterioration in economic conditions, particularly in New Jersey, could have the following consequences, any of which could materially adversely affect our business:

- loan and lease delinquencies may increase;
- problem assets and foreclosures may increase;
- demand for our products and services may decrease; and
- collateral for loans made by us may decline in value, in turn reducing the borrowing ability of our customers.

Further deterioration in the real estate market, particularly in New Jersey, could adversely affect our business. As real estate values in New Jersey decline, our ability to recover on defaulted loans by selling the underlying real estate is reduced, which increases the possibility that we may suffer losses on defaulted loans.

We may suffer losses in our loan portfolio despite our underwriting practices.

We seek to mitigate the risks inherent in our loan portfolio by adhering to specific underwriting practices. Although we believe that our underwriting criteria are appropriate for the various kinds of loans that we make, we may incur losses on loans that meet our underwriting criteria, and these losses may exceed the amounts set aside as reserves in our allowance for loan and lease losses.

We face strong competition from other financial institutions, financial service companies and other organizations offering services similar to the services that we provide.

Many competitors offer the types of loans and banking services that we offer. These competitors include other state and national banks, savings associations, regional banks and other community banks. We also face competition from many other types of financial institutions, including finance companies, brokerage firms, insurance companies, credit unions, mortgage banks and other financial intermediaries. Many of our competitors have greater financial resources than we do, which may enable them to offer a broader range of services and products, and to advertise more extensively, than we do. Our inability to compete effectively would adversely affect our business.

Declines in value may adversely impact our investment portfolio.

As of December 31, 2010, the Company had approximately $487.1 million and $66.6 million in available for sale and held to maturity investment securities, respectively. In addition, we recorded $128,000 in other-than-temporary impairment charges in our equity security portfolio in 2010. We may be required to record further impairment charges on our investment securities if they suffer a decline in value that is considered other-than-temporary. Numerous factors, including lack of liquidity for sales of certain investment securities, absence of reliable pricing information for investment securities, adverse changes in business climate, adverse actions by regulators, or unanticipated changes in the competitive environment could have a negative effect on our investment portfolio in future periods. If an impairment charge is significant enough it could affect the ability of Lakeland to upstream dividends to us, which could have a material adverse effect on our liquidity and our ability to pay dividends to shareholders and could also negatively impact our regulatory capital ratios.

Concern of customers over deposit insurance may cause a decrease in deposits.

With recent increased concerns about bank failures, customers increasingly are concerned about the extent to which their deposits are insured by the FDIC. Customers may withdraw deposits in an effort to ensure that the amount they have on deposit with their bank is fully insured. Decreases in deposits may adversely affect our funding costs, net income and liquidity.

Further increases in FDIC premiums could have a material adverse effect on our future earnings.

The FDIC insures deposits at FDIC insured financial institutions, including the Bank. The FDIC charges the insured financial institutions premiums to maintain the Deposit Insurance Fund at a certain level. In light of current economic conditions, the FDIC has increased its assessment rates and imposed special assessments. See Business-Supervision and Regulation-Federal Deposit Insurance and Premiums. The FDIC may further increase these rates and impose additional special assessments in the future, which could have a material adverse effect on our future earnings.

A breach of information security could negatively affect our operations, earnings and reputation.

Increasingly, we depend upon data processing, communication and information exchange on a variety of computing platforms and networks, and over the internet. We cannot be certain all our systems are entirely free from vulnerability to attack, despite safeguards we have instituted including independent third party testing. In addition, we rely on the services of a variety of vendors to meet our data processing and communication needs. Disruptions to our vendors systems may arise from events that are wholly or partially beyond our vendors control (including, for example, computer viruses or electrical or telecommunications outages). The occurrence of system failures or security breaches, despite the controls we have instituted, could result in damage to our reputation, increased regulatory scrutiny and financial loss or costs to us.

Any unforeseen transition issues that arise in connection with upgrades to our computer hardware and software systems could adversely affect our business.

In the normal course of business, we upgrade certain hardware and software systems critical to our core banking operations and financial reporting. While we expect these changes to go smoothly, no assurances can be given that unforeseen issues will not arise. Depending on the nature of those issues, if any, and the time and resources necessary to correct or resolve them, our business could be adversely affected.

If we do not successfully integrate any banks that we may acquire in the future, the combined company may be adversely affected.

If we make acquisitions in the future, we will need to integrate the acquired entities into our existing business and systems. We may experience difficulties in accomplishing this integration or in effectively managing the combined company after any future acquisition. Any actual cost savings or revenue enhancements that we may anticipate from a future acquisition will depend on future expense levels and operating results, the timing of certain events and general industry, regulatory and business conditions. Many of these events will be beyond our control, and we cannot assure you that if we make any acquisitions in the future, we will be successful in integrating those businesses into our own.

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ITEM 1B Unresolved Staff Comments

Not Applicable.

ITEM 2 Properties

The Company s principal office is located at 250 Oak Ridge Road, Oak Ridge, New Jersey 07438. It also maintains an operations center in Branchville, New Jersey.

The Company operates 47 banking locations in Bergen, Essex, Morris, Passaic, Sussex and Warren Counties, New Jersey. The following chart provides information about the Company s leased banking locations:

Location	Lease Expiration Date
Bristol Glen	October 31, 2011
Caldwell	September 30, 2024
Carlstadt	July 15, 2016
Cedar Crest	August 19, 2011
Hackensack	March 31, 2013
Hampton	September 30, 2019
Little Falls	November 30, 2015
Madison Avenue	April 30, 2012
North Haledon	June 30, 2017
Park Ridge	December 31, 2014
Pompton Plains	March 31, 2015
Ringwood	February 28, 2013
Rochelle Park	January 12, 2019
Sussex/Wantage	June 19, 2017
Vernon	September 30, 2011
Wantage	October 31, 2011
Wayne	May 31, 2028
Wharton	July 31, 2015
Woodland Commons	August 31, 2016
West Caldwell	March 31, 2029

All other offices of the Company and Lakeland are owned and are unencumbered.

ITEM 3 Legal Proceedings

A complaint, dated February 24, 2010, was filed by the International Association of Machinists and Aerospace Workers, as plaintiff, against the Company and other unrelated parties in the Circuit Court of Maryland for Prince George s County. The plaintiff alleges fraudulent conduct in connection with certain equipment leases it entered into by a vendor and lease broker not affiliated with the Company. Certain of these leases were subsequently assigned to Lakeland resulting in the plaintiff amending the complaint to include all parties who were assignees. The Company believes that the claims asserted against it are without merit.

Other than as described above, there are no pending legal proceedings involving the Company or Lakeland other than those arising in the normal course of business. Management does not anticipate that the potential liability, if any, arising out of such legal proceedings will have a material effect on the financial condition or results of operations of the Company and Lakeland on a consolidated basis.

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ITEM 3A Executive Officers of the Registrant

The following table sets forth the name and age of each executive officer of the Company. Each officer is appointed by the Company s Board of Directors. Unless otherwise indicated, the persons named below have held the position indicated for more than the past five years.

Name and Age	Officer of the Company Since	Position with the Company, its Subsidiary Banks, and Business Experience
Thomas J. Shara Age 53	2008	President and CEO, Lakeland Bancorp, Inc. and Lakeland Bank (April 2, 2008 Present); President and Chief Credit Officer (May 2007 April 1, 2008) and Executive Vice President and Senior Commercial Banking Officer (February 2006 May 2007), TD Banknorth, N.A. s Mid-Atlantic Division; Executive Vice President and Senior Loan Officer, Hudson United Bancorp and Hudson United Bank (prior years to February 2006)
Robert A. Vandenbergh Age 59	1999	Senior Executive Vice President and Chief Operating Officer, Lakeland Bancorp, Inc. and Lakeland Bank (October 2008 Present); Senior Executive Vice President and Chief Lending Officer, Lakeland Bancorp, Inc. and Lakeland Bank (December 2006 October 2008); Executive Vice President and Chief Lending Officer, Lakeland Bancorp, Inc. and Lakeland Bank (October 1999 December 2006)
Joseph F. Hurley Age 60	1999	Executive Vice President and Chief Financial Officer, Lakeland Bancorp, Inc. and Lakeland Bank (November 1999 Present)
Jeffrey J. Buonforte Age 59	1999	Executive Vice President and Senior Government Banking/Business Services Officer, Lakeland Bancorp, Inc. and Lakeland Bank (June 2009 Present); Executive Vice President and Chief Retail Officer, Lakeland Bancorp, Inc. and Lakeland Bank (November 1999 June 2009)
Louis E. Luddecke Age 64	1999	Executive Vice President and Chief Operations Officer, Lakeland Bancorp, Inc. and Lakeland Bank (October 1999 Present)
David S. Yanagisawa Age 59	2008	Executive Vice President and Chief Lending Officer, Lakeland Bancorp, Inc. and Lakeland Bank (November 2008 Present); Senior Vice President, TD Banknorth, N.A. (February 2006 November 2008); Hudson United Bank, Senior Vice President (1997 February 2006)
James R. Noonan Age 59	2003	Executive Vice President and Chief Credit Officer, Lakeland Bancorp, Inc. and Lakeland Bank (December 2003 Present); Senior Vice President and Chief Credit Officer, Lakeland Bancorp, Inc. and Lakeland Bank (March 2003 December 2003)
Ronald E. Schwarz Age 55	2009	Executive Vice President and Chief Retail Officer, Lakeland Bancorp, Inc. and Lakeland Bank (June 2009-Present); Executive Vice President and Market Executive of Sovereign Bank (June 2006 June 2009); Senior Vice President and Director of Retail Banking of Independence Community Bank (June 1999 June 2006)
Timothy J. Matteson, Esq. Age 41	2008	Senior Vice President and General Counsel, Lakeland Bancorp, Inc. and Lakeland Bank (September 2008 Present); Assistant General Counsel, Israel Discount Bank (November 2007 September 2008); Senior Attorney and Senior Vice President, TD Banknorth, N.A. (February 2006 May 2007); General Counsel and Senior Vice President, Hudson United Bancorp and Hudson United Bank (January 2005 February 2006); Commercial Asset Recovery Counsel and Senior Vice President, Hudson United Bank (May 2001 December 2004)

ITEM 4 RESERVED

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PART II

ITEM 5 MARKET FOR THE REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Shares of the common stock of Lakeland Bancorp, Inc. have been traded under the symbol LBAI on the NASDAQ Global Select Market (or the NASDAQ National Market) since February 22, 2000 and in the over the counter market prior to that date. As of December 31, 2010, there were 3,473 shareholders of record of the common stock. The following table sets forth the range of the high and low daily closing prices of the common stock as provided by NASDAQ and dividends declared for the periods presented. All information is adjusted for the Company s 5% stock dividend distributed on February 16, 2011.

	High	Low	Dividends Declared
Year ended December 31, 2010			
First Quarter	$ 8.87	$ 5.63	$ 0.048
Second Quarter	10.72	8.11	0.048
Third Quarter	9.00	7.29	0.048
Fourth Quarter	11.10	7.73	0.057

	High	Low	Dividends Declared
Year ended December 31, 2009			
First Quarter	$ 10.91	$ 5.21	$ 0.095
Second Quarter	11.14	7.60	0.095
Third Quarter	9.57	7.14	0.048
Fourth Quarter	6.92	5.29	0.048

Dividends on the Company s common stock are within the discretion of the Board of Directors of the Company and are dependent upon various factors, including the future earnings and financial condition of the Company and Lakeland and bank regulatory policies. The Company s ability to pay cash dividends is also limited as a result of its participation in the U.S. Department of the Treasury s TARP Capital Purchase Program. See Item 1 Business Supervision and Regulation Dividend Restrictions.

The Bank Holding Company Act of 1956 restricts the amount of dividends the Company can pay. Accordingly, dividends should generally only be paid out of current earnings, as defined.

The New Jersey Banking Act of 1948 restricts the amount of dividends paid on the capital stock of New Jersey chartered banks. Accordingly, no dividends shall be paid by such banks on their capital stock unless, following the payment of such dividends, the capital stock of the bank will be unimpaired and the bank will have a surplus of not less than 50% of its capital stock, or, if not, the payment of such dividend will not reduce the surplus of the bank. Under this limitation, approximately $227.1 million was available for the payment of dividends from Lakeland to the Company as of December 31, 2010.

Capital guidelines and other regulatory requirements may further limit the Company s and Lakeland s ability to pay dividends. See Item 1 Business Supervision and Regulation Dividend Restrictions.

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Performance Graph

The following chart compares the Company s cumulative total shareholder return (on a dividend reinvested basis) over the past five years with the NASDAQ Market Index and the Peer Group Index. The Peer Group Index is the Morningstar (formerly Hemscott) Regional-Northeast Banks Index, which consists of 195 Regional Northeast Banks.

	Period Ending					
Company/Market/Peer Group	**12/31/2005**	**12/31/2006**	**12/31/2007**	**12/31/2008**	**12/31/2009**	**12/31/2010**
Lakeland Bancorp, Inc.	$ 100.00	$ 109.36	$ 91.42	$ 91.77	$ 54.09	$ 95.07
NASDAQ Market Index	100.00	110.26	121.89	73.10	106.23	125.37
Morningstar Regional-Northeast Banks	100.00	114.41	107.47	75.99	72.78	81.25

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ITEM 6 Selected Financial Data

SELECTED CONSOLIDATED FINANCIAL DATA

(Not covered by Report of Independent Registered Public Accounting Firm)

	2010	**2009**	**2008**	**2007**
				(in thousands except per share data)
ed 31				
	$ 125,649	$ 133,822	$ 143,937	$ 136,378
	25,895	40,443	55,358	64,650
	99,754	93,379	88,579	71,728
or se	**19,281**	51,615	23,730	5,976
nt	**17,654**	15,952	17,558	16,858
es)	**1,742**	3,845	53	1,769
	(128)	(940)		
	70,405	73,794	60,071	58,190
s) me fit)	**29,336**	(13,173)	22,389	26,189
	10,125	(7,777)	7,224	8,201
	19,211	(5,396)	15,165	17,988
n	**3,987**	3,194		

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

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

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

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

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

- Unanticipated costs and liabilities and unforeseen accounting charges or fluctuations;
- Delays and difficulties in delivery of services and products;
- Failure to effectively integrate or separate management information systems, personnel, research and development, marketing, sales and support operations;
- Loss of key employees;
- Economic dilution to gross and operating profit;
- Diversion of management’s attention from other business concerns and disruption of our ongoing business;
- Difficulty in maintaining controls and procedures;
- Uncertainty on the part of our existing customers about our ability to operate after a transaction;
- Loss of customers;

- Loss of partnerships;
- Inability to execute our growth plans;
- Declines in revenue and increases in losses;
- Declines in cash balances as a result of cash usage on any acquisition;
- Failure to realize the potential financial or strategic benefits of the acquisition or divestiture; and
- Failure to successfully further develop the combined or remaining technology, resulting in the impairment of amounts recorded as goodwill or other intangible assets.

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

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

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

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

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

Our software and services contain features that allow our technology specialists and other personnel to access, control, monitor and collect information from computers and other devices. Federal, state and foreign government bodies and agencies, however, have adopted or are considering adopting laws and regulations restricting or otherwise regulating the collection, use and disclosure of personal information obtained from consumers and individuals. Those regulations could require costly compliance measures, could reduce the efficiency of our operations, or could require us to modify or cease to provide our systems or services. Liability for violation of, costs of compliance with, and other burdens imposed by such laws and regulations may limit the use and adoption of our services and reduce overall demand for them.

Even the perception of privacy concerns, whether or not valid, may harm our reputation and inhibit adoption of our solutions by current and future customers. In addition, we may face claims about invasion of privacy or inappropriate disclosure, use, storage, or loss of information obtained from our customers. Any imposition of liability could harm our reputation, cause us to lose customers and cause our operating results to suffer.

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

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

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

Our business operates in regulated industries.

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

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

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

We expect to support, among other programs, partners offering home security services and other devices and programs for us in the connected home. Because these services related to programs intended to help protect the lives and property, real and personal, of consumers, we may have greater exposure to liability and litigation risks than businesses that provide support for other consumer and SMB products and services. Our ability to limit our liability for the acts or omissions of our employees in our contract terms with partners and consumers in relation to such programs may be substantially less than in other markets we serve, which is to say, we may have much greater inherent legal liability exposure in such programs than is customarily seen in programs for markets we have offered historically. In the event of litigation with respect to such matters, it is possible that our risk-mitigation provisions in contracts may be deemed not applicable or unenforceable exposing us to substantial liability exposure, and, regardless of the ultimate outcome, we may incur significant costs of defense that could materially and adversely affect our business, financial condition, results of operations and cash flows.

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

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

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

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

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

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

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

- We may not be issued patents we may seek to protect our technology;
- Competitors may independently develop similar technologies or design around any of our patents;

- Patents issued to us may not be broad enough to protect our proprietary rights; and
- Our issued patents could be successfully challenged.

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

Our business relies on the use and licensing of technology. Other parties may assert intellectual property infringement claims against us or our customers, and our products may infringe the intellectual property rights of third parties. For example, our products may infringe patents issued to third parties. In addition, as is increasingly common in the technology sector, we may be confronted with the aggressive enforcement of patents by companies whose primary business activity is to acquire patents for the purpose of offensively asserting them against other companies. From time to time, we have received allegations or claims of intellectual property infringement, and we may receive more claims in the future. We may also be required to pursue litigation to protect our intellectual property rights or defend against allegations of infringement. Intellectual property litigation is expensive and time-consuming and could divert management s attention from our business. The outcome of any litigation is uncertain and could significantly impact our financial results. If there is a successful

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claim of infringement, we may be required to develop non-infringing technology or enter into royalty or license agreements, which may not be available on acceptable terms, if at all. Our failure to develop non-infringing technologies or license proprietary rights on a timely basis would harm our business.

We may face 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. As our employee count grows and consists mostly of hourly (non-exempt) employees working from home, we can also be subject to employee litigation and legal proceedings related to our employment practices attempted on a class or representative basis. Such litigation can be expensive and time-consuming regardless of the merits of any action, and could divert management s attention from our business. The cost of defense can be large as can any settlement or judgment in an action. The outcome of any litigation is uncertain and could significantly impact our financial results. Regardless of outcome, litigation can have an adverse impact on us because of defense costs, negative publicity, diversion of management resources and other factors.

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

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

- Localization of our services, including translation into foreign languages and adaptation for local practices and regulatory requirements;
- Lack of familiarity with and unexpected changes in foreign regulatory requirements;
- Longer accounts receivable payment cycles and difficulties in collecting accounts receivable;
- Difficulties in managing and staffing international operations;
- Fluctuations in currency exchange rates;
- Potentially adverse tax consequences, including the complexities of foreign value added or other tax systems and restrictions on the repatriation of earnings;
- Dependence on certain third parties, including channel partners with whom we do not have extensive experience;
- The burdens of complying with a wide variety of foreign laws and legal standards;
- Increased financial accounting and reporting burdens and complexities;
- Political, social and economic instability abroad, terrorist attacks and security concerns in general; and
- Reduced or varied protection for intellectual property rights in some countries.

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

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

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

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see Note 1 in the accompanying consolidated financial statements for additional information on our goodwill impairment) if events or changes in circumstances indicate that the carrying value may not be recoverable. We assess the impairment of acquired product rights and other finite lived intangible assets whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. If an impairment of our long-lived assets occurs, we will incur non-cash impairment charges.

Actions of activist stockholders against us could be disruptive and costly and the possibility that activist stockholders may wage proxy contests or gain representation on or control of our Board of Directors could cause uncertainty about the strategic direction of our business.

Stockholders may from time to time engage in proxy solicitations, advance stockholder proposals or board nominations or otherwise attempt to effect changes, assert influence or acquire some level of control over us. While our Board of Directors and management team strive to maintain constructive, ongoing communications with all of the Company s stockholders, including activist stockholders, and welcomes their views and opinions with the goal of enhancing value for all stockholders, including any suggestions they may have for enhancing the depth and breadth of our Board, activist campaigns that contest, or conflict with, our strategic direction or seek changes in the composition of our Board could have an adverse effect on us because:

- Responding to proxy contests and other actions by activist stockholders can disrupt our operations, be costly and time-consuming, and divert the attention of our Board and senior management from the pursuit of business strategies, which could adversely affect our results of operations and financial condition;
- Perceived uncertainties as to our future direction as a result of changes to the composition of our Board may lead to the perception of a change in the direction of the business, instability or lack of continuity which may be exploited by our competitors, cause concern to our current or potential clients, may result in the loss of potential business opportunities and make it more difficult to attract and retain qualified personnel and business partners;
- These types of actions could cause significant fluctuations in our stock price based on temporary or speculative market perceptions or other factors that do not necessarily reflect the underlying fundamentals and prospects of our business; and
- If individuals are elected to our Board with a specific agenda, it may adversely affect our ability to effectively implement our business strategy and create additional value for our stockholders.

Delaware law and our certificate of incorporation and bylaws contain anti-takeover provisions, and our Board of Directors adopted a short-term stockholder rights agreement, 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, and our Board of Directors adopted a short-term stockholder rights agreement with an expiration date of October 10, 2016, 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. The rights agreement, however, should not interfere with any merger, tender or exchange offer or other business combination approved by our Board of Directors. Nor does the rights agreement prevent our Board of Directors from considering any offer that it considers to be in the best interest of the Company s stockholders.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

Not applicable.

ITEM 2. PROPERTIES.

Our corporate headquarters is located in Redwood City, California, where we sublease an office facility of approximately 21,620 square feet. The sublease agreement will expire on February 18, 2017. We are in the process of evaluating an expansion of our corporate headquarters to support the growth of the business. We also lease office facilities in Eugene, Oregon (for which the lease agreement will expire on December 31, 2017) and Louisville, Colorado (for which the lease agreement expired on January 31, 2016 and was renewed in 2016 for one year). In addition, we lease an office in Bangalore, India with 6,838 square feet for which the lease will expire on August 31, 2021.

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ITEM 3. LEGAL PROCEEDINGS.

Legal Contingencies

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

On February 7, 2012, a lawsuit seeking class-action certification was filed against the Company in the United States District Court for the Northern District of California, No. 12-CV-00609, alleging that the design of one the Company s software products and the method of promotion to consumers constitute fraudulent inducement, breach of contract, breach of express and implied warranties, and unjust enrichment. On the same day the same plaintiffs law firm filed another action in the United States District Court for the Southern District of New York, No. 12-CV-0963, involving similar allegations against a subsidiary of the Company and one of the Company s partners who distributes our software products, and that partner requested indemnification under contract terms with the Company. The law firm representing the plaintiffs in both cases has filed unrelated class actions in the past against a number of major software providers with similar allegations about those providers products. On May 30, 2013, the Company received final court approval relating to the terms of a settlement of these actions. Under the terms of the settlement, the Company offered a one-time cash payment, covered by the Company s insurance provider, to qualified class-action members; the deadline to submit a claim form concluded on February 28, 2013. In addition, the Company offered a limited free subscription to one of its software products; the deadline for redemptions concluded on August 31, 2013. Therefore, the Company reversed a previous accrual of $57,000 associated with these actions and recorded a benefit in the same amount within interest income and other, net in the condensed consolidated statements of operations for the year ended December 31, 2013. The Company denies any wrongdoing or liability and entered into the settlement to minimize the costs of defense.

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

Guarantees

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

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

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PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Market of Common Stock

Our common stock has been traded publicly on the Nasdaq Global Select Market (Nasdaq) under the symbol SPRT since July 19, 2000. Before July 19, 2000, there was no public market for our common stock. The following table sets forth the highest and lowest sale price of our common stock for the quarters indicated:

	Low	High
Fiscal Year 2015:		
First Quarter	$ 1.56	$ 2.08
Second Quarter	$ 1.38	$ 1.82
Third Quarter	$ 1.09	$ 1.41
Fourth Quarter	$ 0.97	$ 1.27
Fiscal Year 2014:		
First Quarter	$ 2.40	$ 3.87
Second Quarter	$ 2.21	$ 2.71
Third Quarter	$ 2.16	$ 2.81
Fourth Quarter	$ 1.90	$ 2.30

Holders of Record

As of February 29, 2016, there were approximately 113 holders of record of our common stock (not including beneficial holders of stock held in street name).

Dividend Policy

We have not declared or paid any cash dividends on our capital stock since our inception and do not expect to do so in the foreseeable future. We currently anticipate that all future earnings, if any, generated from operations will be retained by us to develop and expand our business. Any future determination with respect to the payment of dividends will be at the discretion of the Board of Directors and will depend on, among other things, our operating results, financial condition and capital requirements, the terms of then-existing indebtedness, general business conditions and such other factors as the Board of Directors deems relevant.

Securities Authorized for Issuance Under Equity Compensation Plans

Information regarding the securities authorized for issuance under our equity compensation plans can be found under Item 12 of Part III of this Report.

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Stock Price Performance Graph

The following graph illustrates a comparison of the cumulative total stockholder return (change in stock price plus reinvested dividends) of the Company s Common Stock and the CRSP Total Return Index for the Nasdaq U.S. Stocks (the Nasdaq Composite Index) and Nasdaq Computer and Data Processing Services Index from December 31, 2010 through December 31, 2015. The graph assumes that $100 was invested on December 31, 2010 in us, the Nasdaq Composite Index and the Nasdaq Computer and Data Processing Services Index and that all dividends were reinvested. No cash dividends have been declared or paid on our common stock. Our common stock has been traded on the Nasdaq since July 19, 2000. The comparisons in the table are required by the SEC and are not intended to forecast or be indicative of possible future performance of our common stock.

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

CUMULATIVE TOTAL RETURN AT PERIOD END

	12/31/10	12/30/11	12/31/12	12/31/13	12/31/14	12/31/15
Support.com, Inc.	$ 100.00	$ 34.72	$ 64.35	$ 58.49	$ 32.56	$ 15.59
Nasdaq Composite Index	$ 100.00	$ 98.20	$ 113.82	$ 157.44	$ 178.53	$ 188.75
Nasdaq Computer Index	$ 100.00	$ 100.49	$ 113.03	$ 149.13	$ 178.78	$ 189.94

The information presented above in the stock performance graph shall not be deemed to be soliciting material or to be filed with the Securities and Exchange Commission or subject to Regulation 14A or 14C, except to the extent that we subsequently specifically request that such information be treated as soliciting material or specifically incorporate it by reference into a filing under the Securities Act of 1933 or Exchange Act.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA.

Support.com is a leading provider of cloud-based software and services for technology support. In June 2009, we sold our legacy Enterprise software business to Consona Corporation and focused our efforts purely on the consumer and SMB markets for technology services, and, more recently, our Support.com Cloud offering (Nexus). Therefore, our audited consolidated financial statements, accompanying notes and other information provided in this Form 10-K reflect the Enterprise business as a discontinued operation for all periods presented in accordance with ASC 360, *Accounting for the Impairment or Disposal of Long-Lived Assets*. The Company currently reports its operations as a single operating segment.

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The information set forth below is not necessarily indicative of results of future operations and should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and related notes included in Items 7 and 8 of Part II of this Report.

	Year Ended December 31,				
	2015(1)	2014(1)	2013(1)	2012	2011
	(In thousands, except per share data)				
Consolidated Statements of Operations Data:					
Revenue:					
Services	$ 72,151	$ 77,272	$ 74,867	$ 57,622	$ 37,248
Software and other	5,182	5,719	13,296	14,332	16,591
Total revenue	77,333	82,991	88,163	71,954	53,839
Cost of revenue:					
Cost of services	61,439	60,606	43,208	37,343	29,919
Cost of software and other	536	840	1,172	1,421	1,744
Total cost of revenue	61,975	61,446	44,380	38,764	31,663
Gross profit	15,358	21,545	43,783	33,190	22,176
Operating expenses:					
Research and development	6,957	5,078	5,735	6,773	6,057
Sales and marketing	8,545	7,206	14,599	18,285	21,791
General and administrative	13,011	11,320	11,376	12,234	12,005
Amortization of intangible assets and other	1,069	1,091	1,321	1,522	866
Goodwill impairment	14,240	—	—	—	—
Total operating expenses	43,822	24,695	33,031	38,814	40,719
Income (loss) from operations	(28,464)	(3,150)	10,752	(5,624)	(18,543)
Interest income and other, net	430	294	369	297	455
Income (loss) from continuing operations, before income taxes	(28,034)	(2,856)	11,121	(5,327)	(18,088)
Income tax provision	(965)	740	772	208	401
Income (loss) from continuing operations, after income taxes	(27,069)	(3,596)	10,349	(5,535)	(18,489)
Income (loss) from discontinued operations, after income taxes	28	113	34	111	(151)
Net income (loss)	$ (27,041)	$ (3,483)	$ 10,383	$ (5,424)	$ (18,640)

Basic earnings (loss) per share:					
Continuing operations, after income taxes	$ (0.50)	$ (0.07)	$ 0.20	$ (0.11)	$ (0.39)
Discontinued operations, after income taxes	0.00	0.01	0.00	0.00	(0.00)
Basic net earnings (loss) per share	$ (0.50)	$ (0.06)	$ 0.20	$ (0.11)	$ (0.39)
Diluted earnings (loss) per share:					
Continuing operations, after income taxes	$ (0.50)	$ (0.07)	$ 0.19	$ (0.11)	$ (0.39)
Discontinued operations, after income taxes	0.00	0.01	0.00	0.00	(0.00)
Diluted net earnings (loss) per share	$ (0.50)	$ (0.06)	$ 0.19	$ (0.11)	$ (0.39)
Shares used in computing per share amounts:					
Basic	54,548	53,834	51,553	48,798	48,288
Diluted	54,548	53,834	53,825	48,798	48,288

(1) Certain amounts in the consolidated financial statements for the year ended December 31, 2013, as well as in the condensed consolidated financial statements for the first and second quarters of 2014, have been reclassified to conform to the current period’s presentation. Please see Note 1 in Notes to the Consolidated Financial Statements for further discussion on Financial Statement Reclassification.

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	December 31,				
	2015	2014	2013	2012	2011
	(in thousands)				
Consolidated Balance Sheet Data:					
Cash, cash equivalents and investments	$ 65,734	$ 73,793	$ 72,357	$ 56,350	$ 53,013
Working capital	$ 67,873	$ 79,758	$ 77,973	$ 54,758	$ 51,168
Total assets	$ 81,492	$ 107,987	$ 106,899	$ 88,259	$ 84,996
Long-term obligations	$ 792	$ 2,201	$ 1,804	$ 1,456	$ 1,575
Accumulated deficit	$ (186,514)	$ (159,473)	$ (155,990)	$ (166,373)	$ (160,949)
Total stockholders' equity	$ 71,346	$ 95,721	$ 95,396	$ 74,163	$ 71,335

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes included elsewhere in this Form 10-K. The following discussion includes forward-looking statements. Please see the section entitled *Risk Factors* in Item 1A of this Report for important information to consider when evaluating these statements.

Overview

Support.com, Inc. is a leading provider of cloud-based software and services that enable technology support for a connected world. Support.com is the choice of leading communications providers, top retailers, and other important brands in software, consumer and business electronics, and connected technology.

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, IoT (Internet of Things) solution providers and technology companies. Our technology support services programs are designed for both the consumer and 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. Most of our technology specialists work from their homes rather than in brick-and-mortar facilities. We are compensated for our services on a per-incident, per-subscription or labor rate basis.

Our Support.com Cloud offering (Nexus®) is a software-as-a-service (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 support agent productivity, providing ease of use for customer self-service, and dramatically improving the customer experience.

Total revenue for the year ended December 31, 2015 decreased by $5.7 million, or 7%, from 2014. Revenue from services decreased by $5.1 million, or 7%, from 2014. The decrease in service revenue was mainly due to 1) a decrease in the Comcast Wireless Gateway program due to call volume declines, which was somewhat offset by an increase in the Xfinity Home program due to a full year of contribution and program growth, 2) a decrease in Office Depot revenue primarily as a result of price reductions provided at the time of the 2014 contract extension and 3) other fluctuations in various programs due to market conditions. Revenue from software and other decreased by $0.5 million, or 9%, from 2014 primarily due to expirations of subscriptions exceeding new subscriptions.

Cost of services for the year ended December 31, 2015 increased by 1% from 2014 primarily as a result of an increase in technology specialists primarily to support new program launches. Cost of software and other for the year ended December 31, 2015 decreased by 36% year-over-year due to lower sales of end-user software products. Total gross margin declined from 26% to 20% year-over-year due to a higher percentage of revenue generated by the lower margin Comcast home networking support bundle program and Comcast Xfinity home program and costs associated with new program launches.

Operating expenses for the year ended December 31, 2015 increased by 77% from 2014. Included in operating expenses was an impairment charge of $14.2 million related to the write-off of goodwill, accounting for 74% of the increase. We expect to increase research and development and sales and marketing investment related to our Support.com Cloud offering (Nexus) during 2016.

Our key goals for 2016 are to increase SaaS revenue from our Support.com Cloud offering (Nexus), to expand existing service programs, to launch service programs with new partners, and to improve service delivery efficiency. We will also execute on our product roadmap to provide automation and analytics that enable companies to deliver superior technology issue resolution while improving both the customer experience and operational performance.

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.

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Critical Accounting Policies and Estimates

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

Revenue Recognition

Our revenue recognition policy is one of our critical accounting policies because revenue is a key component of our results of operations, and revenue recognition is based on complex rules which require us to make judgments. In accordance with the provisions of ASC 605, *Revenue Recognition*, we recognize revenue only when all of the following criteria are met: (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred, (iii) collection is considered probable, and (iv) the fees are fixed or determinable. 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 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 end-user software products, and we employ judgment in determining whether a customer is eligible for a refund based on that customer s specific facts and circumstances. Our Support.com Cloud (Nexus) agreements usually include service level thresholds under which we may be liable for certain financial costs. If our estimates and judgments on any of the foregoing are incorrect, our revenue for one or more periods may be incorrectly recorded. Please see Note 1 in Notes to the Consolidated Financial Statements for further discussion of our revenue recognition policies.

Fair Value Measurements

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

- Level 1 - Quoted prices in active markets for identical assets or liabilities. Therefore, determining fair value for Level 1 instruments generally does not require significant management judgment, and the estimation is not difficult.
- Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 instruments require limited management judgment.
- Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. The determination of fair value for Level 3 instruments requires the most management judgment and subjectivity.

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Our Level 2 securities are priced using quoted market prices for similar instruments, nonbinding market prices that are corroborated by observable market data, or discounted cash flow techniques. Marketable securities, measured at fair value using Level 2 inputs, are primarily comprised of commercial paper, corporate bonds, corporate notes and U.S. government agencies securities. We review trading activity and pricing for these investments as of the measurement date. When sufficient quoted pricing for identical securities is not available, we use market pricing and other observable market inputs for similar securities obtained from various third-party data providers. These inputs either represent quoted prices for similar assets in active markets or have been derived from observable market data.

Purchase Accounting in Business Combinations

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

Accounting for Goodwill and Other Intangible Assets

We test goodwill for impairment annually on September 30 and whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable in accordance with ASC 350, *Intangibles - Goodwill and Other*. Consistent with our assessment that we have only one reporting segment, we test goodwill for impairment at the entity level. We test goodwill using the two-step process required by ASC 350. In the first step, we compare the carrying value of the reporting unit to the fair value based on quoted market prices of our common stock. If the fair value of the reporting unit exceeds the carrying value, goodwill is not considered impaired and no further testing is required. If the carrying value exceeds the fair value, goodwill is potentially impaired and the second step of the impairment test must be performed. In the second step, we compare the implied fair value of the goodwill, as defined by ASC 350, to the carrying value to determine the impairment loss, if any. We performed our annual goodwill impairment tests on September 30, 2014, and 2013 and concluded that there was no impairment.

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

The result of the Company s step one test indicated that the carrying value of the Company s single reporting unit exceeded its estimated fair value. Accordingly, the Company performed the second step test and concluded that its goodwill was fully impaired and thus recorded a non-cash impairment charge of $14.2 million for the quarter ended June 30, 2015.

We assess the impairment of identifiable intangible assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss would be recognized when the sum of the future net cash flows expected to result from the use of the asset and its eventual disposition is less than its carrying value.

During the second and fourth quarter of 2015, based on various quantitative and qualitative factors which included, among others, the continuing decline in the Company s market capitalization, the Company determined that sufficient indicators existed warranting a review of the future net cash flows expected to result from the use of the identifiable intangible assets and their eventual disposition. We determined that asset values were recoverable based on future estimated cash flows and concluded that there was no impairment.

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If our estimates regarding future cash flows derived from such assets were to change, we may record an impairment charge to the value of these assets. Such impairment loss would be measured as the difference between the carrying value of the asset and its fair value.

Stock-Based Compensation

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

Accounting for Income Taxes

We are required to estimate our income taxes in each of the tax jurisdictions in which we operate. This process involves management s estimation of our current tax exposures together with an assessment of temporary differences determined based on the difference between the financial statement and tax basis of certain items. These differences result in net deferred tax assets and liabilities, which are included in our consolidated balance sheet. We must assess the likelihood that we will be able to recover our deferred tax assets. If recovery is not likely, we must increase our provision for taxes by recording a valuation allowance against the deferred tax assets that we estimate will not ultimately be recoverable. We currently have provided a full valuation allowance on our U.S. deferred tax assets that management determined are not likely to be realized due to cumulative net losses since inception and the difficulty in accurately forecasting the Company s results. In addition, we currently have provided a partial valuation allowance on certain 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 deferred tax assets do not include excess tax benefits related to stock-based compensation post ASC 718 adoption. The total excess tax benefit component of our federal and state net operating loss carryforwards is $4.2 million as of December 31, 2015. Consistent with prior years, the excess tax benefit reflected in our net operating loss carryforwards will be accounted for as a credit to stockholders equity, if and when realized. In determining if and when excess tax benefits have been realized, we have elected to utilize the with-and-without approach with respect to such excess tax benefits.

Our income tax calculations are based on the application of the respective U.S. Federal, state or foreign tax law. The Company s tax filings, however, are subject to audit by the respective tax authorities. Accordingly, we recognize tax liabilities based on our estimate of whether, and the extent to which, additional taxes will be due when such estimates are more-likely-than-not to be sustained. An uncertain income tax position will not be recognized if it has less than a 50%

likelihood of being sustained. Our policy is to include interest and penalties related to unrecognized tax benefits as a component of income tax expense. To the extent the final tax liabilities are different than the amounts originally accrued, the increases or decreases are recorded as income tax expense or benefit in the consolidated statements of operations.

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Results of Operations

The following table presents certain Consolidated Statements of Operations data for the periods indicated as a percentage of total revenue:

	Year Ended December 31, 2015	2014	2013
Revenue:			
Services	93 %	93 %	85 %
Software and other	7	7	15
Total revenue	100	100	100
Cost of revenue:			
Cost of services	79	73	49
Cost of software and other	1	1	1
Total cost of revenue	80	74	50
Gross profit	20	26	50
Operating expenses:			
Research and development	9	6	7
Sales and marketing	11	9	17
General and administrative	17	14	13
Amortization of intangible assets and other	1	1	1
Impairment of goodwill	19	—	—
Total operating expenses	57	30	38
Income (loss) from operations	(37)	(4)	12
Interest income and other, net	1	1	1
Income (loss) from continuing operations, before income taxes	(36)	(3)	13
Income tax provision	(1)	1	1
Income (loss) from continuing operations, after income taxes	(35)	(4)	12
Income from discontinued operations, after income taxes	0	0	0
Net income (loss)	(35)	(4)%	12 %

Years Ended December 31, 2015, 2014, and 2013:

Revenue

($ in thousands)	2015	% Change 2014 to 2015	2014	% Change 2013 to 2014	2013
Services	$ 72,151	(7)%	$ 77,272	3 %	$ 74,867
	5,182	(9)%	5,719	(57)%	13,296

Software and other					
Total revenue	$ 77,333	(7)%	$ 82,991	(6)%	$ 88,163

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 the licensing of our Support.com Cloud (Nexus). Services revenue for the year ended December 31, 2015 decreased by $5.1 million from 2014. The decrease in revenue was mainly due to 1) a decrease in the Comcast Wireless Gateway program due to call volume declines, which was somewhat offset by an increase in the Xfinity Home program due to a full year of contribution and program growth, 2) a decrease in Office Depot revenue primarily as a result of price reductions provided at the time of the 2014 contract extension and 3) other fluctuations in various programs due to market conditions. For the year ended December 31, 2015, services revenue generated from our partnerships was $67.4 million compared to $70.9 million for 2014. For the year ended December 31, 2015, direct services revenue was $4.8 million compared to $6.4 million for 2014.

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Services revenue for the year ended December 31, 2014 increased by $2.4 million from 2013. The increase was mainly due to continued growth in our Comcast programs. For the year ended December 31, 2014, services revenue generated from our partnerships was $70.9 million compared to $70.6 million for 2013. For the year ended December 31, 2014, direct services revenue was $6.4 million compared to $4.2 million for 2013.

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 year ended December 31, 2015 decreased by $537,000 from 2014 due to expirations of subscriptions being greater than new subscriptions. For the year ended December 31, 2015, direct software and other revenue was $3.0 million compared to $3.2 million for 2014. For the year ended December 31, 2015, software and other revenue generated from our partnerships was $2.2 million compared to $2.5 million for 2014.

Software and other revenue for the year ended December 31, 2014 decreased by $7.6 million from 2013 due to a decision to discontinue our largest advertising placements in the second half of 2013. For the year ended December 31, 2014, direct software and other revenue was $3.2 million compared to $8.3 million for 2013. For the year ended December 31, 2014, software and other revenue generated from our partnerships was $2.5 million compared to $5.0 million for 2013.

Revenue Mix

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

	Year Ended December 31,		
	2015	**2014**	**2013**
Services	93 %	93 %	85 %
Software and other	7 %	7 %	15 %
Total revenue	100 %	100 %	100 %

We expect that services revenue will increase as a percentage of our total revenue and that software and other revenue will decrease as a percentage of our total revenue over the next year.

For the year ended December 31, 2015, Comcast and Office Depot accounted for 68% and 15%, respectively, of our total revenue. For the year ended December 31, 2014, Comcast and Office Depot accounted for 64% and 16%, respectively, of our total revenue. For the year ended December 31, 2013, Comcast accounted for 53% of our total revenue. Had the Office Depot and OfficeMax merger been effective throughout the year ended December 31, 2013, the combined entity would have accounted for 18% of our total revenue. No other customers accounted for 10% or more of our total revenue in any year presented. Revenue from customers outside the United States accounted for less than 1% of our total revenue in 2015, 2014, and 2013.

Cost of Revenue

($ in thousands)	2015	% Change 2014 to 2015	2014	% Change 2013 to 2014	2013
Cost of services	$ 61,439	1 %	$ 60,606	40 %	$ 43,208
Cost of software and other	$ 536	(36)%	840	(28)%	1,172
Total cost of revenues	$ 61,975	1 %	$ 61,446	38 %	$ 44,380

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 $833,000 in cost of services for the year ended December 31, 2015 compared to 2014 was mainly due to increases in wages and employee benefits in connection with the hiring of additional technology specialists primarily to support new program launches.

The increase of $17.4 million in cost of services for the year ended December 31, 2014 compared to 2013 was mainly due to increases in wages and employee benefits of $13.0 million and in direct technology costs of $1.3 million in connection with the hiring of additional technology specialists primarily for our home networking support bundle program and Xfinity home program with Comcast.

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Cost of software and other. Cost of software and other fees consists primarily of third-party royalty fees for our end-user software products. Certain of these products were developed using third-party research and development resources, and the third party receives royalty payments on sales of products it developed. The decrease of $304,000 in cost of software and other for the year ended December 31, 2015 compared to 2014 was primarily due to lower sales of end-user software products. The decrease of $332,000 in cost of software and other for the year ended December 31, 2014 compared to 2013 was primarily due to lower sales of end-user software products driven by our decision to discontinue our largest advertising placements in the second half of 2013.

Operating expenses

($ in thousands)	2015	% Change 2014 to 2015	2014	% Change 2013 to 2014	2013
Research and development	$ 6,957	37 %	$ 5,078	(11)%	$ 5,735
Sales and marketing	8,545	19 %	7,206	(51)%	14,599
General and administrative	13,011	15 %	11,320	(0)%	11,376
Amortization of intangible assets and other	1,069	(2)%	1,091	(17)%	1,321
Goodwill impairment	14,240	100 %	—	—	—
Total operating expenses	$ 43,822	77 %	$ 24,695	(25)%	$ 33,031

Research and development. Research and development expense consists primarily of compensation costs, third-party consulting expenses and related overhead costs for research and development personnel. Research and development costs are expensed as they are incurred. The increase of $1.9 million in research and development expense for the year ended December 31, 2015 compared to 2014 resulted primarily from increases in salary and wage related expenses due to an increase in headcount. The decrease of $657,000 in research and development expense for the year ended December 31, 2014 compared to 2013 resulted primarily from decreases in salary and employee related expenses including stock-based compensation expense due to a decrease in headcount.

Sales and marketing. Sales and marketing expense consists primarily of compensation costs of business development, program management and marketing personnel, as well as expenses for lead generation and promotional activities, including public relations, advertising and marketing. The increase of $1.3 million in sales and marketing expense for the year ended December 31, 2015 compared to 2014 resulted primarily from increases in salary and wage related expenses due to an increase in headcount.

The decrease of $7.4 million in sales and marketing expense for the year ended December 31, 2014 compared to 2013 resulted from our decision to discontinue our largest advertising placements in the second half of 2013.

General and administrative. General and administrative expense consists primarily of compensation costs and related overhead costs for administrative personnel and professional fees for legal, accounting and other professional services. The increase of $1.7 million in general and administrative expense for the year ended December 31, 2015 compared to 2014 resulted primarily from increases in salary and wage related expenses due to an increase in headcount as well in an increase in professional services.

General and administrative expense for the year ended December 31, 2014 compared to 2013 was consistent year-over-year.

Amortization of intangible assets and other. The amortization of intangible assets and other for the year ended December 31, 2015 was consistent year-over-year. The decrease of $230,000 in amortization of intangible assets and other for the year ended December 31, 2014 compared to 2013 was due to certain intangible assets becoming fully amortized as of the end of 2013.

Interest income and other, net

($ in thousands)	2015	% Change 2014 to 2015	2014	% Change 2013 to 2014	2013
Interest income and other, net	$ 430	46 %	$ 294	(20)%	$ 369

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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 $136,000 for the year ended December 31, 2015 compared to 2014 was primarily due to increased interest on our investments. The decrease in interest income and other, net of $75,000 for the year ended December 31, 2014 compared to 2013 was primarily due to a reversal of a previous legal accrual of $57,000 associated with a class-action lawsuit that was concluded in August 2013.

Income tax provision

($ in thousands)	2015	% Change 2014 to 2015	2014	% Change 2013 to 2014	2013
Income tax provision	$ (965)	(230)%	$ 740	(4)%	$ 772

Income tax provision. The income tax provision (benefit) is comprised of estimates of current taxes due in domestic and foreign jurisdictions. For the year ended December 31, 2015, the income tax provision (benefit) primarily consisted of state income tax, foreign taxes, and tax benefit related to acquisition-related goodwill. For the year ended December 31, 2015, the income tax benefit consisted of $216,000 provision for foreign taxes, $1.2 million benefit for acquisition-related goodwill and $23,000 provision for state income tax. For the year ended December 31, 2014, the income tax provision primarily consisted of state income tax, foreign taxes, and tax expense related to the recording of a deferred tax liability that results from the amortization for income tax purposes of acquisition-related goodwill. For the year ended December 31, 2014, the income tax provision consisted of $422,000 for foreign taxes, $265,000 for amortization for income tax purposes of acquisition-related goodwill and $53,000 for state income tax. For the year ended December 31, 2013, the income tax provision consisted of $351,000 for foreign taxes, $265,000 for amortization for income tax purposes of acquisition-related goodwill and $156,000 for state income tax.

Liquidity and Capital Resources

Total cash, cash equivalents and short-term investments at December 31, 2015 and 2014 was $65.7 million and $73.8 million, respectively. Cash equivalents and short-term investments are comprised of money market funds, certificates of deposit, corporate notes and bonds, and U.S. government agency securities. The decrease in cash, cash equivalents and short-term investments in fiscal year 2015 was primarily due to cash used by operating activities.

Operating Activities

Net cash provided by (used in) operating activities was $(5.5) million for the year ended December 31, 2015, $1.5 million for the year ended December 31, 2014, and $10.2 million for the year ended December 31, 2013. Net cash provided by (used in) operating activities primarily reflects the net income (loss) for the period, adjusted for non-cash items such as stock-based compensation expense, amortization of intangible assets and other, amortization of premiums and discounts on investments, depreciation, warrant-related charges, and changes in operating assets and liabilities.

Net cash used in operating activities during 2015 was the result of a net loss for the period of $(27.0) million, adjusted for non-cash items totaling $17.8 million and changes in operating assets and liabilities of $3.7 million. Adjustment for non-cash items primarily consisted of goodwill impairment of $14.2 million, deferred tax benefits of $1.2 million, stock-based compensation expense of $2.9 million, amortization of intangible assets and other of $1.0 million, and amortization of premiums and discounts on investments of $467,000. Changes in operating assets and liabilities primarily consisted of a decrease in accounts receivable, net, of $4.6 million due to decreased revenues and increased collection efforts and a $(1.4) million decrease in accounts payable offset by a $1.1 million increase in other accrued liabilities due to the timing of payments and invoices received.

Net cash provided by operating activities during 2014 was the result of a net loss for the period of $(3.5) million, adjusted for non-cash items totaling $5.3 million and changes in operating assets and liabilities of $(351,000). Adjustment for non-cash items primarily consisted of stock-based compensation expense of $2.9 million, amortization of intangible assets and other of $1.1 million, and amortization of premiums and discounts on investments of $726,000. The changes in operating assets and liabilities primarily consisted of an increase in accounts receivable, net of $634,000 due to an increase in revenues, a decrease in deferred revenue of $632,000 due to a decrease in sales of services for which revenues are recognized ratably, offset by net increase in accounts payable, accrued compensation, other accrued liabilities and other long-term liabilities of $900,000 due to the timing of payments.

Net cash provided by operating activities during 2013 was the result of net income for the period of $10.4 million, adjusted for non-cash items totaling $7.1 million and changes in operating assets and liabilities of $(7.3) million. Adjustment for non-cash items primarily consisted of stock-based compensation expense of $3.5 million, amortization of intangible assets and other of $1.3 million, warrant-related charges of $777,000, and amortization of premiums and discounts on investments of $646,000. The changes in operating assets and liabilities primarily consisted of an increase in accounts receivable, net of $4.3 million due to an increase in revenues and a decrease in deferred revenue of $3.3 million due to a decrease in sales of services for which revenues are recognized ratably, offset by net increase in accounts payable, accrued compensation, other accrued liabilities and other long-term liabilities of $335,000 due to the timing of payments.

Investing Activities

Net cash provided by (used in) investing activities was $9.9 million for the year ended December 31, 2015, $(7.5) million for the year ended December 31, 2014, and $(19.4) million for the year ended December 31, 2013. Net cash provided by investing activities in 2015 was primarily due to purchases of investments of $(37.7) million and purchases of property and equipment of $(1.9) million offset by sales and maturities of investments of $49.5 million. Net cash used in investing activities in 2014 was primarily due to purchases of investments of $(63.5) million and purchases of property and equipment of $(231,000) offset by sales and maturities of investments of $56.3 million. Net cash used in investing activities in 2013 was primarily due to purchases of investments of $(61.8) million and purchases of property and equipment of $(221,000) offset by sales and maturities of investments of $42.6 million.

Financing Activities

Net cash provided by financing activities was $26,000 for the year ended December 31, 2015, $1.1 million for the year ended December 31, 2014, and $7.0 million for the year ended December 31, 2013. In 2015, cash generated by financing activities was primarily attributable to the purchase of $157,000 of common stock under employee stock purchase plans offset by a reduction of $(131,000) of treasury stock repurchases. In 2014, cash generated by financing activities was primarily attributable to the exercise of employee stock options and the purchase of common stock under employee stock purchase plans. Net cash provided by financing activities in 2013 was from the proceeds of exercises of employee stock options and the purchase of common stock under employee stock purchase plans of $11.0 million offset by the repurchase of shares of $(4.1) million.

Working Capital and Capital Expenditure Requirements

At December 31, 2015, we had stockholders equity of $71.3 million and working capital of $67.9 million. We believe that our existing cash balances will be sufficient to meet our working capital requirements for at least the next 12 months.

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

We plan to continue to make investments in our business during 2016. We believe these investments are essential to creating sustainable growth in our business in the future. Additionally, we may choose to acquire other businesses or complimentary technologies to enhance our product capabilities and such acquisitions would likely require the use of cash.

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Contractual Obligations

The following table summarizes our contractual obligations at December 31, 2015 and the effect these contractual obligations are expected to have on our liquidity and cash flows in future periods (in thousands):

	Payments Due By Period			
	Total	Less than 1 year	1 - 3 Years	More than 3 Years
Operating leases	$ 1,160	$ 588	$ 279	$ 293
Uncertain tax positions, including interest and penalties	614	241	118	255
	$ 1,774	$ 829	$ 397	$ 548

These obligations are for non-cancelable operating leases including our headquarters office and offices to carry out research and development and operations globally.

Off-Balance Sheet Arrangements

At December 31, 2015, we did not have any significant off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of Regulation S-K.

Recent Accounting Pronouncements

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

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which provides guidance for revenue recognition. ASU 2014-09 is applicable to any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets. ASU 2014-09 will supersede the revenue recognition requirements in Topic 605, *Revenue Recognition*, and most industry-specific guidance. The standard s core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled to receive in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under current U.S. GAAP. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. ASU 2014-09 is effective prospectively for fiscal years, and interim reporting periods within those years, beginning after December 15, 2016. We are currently evaluating the impact of the adoption of ASU 2014-09 on our consolidated financial statements.

In April 2015, the FASB issued ASU 2015-05, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer s Accounting for Fees Paid in a Cloud Computing Arrangement.* ASU 2015-05 provides guidance to customers about whether a cloud computing arrangement includes software. If a cloud computing arrangement includes a software license, the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The new guidance does not change the accounting for a customer s accounting for service contracts. ASU 2015-05 is effective for fiscal years, and interim reporting periods within those years, beginning after December 15, 2015 using either of two methods: (i) prospective to all arrangements entered into or materially modified after the effective date and represent a change in accounting principle; or (ii) retrospectively. We are currently evaluating the impact of the adoption of ASU 2015-05 on our consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17, *Balance Sheet Classification of Deferred Taxes (Topic 740),* which simplifies the presentation of deferred income taxes. Under ASU 2015-17, deferred tax assets and liabilities are required to be classified as noncurrent, eliminating the prior requirement to separate deferred

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tax assets and liabilities into current and noncurrent. The new guidance is effective for the Company beginning on January 1, 2017, with early adoption permitted. The standard may be adopted prospectively or retrospectively to all periods presented. The Company is currently assessing the timing of adoption of the new guidance, but does not expect it will have a material impact on the Company s Consolidated Financial Statements.

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

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

Interest Rate and Market Risk

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

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

As of December 31, 2015, we held $38.1 million in short-term investments (excluding cash and cash equivalents), which consisted primarily of government debt securities, corporate notes and bonds, and commercial paper. The weighted average interest rate of our portfolio was approximately 0.53% at December 31, 2015. A decline in interest rates over time would reduce our interest income from our investments. A hypothetical 10% increase or decrease in interest rates, however, would not have a material impact adverse effect on our financial condition.

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 December 31, 2015, we did not engage in foreign currency hedging activities.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.
SUPPORT.COM, INC.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Support.com, Inc.
Redwood City, California

We have audited the accompanying consolidated balance sheets of Support.com, Inc. as of December 31, 2015 and 2014 and the related consolidated statements of operations, comprehensive income (loss), stockholders equity, and cash flows for the years ended December 31, 2015 and 2014. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Support.com, Inc. at December 31, 2015 and 2014, and the results of its operations and its cash flows for the years ended December 31, 2015 and 2014**,** in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Support.com, Inc. s internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 7, 2016 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

San Jose, California
March 7, 2016

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheet of Support.com, Inc. as of December 31, 2013, and the related consolidated statement of operations, comprehensive income (loss), stockholders equity, and cash flows for the year ended December 31, 2013. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Support.com, Inc. at December 31, 2013, and the consolidated results of its operations and its cash flows for the year ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

San Francisco, California
March 7, 2014

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SUPPORT.COM, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands except share and per share data)

	December 31, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$ 27,598	$ 23,354
Short-term investments	38,136	50,439
Accounts receivable, less allowance of $6 and $2 at December 31, 2015 and 2014, respectively	10,019	14,627
Prepaid expenses and other current assets	1,474	1,403
Total current assets	77,227	89,823
Property and equipment, net	1,989	417
Goodwill	—	14,240
Intangible assets, net	1,294	2,363
Other assets	982	1,144
Total assets	$ 81,492	$ 107,987
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 267	$ 1,625
Accrued compensation	2,768	2,792
Other accrued liabilities	4,135	3,029
Short-term deferred revenue	2,184	2,619
Total current liabilities	9,354	10,065
Long-term deferred revenue	102	72
Other long-term liabilities	690	2,129
Total liabilities	10,146	12,266
Commitments and contingencies (Note 5)		
Stockholders' equity:		
Common stock; par value $0.0001, 150,000,000 shares authorized; 56,152,317 issued and 54,860,883 outstanding at December 31, 2015; 55,457,001 issued and 54,264,483 outstanding at December 31, 2014	5	5
Additional paid-in capital	265,324	262,253
Treasury Stock, at cost (1,291,434 shares at December 31, 2015 and 1,192,598 shares at December 31, 2014)	(5,167)	(5,036)
Accumulated other comprehensive loss	(2,302)	(2,028)
Accumulated deficit	(186,514)	(159,473)
Total stockholders' equity	71,346	95,721

Total liabilities and stockholders' equity	$ 81,492	$ 107,987

See accompanying notes.

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SUPPORT.COM, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands except per share data)

	Year Ended December 31,		
	2015	2014	2013
Revenue:			
Services	$ 72,151	$ 77,272	$ 74,867
Software and other	5,182	5,719	13,296
Total revenue	77,333	82,991	88,163
Costs of revenue:			
Cost of services	61,439	60,606	43,208
Cost of software and other	536	840	1,172
Total cost of revenue	61,975	61,446	44,380
Gross profit	15,358	21,545	43,783
Operating expenses:			
Research and development	6,957	5,078	5,735
Sales and marketing	8,545	7,206	14,599
General and administrative	13,011	11,320	11,376
Amortization of intangible assets and other	1,069	1,091	1,321
Goodwill impairment	14,240	—	—
Total operating expenses	43,822	24,695	33,031
Income (loss) from operations	(28,464)	(3,150)	10,752
Interest income and other, net	430	294	369
Income (loss) from continuing operations, before income taxes	(28,034)	(2,856)	11,121
Income tax provision (benefit)	(965)	740	772
Income (loss) from continuing operations, after income taxes	(27,069)	(3,596)	10,349
Income from discontinued operations, after income taxes	28	113	34
Net income (loss)	$ (27,041)	$ (3,483)	$ 10,383
Basic earnings (loss) per share:			
Continuing operations, after income taxes	$ (0.50)	$ (0.07)	$ 0.20
Discontinued operations, after income taxes	0.00	0.01	0.00
Basic net earnings (loss) per share	$ (0.50)	$ (0.06)	$ 0.20
Diluted earnings (loss) per share:			
Continuing operations, after income taxes	$ (0.50)	$ (0.07)	$ 0.19
Discontinued operations, after income taxes	0.00	0.01	0.00

Diluted net earnings (loss) per share	$ (0.50)	$ (0.06)	$ 0.19
Shares used in computing basic net earnings (loss) per share	54,548	53,834	51,553
Shares used in computing diluted net earnings (loss) per share	54,548	53,834	53,825

See accompanying notes.

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

	Year Ended December 31,		
	2015	**2014**	**2013**
Net income (loss)	$ (27,041)	$ (3,483)	$ 10,383
Other comprehensive income (loss):			
Change in foreign currency translation adjustment	(236)	(117)	(357)
Change in net unrealized gain (loss) on investments	(38)	(37)	(16)
Other comprehensive income (loss)	(274)	(154)	(373)
Comprehensive income (loss)	$ (27,315)	$ (3,637)	$ 10,010

See accompanying notes.

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SUPPORT.COM, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands except share data)

	Common Stock				**Accumulated**		
	Shares	**Amount**	**Additional Paid-In Capital**	**Treasury Stock**	**Other Comprehensive Loss**	**Accumulated Deficit**	**Total Stockholders' Equity**
Balances at December 31, 2012	49,809,989	5	242,954	(922)	(1,501)	(166,373)	74,163
Net income	—	—	—	—	—	10,383	10,383
Other comprehensive loss	—		—	—	(373)	—	(373)
Stock-based compensation expense	—	—	3,481	—	—	—	3,481
Issuance of common stock upon exercise of stock options for cash and releases of RSUs	4,392,786	—	8,435	—	—	—	8,435
Issuance of common stock under employee stock purchase plan	79,221	—	290	—	—	—	290
Repurchase of common stock	(1,000,000)	—	2,320	(4,114)	—	—	(1,794)
Warrant-related charges	—	—	777	—	—	—	777
Utilized excess tax benefit	—	—	34	—	—	—	34
Balances at December 31, 2013	53,281,996	5	258,291	(5,036)	(1,874)	(155,990)	95,396
Net loss	—	—	—	—	—	(3,483)	(3,483)
Other comprehensive loss	—	—	—	—	(154)	—	(154)
Stock-based compensation	—	—	2,874	—	—	—	2,874

expense							
Issuance of common stock upon exercise of stock options for cash and releases of RSUs	864,954	—	874	—	—	—	874
Issuance of common stock under employee stock purchase plan	117,533	—	222	—	—	—	222
Utilized excess tax benefit	—	—	(8)	—	—	—	(8)
Balances at December 31, 2014	54,264,483	5	$ 262,253	$ (5,036)	$ (2,028)	$ (159,473)	$ 95,721
Net loss	—	—	—	—	—	(27,041)	(27,041)
Other comprehensive loss	—	—	—	—	(274)	—	(274)
Stock-based compensation expense	—	—	2,914				2,914
Issuance of common stock upon exercise of stock options for cash and releases of RSUs	553,484	—	—	—	—	—	—
Issuance of common stock under employee stock purchase plan	141,752	—	157	—	—	—	157
Repurchase of common stock	(98,836)	—	—	(131)	—	—	(131)
Balances at December 31, 2015	54,860,883	5	$ 265,324	(5,167)	(2,302)	(186,514)	71,346

See accompanying notes.

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

	Year Ended December 31,		
	2015	2014	2013
Operating activities:			
Net income (loss)	$ (27,041)	$ (3,483)	$ 10,383
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Stock-based compensation expense	2,914	2,874	3,481
Amortization of intangible assets and other	1,069	1,091	1,321
Warrant-related charges	—	—	777
Amortization of premiums and discounts on investments	467	726	646
Depreciation	324	275	351
Goodwill impairment	14,240	—	—
Deferred income taxes	(1,167)	326	419
Amortization of purchased technology	—	—	62
Changes in assets and liabilities:			
Accounts receivable, net	4,608	(634)	(4,304)
Prepaid expenses and other current assets	(73)	(82)	32
Other assets	141	(80)	76
Accounts payable	(1,358)	764	414
Accrued compensation	(27)	634	539
Other accrued liabilities	1,101	(331)	(623)
Other long-term liabilities	(261)	10	(103)
Deferred revenue	(405)	(632)	(3,295)
Net cash (used in) provided by operating activities	(5,468)	1,458	10,176
Investing activities:			
Purchases of property and equipment	(1,896)	(231)	(221)
Purchases of investments	(37,695)	(63,510)	(61,779)
Sales of investments	—	—	104
Maturities of investments	49,493	56,275	42,544
Net cash provided (used in) by investing activities	9,902	(7,466)	(19,352)
Financing activities:			
Utilized excess tax benefit	—	(8)	34
Proceeds from issuance of common stock	157	1,096	11,045
Repurchase of common stock	(131)	—	(4,114)

Net cash provided by financing activities	26	1,088	6,965
Net (decrease) increase in cash and cash equivalents	4,460	(4,920)	(2,211)
Effect of exchange rate changes on cash and cash equivalents	(216)	(116)	(251)
Cash and cash equivalents at beginning of year	23,354	28,390	30,852
Cash and cash equivalents at end of year	$ 27,598	$ 23,354	$ 28,390
Supplemental schedule of cash flow information:			
Cash paid for income taxes	$ 193	$ 225	$ 120

See accompanying notes.

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SUPPORT.COM, INC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Organization and Summary of Significant Accounting Policies

Nature of Operations

Support.com, Inc. (Support.com , the Company , We or Our), was incorporated in the state of Delaware on December 3, 1997. Our common stock trades on the Nasdaq Global Select Market (Nasdaq) under the symbol SPRT.

Support.com is a leading provider of cloud-based software and services that enable technology support for a connected world. Our technology support services programs help leading brands create new revenue streams and deepen customer relationships. We offer turnkey, outsourced support services for service providers, retailers and technology companies. Our technology support services programs are designed for both the consumer and small 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 (Nexus) 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.

Basis of Presentation

The consolidated financial statements include the accounts of Support.com and its wholly owned foreign subsidiaries. All intercompany transactions and balances have been eliminated.

In June 2009, we sold our legacy Enterprise software business to Consona Corporation. Therefore, our audited consolidated financial statements and accompanying notes reflect the Enterprise business as a discontinued operation for all periods presented in accordance with ASC 360, *Accounting for the Impairment or Disposal of Long-Lived Assets.*

Foreign Currency Translation

The functional currency of our foreign subsidiaries is generally the local currency. Assets and liabilities of our wholly owned foreign subsidiaries are translated from their respective functional currencies at exchange rates in effect at the balance sheet date, and revenues and expenses are translated at average exchange rates prevailing during the year. Any material resulting translation adjustments are reflected as a separate component of stockholders equity in accumulated other comprehensive income (loss). Realized foreign currency transaction gains (losses) were not material during the years ended December 31, 2015, 2014, and 2013.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes.

The accounting estimates that require management s most significant, difficult and subjective judgments include revenue recognition, the valuation of investments, the assessment of recoverability of intangible assets and their estimated useful lives, the assessment of recoverability of goodwill and indefinite-lived intangible assets, the valuation and recognition of stock-based compensation expense and the recognition and measurement of current and deferred income tax assets and liabilities. Actual results could differ materially from these estimates.

Concentrations of Credit Risk

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

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exposed to credit risks in the event of default by the issuers to the extent of the amount recorded on the balance sheet. The credit risk in our trade accounts receivable is substantially mitigated by our evaluation of the customers financial conditions at the time we enter into business and reasonably short payment terms.

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. Our allowances are made based on a specific review of all significant outstanding invoices. For those invoices not specifically provided for, allowances are recorded at differing rates, based on the age of the receivable. In determining these rates, we analyze our historical collection experience and current payment trends. The determination of past-due accounts is based on contractual terms.

The following table summarizes the allowance for doubtful accounts as of December 31, 2015, 2014, and 2013 (in thousands):

	Balance at Beginning of Period	Adjustments to Costs and Expenses	Write-offs	Balance at End of Period
Allowance for doubtful accounts:				
Year ended December 31, 2013	$ 2	$ 1	$ (3)	$ —
Year ended December 31, 2014	$ —	$ 12	$ (10)	$ 2
Year ended December 31, 2015	$ 2	$ 29	$ (25)	$ 6

As of December 31, 2015, Comcast and Office Depot accounted for approximately 73% and 13%, respectively, of our total accounts receivable. As of December 31, 2014, Comcast accounted for 80% of our total accounts receivable. No other customers accounted for 10% or more of our total accounts receivable as of December 31, 2015 and 2014.

Cash, Cash Equivalents and Investments

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

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

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

At December 31, 2015 and 2014, the estimated fair value of cash, cash equivalents and investments was $65.7 million and $73.8 million, respectively. The following is a summary of cash, cash equivalents and investments at December 31, 2015 and 2014 (in thousands):

	For the Year Ended December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Cash	$ 8,486	$ —	$ —	$ 8,486
Money market fund	19,112	—	—	19,112
Certificates of deposit	2,980	—	(1)	2,979
Commercial paper	996	—	—	996
Corporate notes and bonds	31,255	—	(83)	31,172
U.S. government agency securities	2,996	—	(7)	2,989
	$ 65,825	$ —	$ (91)	$ 65,734
Classified as:				
Cash and cash equivalents	$ 27,598	$ —	$ —	$ 27,598
Short-term investments	38,227	—	(91)	38,136
	$ 65,825	$ —	$ (91)	$ 65,734

	For the Year Ended December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Cash	$ 9,572	$ —	$ —	$ 9,572
Money market fund	9,859	—	—	9,859
Certificates of deposit	3,600	—	(5)	3,595
Commercial paper	2,996	—	—	2,996
Corporate notes and bonds	45,819	—	(48)	45,771
U.S. government agency securities	2,000	—	—	2,000
	$ 73,846	$ —	$ (53)	$ 73,793
Classified as:				
Cash and cash equivalents	$ 23,354	$ —	$ —	$ 23,354
Short-term investments	50,492	—	(53)	50,439
	$ 73,846	$ —	$ (53)	$ 73,793

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

	December 31,	
	2015	2014
Due within one year	$ 23,588	$ 41,449
Due within two years	14,548	8,990

	$ 38,136	$ 50,439

We determined that the gross unrealized losses on our available-for-sale investments as of December 31, 2015 are temporary in nature. The fair value of our available-for-sale securities at December 31, 2015 and 2014 reflects a net unrealized loss of $91,000 and $53,000, respectively. There were no net realized gains (losses) on available-for-sale securities in the years ended December 31, 2015 and 2014. The cost of securities sold is based on the specific identification method.

The following table sets forth the unrealized losses for the Company s available-for-sale investments as of December 31, 2015 and 2014 (in thousands):

As of December 31, 2015	**In Loss Position Less Than 12 Months**		**In Loss Position More Than 12 Months**		**Total In Loss Position**	
Description	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
Certificate of deposits	$ 1,439	$ (1)	$ 240	$ —	$ 1,679	$ (1)
Corporate notes and bonds	20,949	(24)	11,218	(59)	32,167	(83)
U.S. government agency securities	—	—	2,989	(7)	2,989	(7)
Total	$ 22,388	$ (25)	$ 14,447	$ (66)	$ 36,835	$ (91)

As of December 31, 2014	**In Loss Position Less Than 12 Months**		**In Loss Position More Than 12 Months**		**Total In Loss Position**	
Description	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
Certificate of deposits	$ 1,679	$ (1)	$ 1,196	$ (4)	$ 2,875	$ (5)
Corporate notes and bonds	35,364	(29)	7,794	(19)	43,158	(48)
Total	$ 37,043	$ (30)	$ 8,990	$ (23)	$ 46,033	$ (53)

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation which is determined using the straight-line method over the estimated useful lives of two years for computer equipment and software, three 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 they are incurred.

Goodwill

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

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

The Company determined the fair value of its single reporting unit by using a weighted combination of income-based approach and market-based approach, as this combination was deemed the most indicative of the Company s fair value in an orderly transaction between market participants. Under the income-based approach, the Company used a discounted cash flow methodology which recognizes that current value is premised on the expected receipt of future economic benefits. Indications of value are developed by discounting projected future net cash flows to their present value at a rate that reflects both the current return requirements of the market and the risks inherent in the specific investment. The discounted cash flow methodology requires significant judgment by management in selecting an appropriate discount rate, terminal growth rate, weighted average cost of capital, and projection of future net cash flows, which are inherently uncertain. The inputs and assumptions used in this test are classified as Level 3 inputs within the fair value hierarchy. Due to these significant judgments, the fair value of the Company s single reporting unit determined in connection with the goodwill impairment test may

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not necessarily be indicative of the actual value that would be recognized in a future transaction. Under the market-based approach, the Company considered its market capitalization and estimated control premium which was based on a review of comparative market transactions.

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

Long-Lived Assets

We record purchased identifiable intangible assets at fair value. Useful life is estimated as the period over which the identifiable intangible assets are expected to contribute directly or indirectly to the future cash flows of the Company. As we do not believe that we can reliably determine a pattern by which the economic benefits of these identifiable intangible assets will be consumed, management adopted straight-line amortization in accordance with ASC 350. The original cost is amortized on a straight-line basis over the estimated useful life of each identifiable intangible asset.

The Company assesses its long-lived assets, which includes property and equipment and identifiable intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable in accordance with ASC 360, *Property, Plant and Equipment - Impairment or Disposal of Long-Lived Assets.* 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 charge 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.

Revenue Recognition

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

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

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

Services Revenue

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

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

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The technology services described above include four types of offerings:

- Hourly-Based Services - In connection with the provisions of certain services programs, fees are calculated based on contracted hourly rates with partners. For these programs, we recognize revenue as services are performed, based on billable hours of work delivered by our technology specialists. These services programs also include performance standards, which may result in incentives or penalties, which are recognized as earned or incurred.
- Subscriptions - Customers purchase subscriptions or service plans under which certain services are provided over a fixed subscription period. Revenues for subscriptions are recognized ratably over the respective subscription periods.
- Incident-Based Services - Customers purchase a discrete, one-time service. Revenue recognition occurs at the time of service delivery. Fees paid for services sold but not yet delivered are recorded as deferred revenue and recognized at the time of service delivery.
- Service Cards / Gift Cards - Customers purchase a service card or a gift card, which entitles the cardholder to redeem a certain service at a time of their choosing. For these sales, revenue is deferred until the card has been redeemed and the service has been provided.

In certain cases, we are paid for services that are sold but not yet delivered. We initially record such balances as deferred revenue, and recognize revenue when the service has been provided or, on the non-subscription portion of these balances, when the likelihood of the service being redeemed by the customer is remote (services breakage). Based on our historical redemption patterns for these relationships, we believe that the likelihood of a service being delivered more than 90 days after sale is remote. We therefore recognize non-subscription deferred revenue balances older than 90 days as services revenue. For the years ended December 31, 2015, 2014 and 2013, services breakage revenue accounted for less than 1% of our total revenue.

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

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

Services revenue also includes fees from licensing of our Support.com cloud-based software (Nexus). In such arrangements, customers receive a right to use our Support.com Cloud (Nexus) in their own technology support organizations. We license our cloud-based software using a SaaS model under which customers cannot take possession of the technology and pay us on a per-user basis during the term of the arrangement. In addition, services revenue includes fees from implementation services of our cloud-based software. Currently, revenues from implementation services are recognized ratably over the customer life which is estimated as the term of the arrangement once the Support.com Cloud (Nexus) services are made available to customers. We generally charge for these services on a time and material basis.

Software and Other Revenue

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

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.

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

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

Research and Development

Research and development expenditures are charged to operations as they are incurred.

Software Development Costs

Based on our product development process, technological feasibility is established on the completion of a working model. The Company determined that technological feasibility is reached shortly before the product is ready for general release and therefore development costs incurred have been insignificant. Accordingly, we have charged all such costs to research and development expense in the period in which they were incurred in the consolidated statements of operations.

Purchased Technology for Internal Use

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 acquired purchased technology for $350,000 and recorded amortization expense related to this technology of $62,000 in 2013. This technology was fully amortized at December 31, 2013.

Advertising Costs

Advertising costs are recorded as sales and marketing expense in the period in which they are incurred. Advertising expense was $1.2 million, $2.2 million, and $9.2 million for the years ended December 31, 2015, 2014, and 2013, respectively.

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 vesting of restricted stock units (RSUs) using the treasury stock method when dilutive. We excluded outstanding weighted average stock options of 4.2 million, 4.0 million and 1.5 million for the years ended December 31, 2015, 2014 and 2013, respectively, from the calculation of diluted earnings per common share because the exercise prices of these stock options were greater than or equal to the average market value of the common stock. These stock options could be included in the calculation in the future if the average market value of the common stock increases and is greater than the exercise price of these stock options. Since we reported a net loss for the years ended December 31, 2015 and 2014, 86,000 and 150,000 outstanding options and RSUs were also excluded from the computation of diluted loss per share since their effect would have been anti-dilutive.

Pursuant to approval by the Company's Compensation Committee, the Company issued 475,000 stock options to certain key executives on February 09, 2016. These stock options were not included in the computation of the basic and diluted earnings (loss) per share for the year ended December 31, 2015 because they were not outstanding during this period.

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

	Year Ended December 31,		
	2015	**2014**	**2013**
Net income (loss)	(27,041)	$ (3,483)	$ 10,383
Basic:			
Weighted-average shares of common stock outstanding	54,548	53,834	51,553
Shares used in computing basic net earnings (loss) per share	54,548	53,834	51,553
Basic net earnings (loss) per share	$ (0.50)	$ (0.06)	$ 0.20
Diluted:			
Weighted-average shares of common stock outstanding	54,548	53,834	51,553
Add: Common equivalent shares outstanding	—	—	2,272
Shares used in computing diluted net earnings (loss) per share	54,548	53,834	53,825
Diluted net earnings (loss) per share	$ (0.50)	$ (0.06)	$ 0.19

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, 2013	(1,858)	(16)	(1,874)
Current-period other comprehensive loss	(117)	(37)	(154)
Balance as of December 31, 2014	$ (1,975)	$ (53)	$ (2,028)
Current-period other comprehensive loss	(236)	(38)	(274)
Balance as of December 31, 2015	$ (2,211)	$ (91)	$ (2,302)

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

The amounts noted in the consolidated statements of comprehensive loss are shown before taking into account the related income tax impact. The income tax effect allocated to each component of other comprehensive income 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 and options to purchase stock, made to employees and directors based on estimated fair values.

Determining Fair Value of Share-Based Payments

Valuation and Attribution Method: Stock-based compensation expense for service-based stock options and employee stock purchase plan (ESPP) is estimated at the date of grant based on the fair value of awards using the *Black-Scholes-Merton* option pricing model. Stock-based compensation expense for market-based stock options is estimated at the date of grant based on the fair value of awards using the *Monte-Carlo* simulation model. Stock-based compensation expense for RSUs is estimated at the date of grant based on the number of shares granted and the quoted price of the Company s common stock on the grant date. Stock options vest on a graded schedule; however, we recognize the expense over the requisite service period based on the straight-line

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method for service-based stock options and the accelerated method for market-based stock options, which is generally four years for stock options, three years or four years for RSUs and six months for ESPP, net of estimated forfeitures. These limitations require that on any date the compensation cost recognized is at least equal to the portion of the grant-date fair value of the award that is vested at that date. The Company estimates pre-vesting forfeitures at the time of grant by analyzing historical data and revises those estimates in subsequent periods if actual forfeitures differ from those estimates. The total expense recognized over the vesting period will only be for those awards that ultimately vest.

Risk-free Interest Rate: We base our risk-free interest rate on the yield currently available on U.S. Treasury zero coupon issues for the expected term of the stock options.

Expected Term: Our expected term represents the period that our stock options are expected to be outstanding and is determined based on historical experience of similar stock options considering the contractual terms of the stock options, vesting schedules and expectations of future employee behavior.

Expected Volatility: Our expected volatility represents the amount by which the stock price is expected to fluctuate throughout the period that the stock option is outstanding. The expected volatility is based on the historical volatility of the Company s stock.

Expected Dividend: We use a dividend yield of zero, as we have never paid cash dividends and do not expect to pay dividends in the future.

The fair value of our stock-based awards was estimated using the following weighted average assumptions for the years ended December 31, 2015, 2014, and 2013:

	Stock Option Plan			Employee Stock Purchase Plan		
	2015	**2014**	**2013**	**2015**	**2014**	**2013**
Risk-free interest rate	1.2 %	1.6 %	0.9 %	0.2 %	0.1 %	0.1 %
Expected term (in years)	3.8	5.1	3.7	0.5	0.5	0.5
Volatility	53.9 %	57.3 %	57.5 %	41.2 %	49.1 %	48.4 %
Expected dividend	0 %	0 %	0 %	0 %	0 %	0 %
Weighted average grant-date fair value	$ 0.68	$ 1.17	$ 2.02	$ 0.34	$ 0.64	$ 1.24

We recorded the following stock-based compensation expense for the fiscal years ended December 31, 2015, 2014, and 2013 (in thousands):

	For the Year Ended December 31,		
	2015	**2014**	**2013**
Stock-based compensation expense related to grants of:			
Stock options	$ 989	$ 1,110	$ 1,642
ESPP	65	110	106

RSU	1,860	1,654	1,733
	$ 2,914	2,874	$ 3,481
Stock-based compensation expense recognized in:			
Cost of service	$ 234	$ 267	$ 332
Cost of software and others	10	14	12
Research and development	589	479	766
Sales and marketing	381	413	412
General and administrative	1,700	1,701	1,959
	$ 2,914	$ 2,874	$ 3,481

Cash proceeds from the issuance of common stock net of repurchase of common stock were $26,000, $1.1 million, and $6.9 million for the years ended December 31, 2015, 2014, and 2013, respectively. No income tax benefit was realized from stock option exercises during the year ended December 31, 2015. An income tax benefit (charge) of ($8,000) and $34,000 was realized from stock option exercises during the years ended December 31, 2014 and 2013, respectively. In accordance with ASC 718, we present excess tax benefits from the exercise of stock options, if any, as net cash generated in financing activities.

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Income Taxes

Income taxes are accounted for under the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and operating losses and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be reversed or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the consolidated statements of operations in the period that includes the enactment date. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets, if it is more likely than not, that such assets will not be realized.

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 December 31, 2015, we were not required to make any payment resulting from infringement claims asserted against our customers and have not recorded any related accruals.

Fair Value Measurements

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

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- 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 December 31, 2015 and 2014 (in thousands):

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

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

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

Segment Information

In accordance with ASC 280, *Segment Reporting*, the Company reports its operations as a single operating segment and has a single reporting unit. Our Chief Operating Decision Maker (CODM), our Chief Executive Officer, manages our operations on a consolidated basis for purposes of allocating resources. When evaluating performance and allocating resources, the CODM reviews financial information presented on a consolidated basis.

Revenue from customers located outside the United States was less than 1% of total for the years ended December 31, 2015, 2014, and 2013.

For the year ended December 31, 2015, Comcast and Office Depot accounted for approximately 68% and 15%, respectively, of our total revenue. For the year ended December 31, 2014, Comcast and Office Depot accounted for 64% and 16%, respectively, of our total revenue. For the year ended December 31, 2013, Comcast accounted for 53% of our total revenue. Had the Office Depot and OfficeMax merger been effective throughout the year ended December 31, 2013, the combined entity would have accounted for 18% of our total revenue. There were no other customers that accounted for 10% or more of our total revenue in any of the periods presented.

Long-lived assets are attributed to the geographic location in which they are located. We include in long-lived assets all tangible assets. Long-lived assets by geographic areas are as follows (in thousands):

	December 31,	
	2015	2014
United States	$ 1,956	$ 376
India	33	41

Total	$ 1,989	$ 417

Financial Statement Reclassification

Certain amounts in the consolidated financial statements for the year ended December 31, 2013, as well as in the condensed consolidated financial statements for the first and second quarters of 2014, have been reclassified to conform to the current period s presentation. Prior to July 1, 2014, fees from our Support.com Cloud offering (Nexus) were included in software and other revenue. During the quarter ended September 30, 2014, the Company classified these fees as services revenue. In addition, the Company concluded that cost associated with the Support.com Cloud (Nexus) solution was immaterial and therefore did not reclassify this cost from cost of software and other to cost of services. These reclassifications had no impact on previously reported total revenue, net income (loss), and cash flows.

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Recent Accounting Pronouncements

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

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which provides guidance for revenue recognition. ASU 2014-09 is applicable to any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets. ASU 2014-09 will supersede the revenue recognition requirements in Topic 605, *Revenue Recognition*, and most industry-specific guidance. The standard s core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled to receive in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under current U.S. GAAP. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. ASU 2014-09 is effective prospectively for fiscal years, and interim reporting periods within those years, beginning after December 15, 2016. We are currently evaluating the impact of the adoption of ASU 2014-09 on our consolidated financial statements.

In April 2015, the FASB issued ASU 2015-05, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer s Accounting for Fees Paid in a Cloud Computing Arrangement.* ASU 2015-05 provides guidance to customers about whether a cloud computing arrangement includes software. If a cloud computing arrangement includes a software license, the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The new guidance does not change the accounting for a customer s accounting for service contracts. ASU 2015-05 is effective for fiscal years, and interim reporting periods within those years, beginning after December 15, 2015 using either of two methods: (i) prospective to all arrangements entered into or materially modified after the effective date and represent a change in accounting principle; or (ii) retrospectively. We are currently evaluating the impact of the adoption of ASU 2015-05 on our consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17, *Balance Sheet Classification of Deferred Taxes (Topic 740),* which simplifies the presentation of deferred income taxes. Under ASU 2015-17, deferred tax assets and liabilities are required to be classified as noncurrent, eliminating the prior requirement to separate deferred tax assets and liabilities into current and noncurrent. The new guidance is effective for the Company beginning on January 1, 2017, with early adoption permitted. The standard may be adopted prospectively or retrospectively to all periods presented. The Company is currently assessing the timing of adoption of the new guidance, but does not expect it will have a material impact on the Company s Consolidated Financial Statements.

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

Note 2. Warrants

On October 25, 2010, we entered into a Support Services Agreement (the Customer Agreement) with Comcast Cable Communications Management, LLC (Comcast) under which Support.com provides technology support services to customers of Comcast in exchange for fees. In connection with the Customer Agreement, Support.com and Comcast entered into a Warrant Agreement, under which Support.com agreed to issue to Comcast warrants to purchase up to 975,000 shares of Support.com common stock in the future in the event that Comcast meets specified sales milestones under the Customer Agreement. Each warrant, if issued, will have an exercise price per share of $4.9498 and a term of three years from issuance. On September 27, 2011, the

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Company and Comcast amended the Warrant Agreement to extend the expiration date for the performance milestones while maintaining the previously agreed revenue thresholds. The warrants were valued as they were earned, and the resulting value was recorded as a charge against revenue in the period in which the performance milestone was met and the warrant was earned. During the third and fourth quarters of 2013, the performance milestones for the first and second tranche of warrants were met, respectively. Therefore, we issued to Comcast warrants to purchase a total of 490,000 shares of our common stock (warrants to purchase 166,000 shares were issued on September 30, 2013 and warrants to purchase 324,000 shares were issued on December 31, 2013) and recorded warrant-related charges of $777,000 against revenue for the year ended December 31, 2013. The value of the first and second tranche of warrants was estimated using the following weighted-average assumptions: risk-free interest rate of 0.74%, expected term of 3 years, volatility of 59.12% and expected dividend of 0%. The right to receive the final tranche expired on March 31, 2014 due to the termination of the Customer Agreement on such date.

Note 3. Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation, and consist of the following as of December 31, 2015 and 2014 (in thousands):

	December 31,	
	2015	**2014**
Computer equipment and software	$ 4,976	$ 4,796
Furniture and office equipment	187	180
Leasehold improvements	359	360
Construction in progress	1,710	—
	7,232	5,336
Accumulated depreciation	(5,243)	(4,919)
	$ 1,989	$ 417

Depreciation expense was $324,000, $275,000, and $351,000 for the years ended December 31, 2015, 2014, and 2013, respectively.

Note 4. Intangible Assets

Amortization expense related to intangible assets was $1.1 million, $1.1 million, and $1.3 million for the years ended December 31, 2015, 2014 and 2013.

In December 2006, we acquired the use of a toll-free telephone number for cash consideration of $250,000. This asset has an indefinite useful life. The intangible asset is tested for impairment annually or more often if events or changes in circumstances indicate that the carrying value may not be recoverable.

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

	Non-compete	Partner Relationships	Customer Base	Technology Rights	Tradenames	Indefinite Life	Total

						Intangibles	
As of December 31, 2015							
Gross carrying value	$ 593	$ 145	$ 641	$ 5,330	$ 760	$ 250	$ 7,719
Accumulated amortization	(555)	(145)	(545)	(4,474)	(706)	—	(6,425)
Net carrying value	$ 38	$ —	$ 96	$ 856	$ 54	$ 250	1,294
As of December 31, 2014							
Gross carrying value	$ 593	$ 145	$ 641	$ 5,330	$ 760	$ 250	$ 7,719
Accumulated amortization	(527)	(145)	(453)	(3,582)	(649)	—	(5,356)
Net carrying value	$ 66	$ —	$ 188	$ 1,748	$ 111	$ 250	$ 2,363

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

Fiscal Year	**Amount**	
2016	$	1,028
2017		16
Total	$	1,044
Weighted average remaining useful life	0.98 years	

Note 5. Commitments and Contingencies

Lease commitments

Headquarters office lease. On June 7, 2012, we entered into a sublease and master landlord consent agreement for our headquarters office facility located in Redwood City, California. This lease covers approximately 21,620 square feet and will expire on February 18, 2017. The lease provides for escalating payments over the term and rent expense is recognized on a straight-line basis.

Other facility leases. We lease our facilities under non-cancelable operating lease agreements, which expire at various dates through August 2021.

Total facility rent expense pursuant to all operating lease agreements was $548,000, $550,000, and $602,000 for the years ended December 31, 2015, 2014, and 2013, respectively.

As of December 31, 2015, minimum payments due under all non-cancelable lease agreements were as follows (in thousands):

Years ending December 31,	**Operating Leases**	
2016	$	588
2017		177
2018		102
2019		110
Thereafter		183
Total minimum lease and principal payments	$	1,160

Legal contingencies

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

On February 7, 2012, a lawsuit seeking class-action certification was filed against the Company in the United States District Court for the Northern District of California, No. 12-CV-00609, alleging that the design of one the Company s software products and the method of promotion to consumers constitute fraudulent inducement, breach of contract, breach of express and implied warranties, and unjust enrichment. On the same day the same plaintiffs law firm filed another action in the United States District Court for the Southern District of New York, No. 12-CV-0963, involving similar allegations against a subsidiary of the Company and one of the Company s partners who distributes our software products, and that partner has requested indemnification under contract terms with the Company. The law firm representing the plaintiffs in both cases has filed unrelated class actions in the past against a number of major software providers with similar allegations about those providers

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products. On May 30, 2013, the Company received final court approval relating to the terms of a settlement of these actions. Under the terms of the settlement, the Company offered a one-time cash payment, covered by the Company s insurance provider, to qualified class-action members; the deadline to submit a claim form concluded on February 28, 2013. In addition, the Company offered a limited free subscription to one of its software products; the deadline for redemptions concluded on August 31, 2013. Therefore, the Company reversed a previous accrual of $57,000 associated with these actions and recorded a benefit in the same amount within interest income and other, net in the consolidated statements of operations for the year ended December 31, 2013. The Company denies any wrongdoing or liability and entered into the settlement to minimize the costs of defense.

We are also subject to other routine legal proceedings, as well as demands, claims and threatened litigation, that arise in the normal course of our business, potentially including assertions that we may be infringing patents or other intellectual property rights of others. We currently do not believe that the ultimate amount of liability, if any, for 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.

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. We incurred zero and immaterial costs as a result of such obligations during the years ended December 31, 2015 and 2014, respectively. We have not accrued any liabilities related to such obligations in the consolidated financial statements as of December 31, 2015 and 2014.

Note 6. Restructuring Obligations and Other Charges

In the fourth quarter of 2013, the Company implemented a reduction in our work-from-home agent and corporate workforce to reduce our ongoing cost structure. The Company reduced its agent workforce by 210 employees, and its corporate workforce by 15 employees. The affected employees were terminated as of December 30, 2013, with certain corporate employees remaining with the Company for a limited time thereafter. As a result, we recorded a restructuring charge of $317,000 in cost of services, $11,000 in research and development expense, $45,000 in sales and marketing expense and $58,000 in general and administrative expense in the fourth quarter of 2013. The restructuring charge was comprised of employee termination costs. As of December 31, 2013, the balance on this restructuring obligation was $431,000, which we paid in cash during the first quarter of 2014.

Note 7. Other Accrued Liabilities

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

	As of December 31,	
	2015	**2014**
Accrued expenses	$ 2,490	$ 2,502
Self-insurance accruals	953	—
Customer deposits	570	352
Other accrued liabilities	122	175
Total other accrued liabilities	$ 4,135	$ 3,029

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Note 8. Stockholders Equity

Equity Compensation Plan

We adopted the amended and restated 2010 Equity and Performance Incentive Plan (the 2010 Plan), effective as of February 8, 2010. Under the 2010 Plan, the number of shares of Common Stock that may be issued will not exceed in the aggregate 5,000,000 shares of Common Stock plus the number of shares of Common Stock relating to prior awards under the 2000 Omnibus Equity Incentive Plan that expire, are forfeited or are cancelled after the adoption of the 2010 Plan, subject to adjustment as provided in the 2010 Plan. Pursuant to an approval from the Company s shareholders, the number of shares of Common Stock that may be issued under the 2010 Plan was increased by 2,250,000 shares of Common Stock in May 2013. No grants will be made under the 2010 Plan after the tenth anniversary of its effective date. Under our 2010 Plan, as of December 31, 2015, there were approximately 2.7 million shares available for grant.

We adopted the 2014 Inducement Award Plan (the Inducement Plan), effective as of May 13, 2014. Under the Inducement Plan, the number of shares of Common Stock that may be issued will not exceed in the aggregate 2,000,000 shares of Common Stock. Under our Inducement Plan, as of December 31, 2015, there were approximately 475,000 shares available for grant.

Stock Options

The following tables represent stock option activity for the years ended December 31, 2015, 2014, and 2013:

	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, 2012	9,529,597	$ 3.05	3.63	$ 12,595
Granted	557,750	$ 4.74		
Exercised	(4,266,423)	$ 2.52		
Forfeited	(438,533)	$ 4.27		
Outstanding options at December 31, 2013	5,382,391	$ 3.55	3.66	$ 4,039
Granted	1,492,750	$ 2.23		
Exercised	(376,804)	$ 2.32		
Forfeited	(2,982,300)	$ 3.50		
Outstanding options at December 31, 2014	3,516,037	$ 3.16	6.28	$ 3
Granted	892,155	$ 1.63		

Exercised	0		—			
Forfeited	(738,723)	$	3.40			
Outstanding options at December 31, 2015	3,669,469	$	2.74	6.66	$	0
Options vested and expected to vest	3,534,092	$	2.76	6.58	$	0
Exercisable at December 31, 2015	2,019,461	$	3.16	5.02	$	0

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value that would have been received by the option holders had they all exercised their options on December 31, 2015, 2014, and 2013. This amount will change based on the fair market value of our stock. The total aggregate intrinsic value of options exercised under our stock option plans was $0, $71,000, and $8.9 million for the years ended December 31, 2015, 2014, and 2013, respectively. The total fair value of options vested during 2015, 2014, and 2013 was $1.0 million, $845,000, and $1.7 million, respectively.

During the second quarter of 2014, the Company s Compensation Committee approved the grant of (i) 750,000 market-based stock options to the Company s new President and Chief Executive Officer, and

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(ii) 112,500 market-based stock options to certain key executives. The market-based stock options shall only be exercisable, to the extent vested, upon the Company s achievement of specified stock price thresholds. In accordance with ASC 718, the Company estimated the grant-date fair values of its market-based stock options as $1.27 - $1.33 per share with derived service periods of 1.87 - 4.52 years using a Monte-Carlo simulation model.

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

At December 31, 2015, there was $1.2 million of unrecognized compensation cost related to stock options which is expected to be recognized over a weighted average period of 2.02 years.

Employee Stock Purchase Plan

In the second quarter of 2011, to advance the interests of the Company and its stockholders by providing an incentive to attract, retain and reward eligible employees and by motivating such persons to contribute to the growth and profitability of the Company, the Company s Board of Directors and stockholders approved a new Employee Stock Purchase Plan and reserved 1,000,000 shares of our common stock for issuance effective as of May 15, 2011. The ESPP continues in effect for ten (10) years from its effective date unless terminated earlier by the Company. The ESPP consists of six-month offering periods during which employees may enroll in the plan. The purchase price on each purchase date shall not be less than eighty-five percent (85%) of the lesser of (a) the fair market value of a share of stock on the offering date of the offering period, or (b) the fair market value of a share of stock on the purchase date.

A total of 141,752 shares, 117,533 shares, and 79,221 shares were issued under the ESPP during the years ended December 31, 2015, 2014 and 2013, respectively. As of December 31, 2015, approximately 541,561 shares remain available for grant under the ESPP.

Restricted Stock Units

The following table represents RSU activity for the years ended December 31, 2015 and 2014:

	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, 2013	1,658,846	$ 5.09	1.57	$ 6,287
Awarded	964,091	$ 2.36		
Released	(488,150)	$ 4.72		
Forfeited	(670,953)	$ 4.80		
Outstanding RSUs at December 31, 2014	1,463,834	$ 3.51	1.56	$ 3,067
Awarded	1,121,063	$ 1.54		
Released	(554,484)	$ 3.57		
Forfeited	(332,516)	$ 3.23		
Outstanding RSUs at December 31, 2015	1,697,897	$ 2.25	1.41	$ 1,715

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

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

On August 5, 2013, pursuant to approval by the Company s Compensation Committee, the Company issued 725,000 RSUs to its corporate employees. These RSUs vest annually in three equal tranches over three years.

On May 23, 2013, the Board of Directors of the Company approved, based on recommendations of the Compensation Committee, a grant of 48,851 RSUs to non-employee directors. These RSUs vest upon the first anniversary of the grant date.

During the first quarter of 2013, the Company s Compensation Committee approved the grant of RSUs to certain key executives. The RSUs granted to these executives included (i) 249,750 time-based RSUs that vest over a required service period of three years, and (ii) 399,750 performance-based RSUs contingent upon a required service period of three years and as well as the Company s achievement of specified annual performance targets for fiscal year 2013. We measured the grant-date fair value of the performance-based RSUs based upon the closing price of the Company s common stock on the Nasdaq as of the grant date. We expensed the fair value of the performance-based RSUs that were probable of being earned based on our forecasted annual performance for fiscal year 2013.

At December 31, 2015, there was $2.7 million of unrecognized compensation cost related to RSUs which is expected to be recognized over a weighted average period of 2.34 years.

Stock Repurchase Program

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

Treasury Stock

The Board of Directors has given the Company the general authorization to repurchase shares of its common stock to satisfy withholding tax obligations related to vested RSUs granted to certain key executives and non-employee directors. The Company repurchased 98,836 shares at aggregate costs of approximately $131,000 for the year ended December 31, 2015 to satisfy withholding taxes related to stock-based compensation.

Repurchase of Shares

On February 19, 2013, the Company entered into an agreement with Joshua Pickus, the Company s former President and Chief Executive Officer, pursuant to which Mr. Pickus sold directly to the Company on that day 1,000,000 shares of its common stock acquired by him in a same-day exercise of fully vested options which were due to expire at the end of their seven-year term on April 6, 2013. Under the agreement, the purchase price per share was established as an amount equal to the lesser of (a) the closing price of the Company s common stock in regular trading hours on the day of the sale as reported by Nasdaq less 5%, or (b) the thirty-day simple moving average price of the Company s common stock on the day of the sale. This formula produced a purchase price per share of $4.114, less the aggregate strike price due on exercise of the options underlying the repurchased shares of $2.32 per share, which then resulted in a net cash outlay by the Company to acquire the shares of approximately $1.8 million (or $1.794 per share). The agreement was approved by the independent members of the Company s Board of Directors. The share repurchase amounted to $4.1 million and is classified under treasury stock within stockholders equity of the consolidated balance sheets.

Stockholder Rights Agreement

On October 13, 2015, the Board of Directors adopted a short-term stockholder rights agreement and, pursuant thereto, authorized and declared a dividend distribution of one right for each outstanding share of our common stock, par value $0.0001 per share, of the Company to stockholders of record at the close of business on October 30, 2015. Each right, when exercisable, entitles the registered holder to purchase from the Company one one-thousandth of a share of the Company s a newly designated Series A Junior Participating Preferred

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Stock, par value $0.0001 per share, having economic and voting terms similar to the Company s common stock, in that, when issued, each such one one-thousandth of a share receives the voting rights of one share of common stock, at an exercise price of $2.25 per one right, subject to adjustment. When issued, the Series A Junior Participating Preferred Stock has certain liquidation preferences upon liquidation, dissolution or winding up of the Company compared to the Company s common stock. Subject to certain exceptions specified in the rights agreement, the rights will separate from our common stock and become exercisable following (i) the 10th business day (or such later date as may be determined by the Board of Directors) after the public announcement that a person or a group of related persons has acquired beneficial ownership of 15% or more of our common stock, or (ii) the 10th business day (or such later date as may be determined by the Board) after a person or a group of related persons announce or commence a tender or exchange offer that would result in ownership of 15% or more of our common stock by a person or a group of related persons. In that situation, each holder of a right (other than the acquiring person or group, whose rights will become void and will not be exercisable) will have the right to purchase, upon payment of the exercise price, a number of shares of the Company s common stock having a market value of twice such price. In addition, if the Company is acquired in a merger or other business combination by an acquiring person or one of its affiliates after such acquiring person acquires 15% or more of the Company s common stock, each holder of the right will thereafter have the right to purchase, upon payment of the exercise price, a number of shares of common stock of the acquiring person having a market value of twice such price. The acquiring person or group will not be entitled to exercise these rights. Until the rights become exercisable, they will not be evidenced by separate certificates and will trade automatically with shares of the Company s common stock. The rights issued pursuant to the rights agreement expire at or prior to the earlier of (i) October 10, 2016 or (ii) the redemption or exchange of the rights as described in the rights agreement.

Note 9. Income Taxes

The components of our gain (loss) before income taxes are as follows (in thousands):

	Year Ended December 31,		
	2015	**2014**	**2013**
United States	$ (25,754)	$ (3,412)	$ 10,513
Foreign	(2,280)	556	608
Total	$ (28,034)	$ (2,856)	$ 11,121
Gain from discontinued operations, before income taxes	—	—	—
Gain (loss) from continuing operations, before income taxes	$ (28,034)	$ (2,856)	$ 11,121

The provision for income taxes from continuing operations consisted of the following (in thousands):

	Year Ended December 31,		
Current:	**2015**	**2014**	**2013**
Federal	$ —	$ —	$ —
State	23	34	132

Foreign	179	380	221
Total Current	$ 202	$ 414	$ 353
Deferred			
Federal	$ (1,119)	$ 265	$ 265
State	(84)	19	24
Foreign	36	42	130
Total Deferred	$ (1,167)	326	419
Total provision for income taxes	$ (965)	$ 740	$ 772

The provision for income taxes is comprised of estimates of current taxes due in domestic and foreign jurisdictions.

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The reconciliation of the Federal statutory income tax rate to our effective income tax rate is as follows (in thousands):

	Year Ended December 31,		
	2015	2014	2013
Provision at Federal statutory rate	$ (9,812)	$ (1,000)	$ 3,900
State taxes	(60)	53	156
Permanent differences/other	1,370	633	520
Stock-based compensation	762	2,311	1,113
Federal valuation allowance (used) provided	6,775	(1,257)	(4,917)
Provision for income taxes	$ (965)	$ 740	$ 772

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of our deferred tax assets and liabilities are as follows (in thousands):

	December 31,	
	2015	2014
Deferred Tax Assets		
Fixed assets	$ 163	$ 165
Deferred revenue	28	19
Accruals and reserves	428	649
Stock options	1,706	1,663
Net operating loss carryforwards	44,863	42,854
Federal and state credits	3,323	3,327
Foreign credits	152	185
Intangible assets	4,259	1,208
Research and development expense	2,539	—
Gross deferred tax assets	57,461	50,070
Valuation allowance	(57,245)	(49,679)
Total deferred tax assets	216	391
Deferred Tax Liabilities:		
Intangible assets	0	(1,302)
Total deferred tax liability	0	(1,302)
Net deferred tax asset/liabilities	216	$ (911)

ASC 740, *Income Taxes*, provides for the recognition of deferred tax assets if realization of such assets is more likely than not to occur. Based on management s review of both the positive and negative evidence, which includes our historical operating performance, reported cumulative net losses since inception and difficulty in accurately forecasting its results, the Company has concluded that it is not more likely than not that the Company will be able to realize all of the Company s U.S. deferred tax assets. Therefore, the Company has provided a full valuation allowance against its U.S. deferred tax assets.

Based on management s review of both positive and negative evidence, which includes the historical operating performance of our Canadian subsidiary, the Company has concluded that it is more likely than not that the Company will be able to realize a portion of the Company s Canadian deferred tax assets. Therefore, the Company has a partial valuation allowance on Canadian deferred tax assets. There is no valuation allowance against the Company s Indian deferred tax assets. The Company reassesses the need for its valuation allowance on a quarterly basis.

Based on management s review discussed above, the realization of deferred tax assets is dependent on improvements over present levels of consolidated pre-tax income. Until the Company is consistently profitable in the U.S., it will not realize its deferred tax assets. Deferred income taxes have not been provided on the cumulative undistributed earnings of foreign subsidiaries. The amount of such earnings at December 31, 2015

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was $1.6 million. These earnings have been permanently reinvested and the Company does not plan to initiate any action that would precipitate the payment of income tax thereon. It is not practicable to estimate the amount of additional tax that might be payable on undistributed foreign earnings.

The net valuation allowance increased by approximately $7.6 million and decreased by approximately $2.0 million during the years ended December 31, 2015 and 2014, respectively. As of December 31, 2015, $4.8 million of the valuation allowance against federal and state net operating loss carryforwards relates to the tax benefit of stock option exercises that, when realized, will be recorded as a credit to additional paid in capital rather than as a reduction of the provision for income taxes. As of December 31, 2015, the Company had Federal and state net operating loss carryforwards of approximately $126.2 million and $69.4 million, respectively. The Federal net operating loss and credit carryforwards will expire at various dates beginning in 2020 through 2035, if not utilized. The state net operating loss carryforwards will expire at various dates beginning in 2016 through 2035, if not utilized.

The Company also had Federal and state research and development credit carryforwards of approximately $2.8 million and $2.4 million, respectively. The federal credits expire in varying amounts between 2020 and 2031. The state research and development credit carryforwards do not have an expiration date.

Utilization of net operating loss carryforwards and credits may be subject to substantial annual limitation or could be lost due to the ownership change limitations provided by the Internal Revenue Code of 1986, as amended and similar state provisions. The annual limitation may result in the expiration of net operating losses and credits before utilization.

ASC 740-10 clarifies the accounting for uncertainties in income taxes by prescribing guidance for the recognition, de-recognition and measurement in financial statements of income tax positions taken in previously filed tax returns or tax positions expected to be taken in tax returns, including a decision whether to file or not to file in a particular jurisdiction. ASC 740-10 requires the disclosure of any liability created for unrecognized tax benefits. The application of ASC 740-10 may also affect the tax bases of assets and liabilities and therefore may change or create deferred tax liabilities or assets.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

	Year Ended December 31,	
	2015	**2014**
Balance at beginning of year	$ 2,460	$ 2,502
Increase related to prior year tax positions	—	2
Decrease related to prior year tax positions	(78)	(89)
Increase related to current year tax positions	12	181
Settlements with tax authorities	—	—
Decrease related to lapse of statute of limitations	(26)	(136)
Balance at end of year	$ 2,368	$ 2,460

The Company s total amounts of unrecognized tax benefits that, if recognized, that would affect its tax rate are $0.4 million and $0.5 million as of December 31, 2015 and 2014, respectively.

The Company s policy is to include interest and penalties related to unrecognized tax benefits within its provision for (benefit from) income taxes. The Company had $32,000 accrued for payment of interest and penalties related to unrecognized tax benefits as of December 31, 2015. The Company had $176,000 and $111,000 accrued for payment of interest and penalties related to unrecognized tax benefit as of December 31, 2014 and 2013, respectively.

As of December 31, 2015, the amount of recognized tax benefit where it is reasonably possible that a significant change may occur in the next 12 months is approximately $242,000. The change would result from expiration of a statute of limitations in a foreign jurisdiction.

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The Company files federal, state and foreign income tax returns in jurisdictions with varying statutes of limitations. Due to its net operating loss carryforwards, the Company s income tax returns generally remain subject to examination by federal and most state authorities. In our foreign jurisdictions, the 2008 through 2014 tax years remain subject to examination by their respective tax authorities.

We are required to make periodic filings in the jurisdictions where we are deemed to have a presence for tax purposes. We have undergone audits in the past and have paid assessments arising from these audits. Our India entity was issued notices of income tax assessment pertaining to the 2004-2009 fiscal years. The notices claimed that the transfer price used in our inter-company agreements resulted in understated income in our Indian entity. During the fourth quarter of 2014, the Company re-evaluated the probability of its tax position and recorded an ASC 740-10 reserve of $269,000 related to India transfer pricing. The Company s tax position related to India has not changed in 2015 aside from an additional $3,000 increase to the reserve representing accrued interest.

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

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Note 10. Quarterly Financial Information (Unaudited)

Selected quarterly financial information for 2015 and 2014 is as follows:

	Fiscal Year 2015 Quarter Ended			
	Mar. 31, 2015	Jun. 30, 2015	Sept. 30, 2015	Dec. 31, 2015
	(in thousands, except per share data)			
Statements of Operations Data:				
Revenue:				
Services	21,875	19,295	16,563	14,418
Software and other	1,282	1,305	1,302	1,293
Total revenue	23,157	20,600	17,865	15,711
Cost of revenue:				
Cost of services	18,394	15,804	14,357	12,884
Cost of software and other	150	131	128	127
Total cost of revenue	18,544	15,935	14,485	13,011
Gross profit	4,613	4,665	3,380	2,700
Operating expenses:				
Research and development	1,524	1,930	1,790	1,713
Sales and marketing	2,208	2,089	2,195	2,053
General and administrative	3,060	3,076	3,047	3,828
Amortization of intangible assets and other	268	267	267	267
Goodwill impairment	—	14,240	—	—
Total operating expenses	7,060	21,602	7,299	7,861
Loss from operations	(2,447)	(16,937)	(3,919)	(5,161)
Interest income and other, net	100	106	113	111
Income (loss) from continuing operations, before income taxes	(2,347)	(16,831)	(3,806)	(5,050)
Income tax provision	126	(1,227)	60	76
Loss from continuing operations, after income taxes	(2,473)	(15,604)	(3,866)	(5,126)
Income (loss) from discontinued operations, after income taxes	42	(5)	(5)	(4)
Net loss	(2,431)	(15,609)	(3,871)	(5,130)
Basic earnings (loss) per share:				
Loss from continuing operations, after income taxes	(0.05)	(0.29)	(0.07)	(0.09)
Income (loss) from discontinued operations, after income taxes	.01	(0.00)	(0.00)	(0.00)

Basic net loss per share	(0.04)	(0.29)	(0.07)	(0.09)
Diluted earnings (loss) per share:				
Loss from continuing operations, after income taxes	(0.05)	(0.29)	(0.07)	(0.09)
Income (loss) from discontinued operations, after income taxes	.01	(0.00)	(0.00)	(0.00)
Diluted net loss per share	(0.04)	(0.29)	(0.07)	(0.09)

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	Fiscal Year 2014 Quarter Ended			
	Mar. 31, 2014	Jun. 30, 2014	Sept. 30, 2014	Dec. 31, 2014
	(in thousands, except per share data)			
Statements of Operations Data:				
Revenue:				
Services	$ 17,052	$ 18,743	$ 20,844	$ 20,633
Software and other	1,561	1,435	1,387	1,336
Total revenue	18,613	20,178	22,231	21,969
Cost of revenue:				
Cost of services	12,962	14,531	16,020	17,093
Cost of software and other	239	228	189	184
Total cost of revenue	13,201	14,759	16,209	17,277
Gross profit	5,412	5,419	6,022	4,692
Operating expenses:				
Research and development	1,354	1,057	1,203	1,464
Sales and marketing	1,551	1,688	1,782	2,185
General and administrative	2,663	2,980	2,808	2,869
Amortization of intangible assets and other	273	273	273	272
Total operating expenses	5,841	5,998	6,066	6,790
Loss from operations	(429)	(579)	(44)	(2,098)
Interest income and other, net	78	62	77	77
Income (loss) from continuing operations, before income taxes	(351)	(517)	33	(2,021)
Income tax provision	125	132	128	355
Loss from continuing operations, after income taxes	(476)	(649)	(95)	(2,376)
Income (loss) from discontinued operations, after income taxes	(6)	(6)	(6)	131
Net loss	$ (482)	$ (655)	$ (101)	$ (2,245)
Basic earnings (loss) per share:				
Loss from continuing operations, after income taxes	$ (0.01)	$ (0.01)	$ (0.00)	$ (0.04)
Income (loss) from discontinued operations, after income taxes	(0.00)	(0.00)	(0.00)	0.00
Basic net loss per share	$ (0.01)	$ (0.01)	$ (0.00)	$ (0.04)
Diluted earnings (loss) per share:				
Loss from continuing operations, after income taxes	$ (0.01)	$ (0.01)	$ (0.00)	$ (0.04)
	(0.00)	(0.00)	(0.00)	0.00

Income (loss) from discontinued operations, after income taxes				
Diluted net loss per share	$ (0.01)	$ (0.01)	$ (0.00)	$ (0.04)

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES.

None.

ITEM 9A. CONTROLS AND PROCEDURES.

Disclosure controls and procedures.

We maintain disclosure controls and procedures, as such term is defined in Rule 13a-15(e) under 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 are 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 (CEO) and Chief Financial Officer (CFO), 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 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 on 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. Based on an evaluation of the effectiveness of disclosure controls and procedures, our CEO and CFO have concluded that as of the end of the period covered by this Form 10-K our disclosure controls and procedures as defined under Exchange Act Rules 13a-15(e) and 15d-15(e) were effective to provide reasonable assurance that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission and is accumulated and communicated to management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during the fourth quarter of 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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Report of Management on Internal Control over Financial Reporting.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Our internal control system is designed to provide reasonable assurance to our management and Board of Directors regarding the preparation and fair presentation of published financial statements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Under the supervision and with the participation of our management, including our CEO and CFO, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). As part of this evaluation, management established an internal control project team, engaged outside consultants and adopted a project work plan to document and assess the adequacy of our internal control over financial reporting, address any control deficiencies that were identified, and to validate through testing that the controls are functioning as documented. Based on the results of this evaluation, our management has concluded that our internal control over financial reporting was effective as of December 31, 2015 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with generally accepted accounting principles. We reviewed the results of management s assessment with the Audit Committee of Support.com s Board of Directors.

The effectiveness of our internal control over financial report as of December 31, 2015 has been audited by BDO USA, LLP, an independent registered public accounting firm, as stated in their report, which is included herein.

/s/ ELIZABETH CHOLAWSKY
Elizabeth Cholawsky
President and Chief Executive Officer

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

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Report of Independent Registered Public Accounting Firm
on Internal Control over Financial Reporting

Board of Directors and Stockholders
Support.com, Inc.
Redwood City, California

We have audited Support.com, Inc. s internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Support.com, Inc. s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report of Management on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Support.com, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Support.com, Inc. as of

December 31, 2015 and 2014 and the related consolidated statements of operations and comprehensive income (loss), stockholders equity, and cash flows for the year ended December 31, 2015 and 2014 and our report dated March 7, 2016 expressed, for example, an unqualified opinion thereon.

/s/ BDO USA, LLP

San Jose, California
March 7, 2016

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ITEM 9B. OTHER INFORMATION.

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

The information required by Item 10 of Form 10-K with respect to Item 401 of Regulation S-K regarding our directors is incorporated herein by reference from the information contained in the section entitled Directors and Nominees in our definitive Proxy Statement for the 2015 Annual Meeting of Stockholders (the Proxy Statement), a copy of which will be filed with the Securities and Exchange Commission.

The information required by Item 10 of Form 10-K with respect to Item 401 of Regulation S-K regarding our executive officers is incorporated herein by reference from the information contained in the section entitled Executive Compensation and Related Information in our definitive Proxy Statement.

The information required by Item 10 of Form 10-K with respect to Item 405 of Regulation S-K regarding section 16(a) beneficial ownership compliance is incorporated by reference from the information contained in the section entitled Section 16(a) Beneficial Ownership Compliance in our Proxy Statement.

We have adopted a Code of Ethics and Business Conduct for Employees, Officers and Directors which is applicable to all of our directors, executive officers and employees, including our Chief Executive Officer and Chief Financial Officer (our principal executive officer and principal financial and accounting officer, respectively). The Code of Ethics and Business Conduct for Employees, Officers and Directors is available on our website at http://www.support.com/about/investor-relations/corporategovernance. A copy of the Code of Ethics and Business Conduct for Employees, Officers and Directors will be provided without charge to any person who requests it by writing to Support.com, Inc., Investor Relations, 900 Chesapeake Drive, 2nd Floor, Redwood City, CA 94063, or telephoning 1-415-445-3235. We will disclose on our website amendments to or waivers from our Code of Ethics and Business Conduct applicable to our directors or executive officers, including our Chairman, our Chief Executive Officer and our Chief Financial Officer, in accordance with all applicable laws and regulations.

The information required by Item 10 of Form 10-K with respect to Items 407(c)(3), 407(d)(4) and 407(d)(5) of Regulation S-K is incorporated by reference from the information contained in the sections entitled Director Nominations, Corporate Governance and Committees of the Board of Directors in our Proxy Statement.

ITEM 11. EXECUTIVE COMPENSATION.

The information required by Item 11 of Form 10-K is incorporated herein by reference from the information contained in the sections entitled Executive Compensation and Related Information, Director Compensation, Compensation Committee Report and Compensation Committee Interlocks and Insider Participation in our Proxy Statement.

ITEM 12.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The information required by Item 12 of Form 10-K with respect to Item 201 of Regulation S-K regarding securities authorized for issuance under equity compensation plans and Item 403 of Regulation S-K regarding security ownership of certain beneficial owners and management is incorporated herein by reference from the information contained in the section entitled Security Ownership of Certain Beneficial Owners and Management in the Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE.

The information required by Item 13 of Form 10-K is incorporated herein by reference from the information contained in the sections entitled Certain Relationships and Related Transactions, Compensation Committee Interlocks and Insider Participation and Director Independence in our Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

The information required by Item 14 of Form 10-K is incorporated herein by reference from the information contained in the sections entitled Principal Accountant Fees and Services and Audit Committee Pre-Approval Policies and Procedures in our Proxy Statement.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a) The following documents are filed as part of this report:

(1) Financial Statements—See Index to the Consolidated Financial Statements and Supplementary Data in Item 8 of this report.

(2) Financial Statement Schedules.

Schedule II—Valuation and qualifying accounts was omitted as the required disclosures are included in Note 1 to the Consolidated Financial Statements.

All other schedules are omitted since the information required is not applicable or is shown in the Consolidated Financial Statements or notes thereto.

(3) Exhibits—See in Item 15(b) of this report.

(b) Exhibits.

Exhibit	Description of Document
3.1	Restated Certificate of Incorporation, as amended (incorporated by reference to Exhibit 3.1 of Support.com’s annual report on Form 10-K for the year ended December 31, 2001).
3.2	Certificate of Amendment to Support.com’s Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 of Support.com’s current report on Form 8-K filed with the SEC on June 23, 2009).
3.3	Certificate of Designation of Series A Junior Participating Preferred Stock of Support.com (incorporated by reference to Exhibit 3.1 of Support.com’s current report on Form 8-K filed with the SEC on October 14, 2015).
3.4	Amended and Restated Bylaws (incorporated by reference to Exhibit 3.1 of Support.com’s current report on Form 8-K filed with the SEC on February 5, 2016).
4.1	Form of Common Stock Certificate (incorporated by reference to Exhibit 4.1 of Support.com’s quarterly report on Form 10-Q for the quarter ended June 30, 2002).
4.2	Rights Agreement with Computershare Trust Company, N.A., dated October 13, 2015 (incorporated by reference to Exhibit 4.1 of Support.com’s current report on Form 8-K filed with the SEC on October 14, 2015)
10.1*	Support.com’s amended and restated 2010 Equity and Incentive Compensation Plan (incorporated by reference to Exhibit 4.1 of Support.com’s current report on Form 8-K filed with the SEC on May 21, 2010).
10.2*	Support.com’s 2010 Employee Stock Purchase Plan (incorporated by reference to Annex A of Support.com’s definitive proxy statement for Support.com’s 2011 annual meeting of stockholders).
10.3*	Support.com’s 2014 Inducement Award Plan (incorporated by reference to Exhibit 10.2 of Support.com’s current report on Form 8-K filed with the SEC on May 19, 2014).
10.4*	Form of Directors’ and Officers’ Indemnification Agreement (incorporated by reference to Exhibit 10.4 of Support.com’s registration statement on Form S-1 filed with the SEC on February 18, 2000).
10.5*	Amended and Restated Employment Offer Letter between Support.com and Josh Pickus, as amended on July 30, 2009 (incorporated by reference to Exhibit 10.2 of

Support.com's current report on Form 8-K filed with the SEC on July 31, 2009).

10.6*	Employment Offer Letter between Support.com and Roop Lakkaraju, dated October 22, 2013 (incorporated by reference to Exhibit 10.1 of Support.com's current report on Form 8-K filed with the SEC on October 30, 2013).
10.7*	Employment Offer Letter between Support.com and Elizabeth Cholawsky, dated May 8, 2014 (incorporated by reference to Exhibit 10.1 of Support.com's current report on Form 8-K filed with the SEC on May 19, 2014).
10.8*	Form of Stock Option Grant Notification for Officers and Employees (incorporated by reference to Exhibit 10.1(a) of Support.com's quarterly report on Form 10-Q filed on November 5, 2009).

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Exhibit	Description of Document
10.9	Sublease Agreement with TYCO Healthcare Group LP dated June 7, 2012(incorporated by reference to Exhibit 10.1 of Support.com’s quarterly report on form 10-Q filed with the SEC on August 8, 2012).
10.10	Master Services Agreement Call Handling Services between Comcast and Support.com, effective as of October 1, 2013 (incorporated by reference to Exhibit 10.19 of Support.com’s annual report on Form 10-K filed with the SEC on March 7, 2014) (1)
10.11	Statement of Work Number 1 to Master Services Agreement Call Handling Services between Comcast and Support.com, effective as of October 1, 2013 (incorporated by reference to Exhibit 10.20 of Support.com’s annual report on Form 10-K filed with the SEC on March 7, 2014) (1)
10.12	Change Management Form Number 1 under Statement of Work Number 1 to Master Services Agreement Call Handling Services between Comcast and Support.com, effective as of December 22, 2013 (incorporated by reference to Exhibit 10.24 of Support.com’s annual report on Form 10-K filed with the SEC on March 7, 2014 (1)
10.13	Amendment Number 1 to Statement of Work Number 1 to Master Services Agreement Call Handling Services between Comcast and Support.com, effective as of December 31, 2013 (incorporated by reference to Exhibit 10.21 of Support.com’s annual report on Form 10-K filed with the SEC on March 7, 2014)
10.14	Statement of Work Number 2 to Master Services Agreement Call Handling Services between Comcast and Support.com, effective as of December 31, 2013 (incorporated by reference to Exhibit 10.22 of Support.com’s annual report on Form 10-K filed with the SEC on March 7, 2014) (1)
10.15	Statement of Work Number 3 to Master Services Agreement Call Handling Services between Comcast and Support.com, effective as of March 21, 2014 (incorporated by reference to Exhibit 10.3 of Support.com’s quarterly report on Form 10-Q filed with the SEC on May 8, 2014) (1)
10.16	Change Management Form Number 2 under Statement of Work Number 1 to Master Services Agreement Call Handling Services between Comcast and Support.com, effective as of February 27, 2014 (incorporated by reference to Exhibit 10.1 of Support.com’s quarterly report on Form 10-Q filed with the SEC on May 8, 2014) (1)
10.17	Change Management Form Number 3 under Statement of Work Number 1 to Master Services Agreement Call Handling Services between Comcast and Support.com, effective as of March 4, 2014 (incorporated by reference to Exhibit 10.2 of Support.com’s quarterly report on Form 10-Q filed with the SEC on May 8, 2014) (1)
10.18	First Change Management Form to Statement of Work Number 3 to Master Services Agreement Call Handling Services between Comcast and Support.com, effective as of June 4, 2014 (incorporated by reference to Exhibit 10.1 of Support.com’s current report on Form 8-K filed with the SEC on June 11, 2014)
10.19	Reseller Agreement between Comcast and Support.com, effective as of June 6, 2014 (incorporated by reference to Exhibit 10.1 of Support.com’s current report on Form 8-K filed with the SEC on June 18, 2014) (1)
10.20	Change Management Form Number 4 under Statement of Work Number 1 to Master Services Agreement Call Handling Services between Comcast and Support.com, effective as of September 17, 2014 (incorporated by reference to Exhibit 10.1 of

	Support.com's current report on Form 8-K filed with the SEC on October 6, 2014) (1)
10.21	Change Management Form Number 5 under Statement of Work Number 1 to Master Services Agreement Call Handling Services between Comcast and Support.com, effective as of September 18, 2014 (incorporated by reference to Exhibit 10.2 of Support.com's current report on Form 8-K filed with the SEC on October 6, 2014) (1)
10.22	Statement of Work Number 4 to Master Services Agreement Call Handling Services between Comcast and Support.com, effective as of February 6, 2015 (incorporated by reference to Exhibit 10.1 of Support.com's current report on Form 8-K filed with the SEC on February 18, 2015) (1)

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Exhibit	Description of Document
10.23	Compensatory Arrangement between Support.com and Jim Stephens for his term as Executive Chairman and Interim CEO commencing March 25, 2014
10.24	Change Management Form Number 6 under Statement of Work Number 3 to Master Services Agreement Call Handling Services between Comcast and Support.com, effective as of April 6, 2015 (incorporated by reference to Exhibit 10.2 of Support.com's current report on Form 8-K filed with the SEC on April 9, 2015) (1)
10.25	Amendment Number 1 to Statement of Work Number 3 to Master Services Agreement Call Handling Services between Comcast and Support.com, effective as of June 2, 2015 (incorporated by reference to Exhibit 10.2 of Support.com's current report on Form 8-K filed with the SEC on July 2, 2015)
10.26	Change Management Form Number 6 under Statement of Work Number 1 to Master Services Agreement Call Handling Services between Comcast and Support.com, effective as of November 18, 2015 (incorporated by reference to Exhibit 10.1 of Support.com's current report on Form 8-K filed with the SEC on November 24, 2015) (1)
10.27	Change Management Form Number 7 under Statement of Work Number 3 to Master Services Agreement Call Handling Services between Comcast and Support.com, effective as of November 18, 2015 (incorporated by reference to Exhibit 10.2 of Support.com's current report on Form 8-K filed with the SEC on November 24, 2015) (1)
10.28	Form of Directors' and Officers' Indemnification Agreement (incorporated by reference to Exhibit 10.1 of Support.com's current report on Form 8-K filed with the SEC on December 10, 2015).
10.29	Change Management Form Number 1 to Master Services Agreement Call Handling Services between Comcast and Support.com, effective as of December 15, 2015 (incorporated by reference to Exhibit 10.1 of Support.com's current report on Form 8-K filed with the SEC on December 16, 2015) (1)
21.1	Subsidiaries of Support.com, Inc.
23.1	Consent of Independent Registered Public Accounting Firm
24.1	Power of Attorney (see the signature page of this Form 10-K)
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(2)
32.2	Statement of the Chief Financial Officer under 18 U.S.C. § 1350(2)
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

* Denotes an executive or director compensation plan or arrangement.

(1) Confidential treatment has been requested for portions of this exhibit.

(2)

The material contained in Exhibit 32.1 and 32.2 shall not be deemed filed with the SEC and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933 or the Securities Exchange Act of 1934, whether made before or after the date hereof irrespective of any general incorporation language contained in such filing, except to the extent that the registrant specifically incorporates it by reference.

(c) Financial Statement Schedules.

No schedules have been filed because the information required to be set forth therein is not applicable or is shown in the financial statements or related notes included as part of this report.

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SIGNATURES

Pursuant to the requirements of the Section 13 or 15(d) 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, on this 7th day of March, 2016.

SUPPORT.COM, INC.

By: /s/ ELIZABETH CHOLAWSKY
Elizabeth Cholawsky
President and Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Elizabeth Cholawsky and Roop Lakkaraju, and each of them individually, as his or her attorney-in-fact, each with full power of substitution, for him or her in any and all capacities, to sign any and all amendments to this Report on Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that said attorney-in-fact, or his or her substitute, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities and on the dates indicated:

Signature	Title	Date
/s/ ELIZABETH CHOLAWSKY Elizabeth Cholawsky	President and Chief Executive Officer and Director (Principal Executive Officer)	March 7, 2016
/s/ ROOP K. LAKKARAJU Roop K. Lakkaraju	Executive Vice President, Chief Financial Officer and Chief Operating Officer (Principal Financial and Accounting Officer)	March 7, 2016
/s/ JIM STEPHENS Jim Stephens	Chairman of the Board of Directors	March 7, 2016
/s/ SHAWN FARSHCHI Shawn Farshchi	Director	March 7, 2016
/s/ J. MARTIN O’MALLEY J. Martin O’Malley	Director	March 7, 2016

/s/ TONI J. PORTMANN Toni J. Portmann	Director	March 7, 2016

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EXHIBIT INDEX

Exhibit	Description of Document
3.1	Restated Certificate of Incorporation, as amended (incorporated by reference to Exhibit 3.1 of Support.com's annual report on Form 10-K for the year ended December 31, 2001).
3.2	Certificate of Amendment to Support.com's Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 of Support.com's current report on Form 8-K filed with the SEC on June 23, 2009).
3.3	Certificate of Designation of Series A Junior Participating Preferred Stock of Support.com (incorporated by reference to Exhibit 3.1 of Support.com's current report on Form 8-K filed with the SEC on October 14, 2015).
3.4	Amended and Restated Bylaws (incorporated by reference to Exhibit 3.1 of Support.com's current report on Form 8-K filed with the SEC on February 5, 2016).
4.1	Form of Common Stock Certificate (incorporated by reference to Exhibit 4.1 of Support.com's quarterly report on Form 10-Q for the quarter ended June 30, 2002).
4.2	Rights Agreement with Computershare Trust Company, N.A., dated October 13, 2015 (incorporated by reference to Exhibit 4.1 of Support.com's current report on Form 8-K filed with the SEC on October 14, 2015)
10.1*	Support.com's amended and restated 2010 Equity and Incentive Compensation Plan (incorporated by reference to Exhibit 4.1 of Support.com's current report on Form 8-K filed with the SEC on May 21, 2010).
10.2*	Support.com's 2010 Employee Stock Purchase Plan (incorporated by reference to Annex A of Support.com's definitive proxy statement for Support.com's 2011 annual meeting of stockholders).
10.3*	Support.com's 2014 Inducement Award Plan (incorporated by reference to Exhibit 10.2 of Support.com's current report on Form 8-K filed with the SEC on May 19, 2014).
10.4*	Form of Directors' and Officers' Indemnification Agreement (incorporated by reference to Exhibit 10.4 of Support.com's registration statement on Form S-1 filed with the SEC on February 18, 2000).
10.5*	Amended and Restated Employment Offer Letter between Support.com and Josh Pickus, as amended on July 30, 2009 (incorporated by reference to Exhibit 10.2 of Support.com's current report on Form 8-K filed with the SEC on July 31, 2009).
10.6*	Employment Offer Letter between Support.com and Roop Lakkaraju, dated October 22, 2013 (incorporated by reference to Exhibit 10.1 of Support.com's current report on Form 8-K filed with the SEC on October 30, 2013).
10.7*	Employment Offer Letter between Support.com and Elizabeth Cholawsky, dated May 8, 2014 (incorporated by reference to Exhibit 10.1 of Support.com's current report on Form 8-K filed with the SEC on May 19, 2014).
10.8*	Form of Stock Option Grant Notification for Officers and Employees (incorporated by reference to Exhibit 10.1(a) of Support.com's quarterly report on Form 10-Q filed on November 5, 2009).
10.9	

	Sublease Agreement with TYCO Healthcare Group LP dated June 7, 2012(incorporated by reference to Exhibit 10.1 of Support.com's quarterly report on form 10-Q filed with the SEC on August 8, 2012).
10.10	Master Services Agreement Call Handling Services between Comcast and Support.com, effective as of October 1, 2013 (incorporated by reference to Exhibit 10.19 of Support.com's annual report on Form 10-K filed with the SEC on March 7, 2014) (1)
10.11	Statement of Work Number 1 to Master Services Agreement Call Handling Services between Comcast and Support.com, effective as of October 1, 2013 (incorporated by reference to Exhibit 10.20 of Support.com's annual report on Form 10-K filed with the SEC on March 7, 2014) (1)
10.12	Change Management Form Number 1 under Statement of Work Number 1 to Master Services Agreement Call Handling Services between Comcast and Support.com, effective as of December 22, 2013 (incorporated by reference to Exhibit 10.24 of Support.com's annual report on Form 10-K filed with the SEC on March 7, 2014 (1)

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