UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA

In re SUPPORTSOFT, INC. SECURITIES LITIGATION, )

) Master File No.: C 04-5222 SI

) DECLARATION OF JOSEPH STERNBERG IN OPPOSITION TO DEFENDANTS’ MOTION TO DISMISS

) This Document Relates to: All Actions.

) Hearing Date: July 15, 2005
) Hearing Time: 9:00 a.m.
) Courtroom 11

) Before: Honorable Susan Illston

I, Joseph Sternberg, declare as follows:

1. I am an attorney admitted to practice law in the State of New York and have been admitted pro hac vice for purposes of this action. I am a member of the firm of Goodkind Labaton Rudoff & Sucharow LLP, one of the co-lead counsel for plaintiffs in this action.

2. I submit this declaration for the purpose of placing before the Court a document referred to in Plaintiffs’ Memorandum of Points and Authorities in Opposition to Defendants’ Motion to Dismiss the Consolidation Class Action Complaint.

   I declare under penalty of perjury under the laws of the State of California that the foregoing statements are true and correct.

   Executed this 17th day of June 2005 at New York, New York.

   s/ Joseph Sternberg
   Joseph Sternberg
Exhibit A
CORPORATE PARTICIPANTS

Scott Wilson
SupportSoft Inc. - Director of Investor Relations

Radha Basu
SupportSoft Inc. - Chairman, President and CEO

Brian Beattie
SupportSoft Inc. - Chief Financial Officer & EVP of Finance and Administration

CONFERENCE CALL PARTICIPANTS

Amy Fong
JMP Securities - Analyst

Chad Bennett
MNSK - Analyst

Mark Verbeck
Smith Barney - Analyst

SinHua Kang
ThinkEquity Partners - Analyst

Mike Balchin
William Blair - Analyst

Damian Augustine
George Weiss Associates - Analyst

Mira Tagman
Aper Capital - Analyst

PRESENTATION

Operator

Good day, everyone, and welcome to the SupportSoft's third Quarter earnings release conference. As a reminder, today's call is being recorded. At this time, I would like to turn the conference over to Mr. Scott Wilson. Please go ahead, sir.

Scott Wilson - SupportSoft Inc. - Director of Investor Relations

Good afternoon, everyone. Thank you for joining us. We are very disappointed about our performance and execution in Q3, particularly with licensed revenue. Let me review the results for the quarter.

Revenues for Q3 2004 were $2.2 million, a 10% decrease from $3.5 million for the same period last year and a decrease from $16.9 million at the second quarter of 2004. On a GAAP basis, the largest loss for the quarter was $1.3 million, or 0.0 cents per diluted share, including a $1.6 million non-recurring charge related to the acquisition of Core Networks. This compares with net income of $2.6 million, or 1.7 cents per diluted share a year ago, and net income of 4.9 million, or 1.1 cents per diluted share for the previous quarter.

Now, let me go through the results for Q4.

So, what happened in Q3 has been very, very difficult for the SupportSoft team and the results have affected every single person. It is in our DNA to focus and execute flawlessly on all aspects of our business, and for the previous 12 quarters through the toughest economic times and the toughest times for enterprise software companies, we've executed to sequentially increase both the top-line and the bottom-line.

So after Q3 over the past two weeks, we did what we do best: when problems occur. We did a deep dive to do a root-cause analysis. We evaluated the financials, the market, the competitive landscape, and we took a hard look at ourselves. We looked at our product strategy, our go-to-market strategy, our sales and operations strategy. And we made some tough decisions to strengthen our business and improve our financial performance.
analysis of what went wrong, came up with a diagnosis and have started the self-healing process. This deep dive was not only essential for us to understand third quarter but also important for setting guidance in 2005 outlook and to see what needed to be fixed. We looked at what happened in the third quarter from three different perspectives. We wanted to understand this is a one-time trip and we will be right back on track in Q4 and just keep moving along was this a more fundamental problem with the focus of the company and issue with our strategy and products or was this a problem that was tactical in our execution.

I have to tell you that along with the entire executive team, I’ve been personally involved in this deep dive, and our assessment is this: We strongly, strongly believe that we have excellent technologies and products and solid products that are delivering value to our customers and solving critical problems for them. We have loyal customers, local blue chip customer base who agree with this, within all of our three market segments - enterprise, MSP and DSP, that not only like us and come back to us for additional products and services but they are also willing to share their results and their metrics with other people. We have an excellent core team of culture built around execution and the company has proven financial discipline and a strong cash base.

So we believe, and I personally believe, that the fundamentals are there and very strong. So, what went wrong and most importantly, what do we need to fix? What did lead to the miss in Q3? Our view is that some of the issues were in the quarter and some of them were issues from the year, which finally caught up with us.

In the quarter, sales execution was definitely an issue. Knowing what it takes to close business in the SOM in the Sarbanes-Oxley environment, the veracity, the deep dive and veracity of the pipeline, and having the right people in the highest growth areas and having the right people there.

We had heard repeatedly since the beginning of this year from other software companies that it takes twice as long, and many more signatures to close deals. So, what happened to many software companies in Q1 and many (technical difficulty).

Operator
We ask that you please stand by as we resume the conference. You’re holding for a conference call, the conference should resume shortly. Thank you for standing by.

Radha Bans - SupportSoft Inc. - Chairman, President and CEO
OK. I’m sorry. Somehow we got dropped off. The first time that’s happened as well. So, I was saying we had eight deals, which did not close at the end of the quarter. We had not lost any of them. The first of these eight deals is done. Several are tied up close to close by end of the month, and let me be clear, None have fallen off and we are favorably working the rest of them.

Secondly, while we came into probably the strongest pipeline that we’ve had over the last few quarters and with good success in Q3 in closing that pipeline, the drill down to absolutely confront the veracity of the pipeline could have been done better and completed as it should have. We are definitely doing that with the Q4 pipeline. We’re looking at every deal with a microscope and our new VP of North American Enterprise Sales is helping us to do this even more thoroughly. As you know, he comes with background from Siebel and Oracle.

The other thing that we found that we need a very strong technical team, especially internationally and on the street, and this is critical to moving the deals along and ultimately getting the deals signed off. This includes technical account management, services, consulting, and it means investing ahead of the curve. So, the challenge is more than just drilling down on the deals. It is about having a more holistic approach to billing, it means sales, products, SP services, technical account managers, consulting guys that are all aligned, that the feet are on the same ship and in place, and this is especially true for the international business.

These were some of the things that happened within the quarter. Then when we look at things that were developing over the year that we got caught on or manifested itself in Q3 strongly. We have been moving from a turn to a perpetual model. Some of it is because existing customers renewed their term licenses; especially the ones that were particularly happy with us, renewed them on a perpetual basis and have contributed to this. However, at a business model level, this goes against the fundamentals of the company going back five years what we pioneered the term "License model" in the very early stages in - of the company, and emphasize the
criticality of the models for carry forward for overall business visibility. This company has got to back to at least 50% of its business coming from the model itself. We cannot have term licenses revenue go up and down. Now is the time to start rebuilding our term license revenue, the visibility, the backlog, everything that until Q3 was very strong going forward. I still believe a 50:50 split is correct, which built up backlog, builds up a lot of things, gives us visibility into the quarter, go into quarters with 50:50, 60% visibility, gives us visibility in the year with 40:50. And that's one of the reasons why, when I get to the guidance, you will see we have focused on building up that backlog and the visibility and the term licenses.

The second thing from a catch-up standpoint was our execution on the enterprise product roadmap and in the enterprise business. Last November, we laid out our enterprise strategy, and we feel and continue to feel that the strategy is right on as we bring together endpoint management with service and support automation. Our customers in the market have strongly validated our real-time service management strategy. We believe we needed to bring new products, and by products, I mean the big IP, not the small IP, it just in products being shipped out. This combines technology, servers, services, partners, education, to complete that strategy, and we believe that we would have to do an M&A to accomplish that. Well, the M&A did not happen. Whenever we looked at companies, they did not meet our financial criteria because we've had such a strong financial performance and as a result, we got delayed in the introduction of some of these products, and believe me, that is happening now. These products, those strategies, those investments have happened, and they not only getting fixed, it's getting fixed with gritty determination and will give us our sales organization, and I should say, our sales organization is getting the right product to hit upon the key cost point, endpoint automation, mobile, and remote desktop with both, healing and repair, verification, virus remediation, compliance, updates, products that will help us to close business faster and complete our RSM strategy, I was in an all-day sales management meeting, and all the people believed that we are right on with it, and it is in place.

Let's go to the DSIBusiness. This is a very successful business for us in the broadband, and we have the Lane's in the market share in the US. We said at the beginning of the year, one of our top priorities was to take this internationally, I do not feel that we have executed as well on that. We are still working on getting a VP of EMEA. Our products need to meet the requirements of the international market, locate supporting many models and OPEX devices and we needed to have the right technical services organization in place, again ahead of selling in those markets. We got there in the third quarter, but we didn't in the second or the first. We got there in the third quarter. The results of that will go into the fourth quarter and into 2005, and you'll see what then discloses, our international business is starting to grow, as well as our customers.

We also needed, along with the sales and the products, to build market awareness and visibility in Europe and Japan and Asia. The broadband business is growing tremendously in Asia and in Europe as well, and we needed to build that market awareness. We did that very well at the broadband world forum in the third quarter, but the last of exposure in the market earlier in the year came to hurt us in Q3.

The third reason is something that I think this has been the flip side of superb execution in the company, which is a bit of under investment, which is kind of cultural to us in terms of how we look at things. Which is by the way, what made us successful through 13 quarters, keeping extensive flat one quarter behind revenue growth. This has caused us to be under invested in some key areas for probably close to a year or so.

This under investment in head count and also more importantly, under investment is programmatic spending like getting awareness and visibility, having the right people in place and if necessary, changing them out and doing that very quickly I don't think happens fast enough. Our people have us with a little bit, and again something that we've actively changing — well, I should say have changed.

Our focus growing — growing forward is to emphasize it, and this is a huge priority, growth on the top line and ensure, which we do that we continue to have to build and loyal customers, that they get the payback that they're invested in while maintaining financial prudence which, of course, comes naturally to us.

So in summary, the fundamentals are strong. We've had some problems, some in the third quarter, some which have been building for a long time. We've done the deep dive, done the diagnosis, are in the process of doing the healing and building back up. The commitment that I make to you is that we are currently fixing these problems. We have tiger teams focus on these issues, and you know us. We will be gritty and
stumbling in solving these issues and moving the track forward as we've done for the last many years.

Let me turn to the guidance. Brian and I used the following factors to get to the guidance. The shortfall in Q3. Easy to say that it only affects Q3, but it affects Q3 and Q4 because there's a reduced carry-forward, and if we want to stick to ours, what percentage we carry forward and what percentage visibility and carry-forward we have, the shortfall in Q3 does affect bookings. Seeking some of the under investment, we'll see us going up in our expenses in Q4 and a very important fact: while the eight deals came forward and we expect to go forward and close some, are closing some this month and closing some in the rest of the quarter, I truly believe that Sarbanes-Oxley is still affecting deals in Q4 and we don't know all the details about what it will take to get deals signed in Q4 as people finished testing the controls and put those controls in place and are fully Sarbanes-Oxley compliant. So we've taken a cautious outlook for the fall fourth quarter.

SupportSoft expects revenues to be between 14.2 million and 14.8 million for the fourth quarter of 2004. Earnings per share for the fourth quarter are expected to be in the range of 1 cent to 3 cents. The company's guidance for full year 2004 is for revenues in the range of 59.9 to 79.7 million, which actually represents 11 to 23% growth over 2003.

Earnings per share for the full year 2004 are expected to be between 20 cents and 22 cents. This is all on a GAAP basis, including full impact of CoreNetGroup acquisition.

With this, let me turn over to Brian and I'll come back and finish up the call.

Brian Beattie - SupportSoft Inc. - Chief Financial Officer & EVP of Finance and Administration

Well, thank you. Before we dive in on financials, I'd like to highlight that both our revenues and EPS came in line with our preliminary financial results that we announced on October 4th.

Now starting with the income statement, revenues for the third quarter were 12.2 million compared with 16.9 million for the prior quarter and 13.5 million in the prior year's quarter. Licensed revenue for the third quarter was 3.7 million, as compared to 11.5 million in the prior quarter and 10.4 million a year ago reflecting lower than expected bookings in the third quarter.

Perpetual license revenues were 3.6 million, or 63% of our total license revenues and in the prior quarter, our perpetual license revenues were 8.6 million, or 73% of our total license revenues.

Total services revenues continue to grow, reaching 6.3 million, a 20% increase compared with 5.4 million last quarter, and 3.1 million a year ago. We more than doubled our performance year-over-year. Revenue from maintenance contracts was approximately 45% of this total at the quarter remained from professional services and training.

Service revenues continued their upward trend, reflecting the increased demand for professional services and the higher maintenance revenues. International revenues were 1.5 million this quarter. It grew up $2.50 million from 1.3 million in the previous quarter and $500,000 in the same period a year ago. Our digital service provider customers represented approximately two thirds of our total revenues this quarter. Our DSp business slowed slight growth in the quarter, while our enterprise business represented the majority of the shortfall.

In terms of sales distribution, our direct sales force contributed 88% of total revenues in the third quarter, while indirect channels consisting primarily of ISV and resellers and OEMs were 12%. This compares to 77% direct and 23% indirect in the second quarter.

Now, for the quarter we closed transactions with 22 different customers, including five new customers. Three of our bookings were for greater than a million dollars, including two new license bookings and a significant maintenance renewal by one of our top customers. Of these new license deals, one with a leading European DSp customer, one was with a DSp customer in the North American DSp provider of voice, video and data services. Our average selling price on transactions over $100,000 was approximately $500,000 this quarter.

In the quarter we had one existing ISV customer who represented 27% of our total revenues. This included the impact from a license payment received that was originally due in October. Gross margins were 79%, reflecting the higher service revenues as a percent of revenues. This compares to 78% in the prior quarter and 88% in the prior year. Individually, 99% of License margins, they were consistent with the prior quarter, and our margins on services grew to 62% this quarter versus 58% last quarter and 52% a year ago.

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Now moving on to expenses. Total G&A expenses for the quarter were $13.7 million compared to $11.9 million last quarter and $10.9 million a year ago. This included $1.6 million from a one-time charge and $99,000 for the amortization of intangible assets related to the acquisition of Core Networks.

Now at this point I'd like to take a minute to discuss the financial treatment of the Core acquisition. As you know, in early September we completed the acquisition for a total of $16,800,000 in cash, exclusive of the acquisition costs. We have recorded net tangible assets of $700,000, amortizable intangible assets of 5.4 million and goodwill of $5.8 million. The amortization of these intangible assets other than goodwill will be recorded to expenses over five years at $276,000 per quarter.

Now moving back to operating expenses. Sales and marketing decreased sequentially by $348,000 to $4.4 million. This decrease was primarily driven by lower commission expenses consistent with the lower revenues. R&D costs of 2.3 million reflect a slight decrease from 2.2 million — slight increase, sorry, from 2.2 million from the previous quarter, as well as the same period a year ago. GA&A costs increased sequentially by $796,000 to 1.7 million, and increased 422,000 compared to the prior year period. The sequential and year-over-year increases are primarily related to increased costs in professional services related to Sarbanes-Oxley compliance. The Q3 income tax benefit of $61,000 is a result of lower-than-anticipated pretax income for the year-to-date period.

Looking forward on taxes, currently we have recorded a full valuation allowance against our deferred tax asset. Based on the expected performance in Q4 and beyond and given consideration to the relevant factors, we believe the release of a portion of our valuation allowance will be appropriate. This would result in a significant credit to income tax expense for the fourth quarter. The dollar valuation is not included in the EPS guidance because such a release is contingent on future events, which will be evaluated as part of our fourth quarter close. GAAP net loss in the quarter was $332,000, this compares to $4.9 million in net income or one cent per share in the second quarter of this year and 2.6 million, or seven cents a share in the year-ago quarter. The average basic share count was 42.5 million for the quarter.

Now moving on, our balance sheet remains strong. We ended the quarter with $116.4 million in cash and short-term investments decreased 11.6 million from the end of June. However, this decrease included approximately 16.6 paid for Core Networks. OSO decreased to 62 days from 74 days well within our expectations. The deferred revenue balance at September 30th was 14.2 million, a one million decrease from the end of the second quarter.

And finally, including the addition of the employees from core networks, we hired 23 new employees at the end of the quarter and 36 contractors. Included in these numbers are 30 new cargo sales reps up from 25 in the previous quarter.

Now that with that I will turn the call back to Risha.
That means to assist digital service providers with new service delivery products for all IP-based services. The service verified for IP platform, which serves as the basis for these products assisted our customers in the installation and ongoing verification of service quality for IP-based services including voice, video, and data. And the Core Networks' acquisition particularly looking at management, diagnosis, and resolution of problems in the last network mile and a customer premises equipment is critical.

Product strategies are there, the products are performing, we've got it in the hands of the salespeople now, we're investing in the field resources that needs to take it forward and in some of the product resources, and we have captivated the bank. We execute with financial prudence and we have a culture of being able to manage ourselves well and especially through tough times. But this is the quarter that we cannot easily forget. We simply took our eye off the ball in some ways and as a continued leader, may be for longer than we think. We as a company are out to prove that we have the grit and determination to put the quarter behind us, re-focus and recommit to driving growth, to creating and maintaining successful and loyal customers by defining the solutions that address the key issues they face, whether they are corporate enterprises, managed service providers, cable operator or DSL service provider. How customers do believe in us, we meet share with you a personal e-mail I received. Tough times yes but go, bus leaders, tough leaders, stay on. You and you learn.*

Next week, October 28th and 29th in San Jose, we believe hold our fourth annual worldwide customer conference. This year's already signed up over 150 representatives will come: customers and prospects, welcome together to discuss the issues and challenges of making their users of technology or technology-based products and services successful. At the forum, 25 plus customers such as Fidelity Investments, Time-Warner Cable, Microsoft, Washington Mutual, Contact, Lockheed Martin and others will participate in various discussions dealing with topics related to servicing, supporting and managing end users, their computing environments being the main and automating the managing and servicing of these and points and users.

The best way for you to really understand who we are as a company, what we do, and the value we provide to the people that really count, the customer, is to join us next week at the firm in San Jose of our user forum. I encourage you to join over 150 customers and prospects and many more partners, the SupportSoft team, at catarina, and as why we feel that, like it to team, any great team that has had a setback, we can, we will roll back and be back on track and continue to make our customers happy and our investors proud of us. I hope to see you next week, to meet our customers, and also hear firsthand about their success and our new enterprise in DSP solutions offerings. With that, thank you, and we are ready now for Q and A.

**Q U E S T I O N S  &  A N S W E R S**

**Operator**

Thank you. The question-and-answer session will be conducted electronically. To ask a question, please press "**1**" on your telephone keypad. Again, that's **"1"** to ask a question. We remind you, if you are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment.

And we'll take our first question from Amy Feng, JMP Securities.

**Amy Feng - JMP Securities - Analyst**

I had several questions. Regarding your fourth quarter guidance of 14.2 to 14.9 million, that basically assumes that $8 million to 9 million license forecast for the fourth quarter if I'm not mistaken. And can you give us a sense, what percentage of your license in your forecast is from serializable contracts as well as versus perpetual, and also, can you give us a sense of your pipeline right now, what deals are rotatable in your pipeline and what deals are perpetual?

**Radha Bata - SupportSoft Inc. - Chairman, President and CEO**

Yes, Amy, let me take the pipeline and plus if I come back to the, you know, whatever it is, 2, 3, 4, $5 million to $10 million of license revenues in the fourth quarter guidance. So in the pipeline there is, I think we had coming into 03 probably more perpetual deals than I really was -- cared to have, especially looking at them, very focused now, the team is very focused on building up the term deals and the backlog. So I think we're going to end up, while it won't be reflected in the revenues but in the pipeline, we're going to end up with a pretty good mix of term licenses and I would say rotatable.
Amy Feng - JMP Securities - Analyst

OK. I have two more questions. If you close all eight deals that slipped from the September quarter, what percentage of the 1Q-1Q forecast would those eight deals comprise?

Rahul Basu - SupportSoft Inc. - Chairman, President and CEO

The way we've looked at it is to say that we're seriously working all the eight deals as fast, once closed and I'd say probably it would be a two-thirds/one-third. I'm not anticipating, every one of me — I'm not, what should I say, taking for granted that every one of the eight deals will close, but I can tell you they're moving very well, very well and we even expect them to close this month. We've already closed one. So, it will probably be two-thirds/one-third. And as these deals close, as we close more than we expected so, we'll come back with more some information, but at this point it's two-thirds/one-third, two-thirds of the deals we brought over and one-third from the new deals in the quarter. And you could tell, why is that so low, the one-third of the new deals, in the quarter. I truly do believe it's a pass down of a lot of customers. There's still some issues with what is needed to sign-off on deals that we have, we have a large customer base of large deals in the Fortune 200, 250, and I think the controls, the internal controls in IT compliance is definitely causing some delays for not taking a whole lot of the pipeline in Q4 to be closed in Q4.

Amy Feng - JMP Securities - Analyst

OK.

Rahul Basu - SupportSoft Inc. - Chairman, President and CEO

Yes.
customers are continuing to point for very — a lot of new solutions. They are able to take advantage of our capabilities and customize them for their environments beyond the initial sale. So, it’s all good news there. So, we’re seeing it basically flat, might come down a little in the fourth quarter but clearly, it’s in the range of 36 or 36.5 million of revenue to come through into Q4. The general area we’re looking at for this time.

Rathna Basu: **SupportSoft Inc.** - Chairman, President and CEO
Yes and usually so you know service license to the weak license in Q3, we’re a little bit concerned about that, could bring into services. But that’s one of the reasons.

Chad Bennett: **MUSK** - Analyst
OK. And then from an operating expense standpoint, you come back to the number for your EPS guidance. But from an absolute dollar amount standpoint, what should we look at sequentially? Obviously, you only had one month, I believe, of core in Q3. Sounds like you’re going to, due to your quarter-on-quarter investment over the past 12 months, you’re going to be probably adding either (a) changing salespeople or marketing type people going forward. What should we expect in Q4 on the OpEx line?

Brian Beattie: **SupportSoft Inc.** - Chief Financial Officer & EVP of Finance and Administration
Again, you can see all of the individual costs that we both in there as a GAAP reporting company. You’ll see the split we have between all of the various expenses in that. So, when we took going forward, of course, we had our one-time cost of $1.6 million related to the one-time write-off. That will not recur in the fourth quarter. And then secondly when you look at a basic expense page, what you’ll find, and I’m seeing there is we had one month of Core Networks, we’ll have three months of Core Networks. That will increase the proportionately in the R&D area and take the cost up there. We also have our cost, as Rathna described, which will be some additional cost going in. So, you know what that fully impacts of that, of the increase in the R&D cost that we’ve put in place and our commitment to invest in the right areas of the business going forward, it’s generally going to reflect an increase in our recurring expenses up into the range of $13.5, $13.8, $14 million. That’s what you’ll see in the range.

Chad Bennett: **MUSK** - Analyst
Next quarter?

Brian Beattie: **SupportSoft Inc.** - Chief Financial Officer & EVP of Finance and Administration
In the fourth quarter, yes. And it’s again, factored in by the number of people. Our Headcount grew by about 50 people in the fourth quarter in the third quarter by 38 of those came from Core Networks. So, you’ll see that base, we’ll have two additional months of spending. And then in addition to that, we have our seasonal quarterly, our annual use fors which generally will not be repeated in the first quarter. And then you’ll get the full quarter impact of the additional 15 seeds or so for the fourth quarter, for the people that will come on in the third and fourth, some additional growth, 10 to 15 additional heads to address the areas that Rathna brought up from sales coverage and their professional servicing and marketing and R&D.

Chad Bennett: **MUSK** - Analyst
OK. So, let me make sure I have this right. If you back out the one-time charge in Q3, you’re really at about a 15.5 million OpEx number?

Brian Beattie: **SupportSoft Inc.** - Chief Financial Officer & EVP of Finance and Administration
No.

Rathna Basu: **SupportSoft Inc.** - Chairman, President and CEO
No.

Brian Beattie: **SupportSoft Inc.** - Chief Financial Officer & EVP of Finance and Administration
If you go back and add the total cost of the services as well, add another $2.5 million to that number.

Chad Bennett: **MUSK** - Analyst
OK.

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Brian Beattie - SupportSoft Inc. - Chief Financial Officer & EVP of Finance and Administration

Q1: And then you end up getting, roughly the, on that basis, about $1.19 million in Q2 excluding those costs. And that would go up to about 13.5 million with the full quarter of all the elements that I mentioned, 13.5 to 13.8, 13.9.

Chad Bennett - MSQ - Analyst

All right, Radha, can you talk about what’s going on in the digital cable side? Did we recognize any material revenue in the quarter? Where are we with the Motorola integration? Do we have a customer order yet?

Radha Bassi - SupportSoft Inc. - Chairman, President and CEO

Yes. So, you are talking about video, right, the video cable?

Chad Bennett - MSQ - Analyst

Yes.

Radha Bassi - SupportSoft Inc. - Chairman, President and CEO

Yes, it’s OK. No, we did not recognize the revenues in Q3. What did happen was that the pilot went into full production. So, that happened, and we are just in the process of monitoring the full production pilot and the expect to close the — to close the first full production deal in Q3, because we have closed some video business in the past. And so that’s what’s happening. But it did go, the pilot did go into full production.

Chad Bennett - MSQ - Analyst

OK. Thanks.

Operator

Moving on to Mark Verbeck, Smith Barney.

Mark Verbeck - Smith Barney - Analyst

Thank you. I’d like to talk to you a little bit more about the ratable revenue and kind of, first of all, Brian, just looking at this quarter, it looks like ratable revenue declined by about $1 million quarter-on-quarter. Can you kind of tell us what’s factored into that?

Brian Beattie - SupportSoft Inc. - Chief Financial Officer & EVP of Finance and Administration

Yes, it’s — it came down from — ratable license revenue from Q32 to Q324. 36. That’s about your $1 million decrease. That is basically a combination of general new bookings that were very, very light in a ratable structure, as well as it was just a much stronger Q2 from a revenue perspective associates with ratable deals. So, it was again a reasonably good second quarter and not a strong third quarter, in the way that the business came through.

Mark Verbeck - Smith Barney - Analyst

But what was that — I mean that I guess the greater notion with ratable revenues is they should continue forward. So I kind of — I’m curious, what led off?

Brian Beattie - SupportSoft Inc. - Chief Financial Officer & EVP of Finance and Administration

Yes. Remember, I also mentioned in the notes that we had a very large DSP customer that had come into the third quarter, and that was a number that was planned to happen. It came through. But just didn’t add an awful lot of additional ratable business in the quarter and, again, as Radha went through her notes, that number has continued to decline as customers have renewed their term licenses on a perpetual basis. And again, what you’re hearing from the company today is a commitment to relaunched that profile to develop products that are conducive to more term relationships and give us renewable deals and above all, very predictable and that’s the type of business we do.

Mark Verbeck - Smith Barney - Analyst

Understood. So part of the change was — I guess that was just part of the question. Maybe we can get into this right now, I don’t understand your framework about, there was a payment due in October, but it got paid earlier. Is that correct?
Brian Beattie - SupportSoft Inc. - Chief Financial Officer & EVP of Finance and Administration

Yes, it was a cash payment, came in a couple of weeks early, but same – one of our significant deals had cash, its revenue on cash records – revenue recognition on cash paid.

Mark Verbeck - Smith Barney - Analyst
OK.

Brian Beattie - SupportSoft Inc. - Chief Financial Officer & EVP of Finance and Administration

And one of our customers paid us a couple of weeks early and that raised the revenue recognition in the third quarter and contributed to a significant customer win and revenue recognition of about 27% of our total revenue.

Mark Verbeck - Smith Barney - Analyst
OK. And I think that factors into the guidance as well because...

Brian Beattie - SupportSoft Inc. - Chief Financial Officer & EVP of Finance and Administration

It does.

Mark Verbeck - Smith Barney - Analyst
OK.

Brian Beattie - SupportSoft Inc. - Chief Financial Officer & EVP of Finance and Administration

Yes, that was going to have been in the fourth quarter and the cash got paid a couple of weeks early.

Mark Verbeck - Smith Barney - Analyst
OK. Of the 2141 in the first, you said, how much of that would be needed to this one large broadband customer you have?

Brian Beattie - SupportSoft Inc. - Chief Financial Officer & EVP of Finance and Administration

About three quarters of it.

Mark Verbeck - Smith Barney - Analyst
OK. And then kind of coming back to the strategic question, Ratha, which is, you know, given that you guys have really proven the value of your process, you know, your customers have proven the product out in the field and that it works and they express this desire to, this software on a perpetual license basis. How do you go about, reversing that, very obvious trend?

Ratha Banu - SupportSoft Inc. - Chairman, President & CEO
Yes. So that's what we've been working on, very carefully. One is definitely doing new deals called the international deals on -- and not just international. It's a lot of enterprise customers that we're involved with, with, with, and doing more and more and would love to term subscription model kind of deals. That's one. That's the new business. The second one is with the existing customers doing some of the service verified for ERP remember we're now getting into all ERP based services, right? So that's one. VSO, even some more high-speed data stuff and trying to do as many of those. So even if the customers turn their original license fee for high-speed data, install and support into perpetual when they buy new deals from us then can we make those term deals, and that’s, in fact, some of the changes we’ve already put together this quarter is to go back and be able to quote those only as term deals. I don’t know if you recall going back three years, we had a rule that any deal where any proposal over 300 or 400k could only be made as term or able to quote by the sales rep, and if we had to do come back to me or Rina or the head of sale to make it perpetual, and we’re sort of going back to some of those models.

Mark Verbeck - Smith Barney - Analyst
OK. Brian, on the taxes, were that kind of reassessment impact? You said it wasn’t in your guidance?

Brian Beattie - SupportSoft Inc. - Chief Financial Officer & EVP of Finance and Administration

Right.
Mark Verbeck - Smith Barney - Analyst
Or would that be a prospective change?

Brian Beattie - SupportSoft Inc. - Chief Financial Officer & EVP of Finance and Administration
It is not in the guidance, you're right, and it is a change that we will -- its availability has made based on the company meeting certain financial criteria over its lifecycle. We're in that position of now getting to three years of profitability, and having a provision against our tax assets is viewed as no longer required. So based on the fourth quarter performance and based on anticipated financial performance in 2003, we are going to be able to release that provision against our tax assets, and I highlighted that could be very significant. That could be 2 million, 4 million or more dollars that for the most part people discount because it's a tax account that's been building up for several years. But just to highlight that in those GAAP EPS estimates we provided does not include, of course, the multi-million dollar tax credit coming back to us.

Mark Verbeck - Smith Barney - Analyst
Sure and what is the final size of your allowance today?

Brian Beattie - SupportSoft Inc. - Chief Financial Officer & EVP of Finance and Administration
It's 25 million.

Mark Verbeck - Smith Barney - Analyst
OK That's all I have. Thank you.

Brian Beattie - SupportSoft Inc. - Chief Financial Officer & EVP of Finance and Administration
Thank you.

Operator
(Operator Instructions). We'll move next to Selhun Kong, ThinkEquity Partners.

Selhun Kong - ThinkEquity Partners - Analyst
Hi, good afternoon. I just wanted to ask a question about the tax rate question. What is the tax rate that is included into the Q4 EPS guidance? Is this going to be sort of the mid-low teens tax rate that we've seen going forward?

Brian Beattie - SupportSoft Inc. - Chief Financial Officer & EVP of Finance and Administration
The Q4 guidance is a 6% effective rate for 2004.

Selhun Kong - ThinkEquity Partners - Analyst
And then, you know, further you mentioned that there was one transaction that looked out of Q3 that was closed to date. Can you give us any sort of metrics on how big that was? Was this a perpetual was this a ratable type of transaction, anything of that nature?

Radha Bass - SupportSoft Inc. - Chairman, President and CEO
It was and it's perpetual and part of what we're doing is looking at some of the deals and seeing, you know, how they can be taken. Not that particular one because it's closed, but other deals and seeing how we can maybe, make them into term deals. But the one that closed was perpetual. I'm not really right now to share the size of it.

Selhun Kong: Sure.

Radha Bass - SupportSoft Inc. - Chairman, President and CEO
It was an important customer.

Selhun Kong - ThinkEquity Partners - Analyst
OK. And you know if we are off look over the next 12 months or so and as we go through this, you know, transition in the model, you know, sort of trying to get more of the newer transactions and some of the e-merging transactions in the pipeline being converted to term deals, you know, with the addition of additional headcount, is there any guidance on what we could view as a target operating margin for Q3?

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Radha Basu - SupportSoft Inc. - Chairman, President and CEO

We would like to come back on that as we are working through all of this. We are not - we haven't given guidance right now for 2005. We're still working through that. So we will come back to you, Brian, do you want to add anything else?

Brian Beattie - SupportSoft Inc. - Chief Financial Officer & EVP of Finance and Administration

No, except to say that we are going through the detailed pipeline review as you heard, as we're doing that deep dive on the deals for Q4, and then looking forward to 2005, doing a very detailed analysis of market opportunities, potential both in the ERP segment and the enterprise segment, bookings for opportunity revenue, quote conversion that would be required to grow the business and then, of course, looking at the expense base and the investment we've put in growing our international business and the functional areas and the M&A that we've already accomplished. So we've got a lot of work ahead of us, and so we complete that, we want to let everybody know that that would be coming through.

=Hun Kong - ThinkEquity Partners - Analyst

All right. Anu just question is, as you've gone through some of your customers in the pipeline at this point, you mention you've been working, we're already converting some perpetual deals to a term basis. You know, what did it take to get a customer to say, I want to buy this on a perpetual basis now? Not on a term. You know, are there some concessions that you have to make in terms of price, or is it more, you know, educating the customer? Can you give us, walk us through what that scenario looks like?

Radha Basu - SupportSoft Inc. - Chairman, President and CEO

Yes, sure. First of all, we are still working on making these conversions, as I said, the first deal that we post coming from Q3 to Q4 didn't closed perpetually. It mean it's already tired off. It's kind of hard to change it at the last minute, especially since its only ratings were signatures. But at a broader level, let me explain that it's really a CapEx versus OpEx, as the customers look at what you're doing. So in general, you'll find customers who are - and we're finding that a very successful products want to take that to a perpetual because they know they are going to use it over a long period of time, a longer period of time than they originally anticipated. And then they

Brian Beattie - SupportSoft Inc. - Chief Financial Officer & EVP of Finance and Administration

But on the financial just to add to that, I mean, if you are on the customer side of these transactions, the two things that are very interesting on a term basis is that you pay more for a perpetual license, of course, because you have the right to that software forever, and a term basis, of course, you pay a three-year period would cost you less. The second element being that it is something, where your typically would not pay all up it front some time. You do, but that also gives a cash flow advantage to the customer. So the two elements, which make it very, very financially attractive and add to that attractive nature of, if you subscribe, come on and pay more for the DPS, they are also able then to share that revenue growth with us.

Selhim Kong - ThinkEquity Partners - Analyst

All right. And then just one last question, when you talk about ramping up, head count in Europe and Asia. What is the current infrastructure there? I would imagine that you would be able to ramp up pretty quickly in the US, but you know, is
there is a lot of infrastructure investments that first need to be made before you can add up heads in those areas?

Radha Bassi - SupportSoft Inc. - Chairman, President and CEO
Yes. As Brian has setup, how many subs do you add like?

Brian Beattie - SupportSoft Inc. - Chief Financial Officer & EVP of Finance and Administration
Well, 11 subsidiary companies now that are financed and legal team has implemented probably four of them come online in the third quarter alone.

Radha Bassi - SupportSoft Inc. - Chairman, President and CEO
And we have — Yes, we do have the infrastructure like, we have the countries in Europe, multiple countries. We have a center of excellence in Brussels for all the technology and the technical account managers and all the consulting and deployment people. We’ve got a base in Japan, a subsidiary, as well as people there. So, yes, the infrastructure is in place.

Selvin Kong - ThinkEquity Partners - Analyst
Got you. Thanks so much. I appreciate it.

Brian Beattie - SupportSoft Inc. - Chief Financial Officer & EVP of Finance and Administration
Thanks Selvin.

Operator
We’ll take our next question from Mike Balbin, William Blair.

Mike Balbin - William Blair - Analyst
Yes, Hi, guys. In listening to what you’re saying, it sounds a little bit like you got hit by the perfect storm here. You had the Sarbanes-Oxley compliance issues, losing customers from purchasing; you had some sales execution issues; plus, you have increase in your infrastructure spending, which was deferred. So going forward into 2005, we should be past the Sarbanes-Oxley issues; you will have brought on a lot of the people you are going to bring on, and you’re micro-managing the sales execution side of the business. I mean, shouldn’t we be able to expect that we should get back on track pretty significantly in 2005? Maybe it doesn’t happen in the first quarter, but certainly all signs would point to that if the value proposition that you say that your customers feel about the product is there.

Radha Bassi - SupportSoft Inc. - Chairman, President and CEO
I certainly hope so. I said that I mean, we did all of our — and we’re still doing some of the real deep dives into what happened in Q3, looking not just at the quarter but looking back the whole year. We are, pretty self-critical as you know, and really try to work through the problems. I certainly hope and I still say that even on the quota, and the earnings season, I’m confident that we will get back on track. The fundamentals are good. The products are really good, the customers like us. You should come and see that in the user forum next week. The one that I still I’m not sure about and there might be people more intelligent and clever than me who know. I can’t just say Sarbox goes away. I don’t know, what it will take over into next year. I know that the controls will be in place for most of the company, the compliance and all will be placed, but it doesn’t go away, and what gets carried over I’m not sure about. But other than that, you’re right about the micro-manage on the sales execution and making sure all the products and everything else are aligned. The Sarbox, could it still have extra levels of signature? I believe I could, but at least we will know about them. So, you are right. I’m very confident about looking, getting back on track.

Mike Balbin - William Blair - Analyst
OK. One other question. You know, you just talked about how, you’ve got to educate your customers as to the benefits to them of going on a term license versus a perpetual license, but the trends in the enterprise space is certainly people, the customer wants to go to the perpetual license. So, it feels like you are swimming upstream on that, on that case. And although you might be able to make that argument, they may not want to purchase it in that format. So, you are making it much more attractive for them to do it on a term basis versus the perpetual?

Radha Bassi - SupportSoft Inc. - Chairman, President and CEO
Yes indeed, the time is more attractive than the perpetual, but I feel that unfortunately, I don’t think, we’re swimming totally upstream because there are several good enterprise software
Radha Basu - SupportSoft Inc. - Chairman, President and CEO
You will hear about them more a next week.

Damian Augustine - George Weise Associates - Analyst
More next week?

Radha Basu - SupportSoft Inc. - Chairman, President and CEO
Yes, at the user conference. I mean, that’s where we have even customers coming in and talking about how they are using those products.

Damian Augustine - George Weise Associates - Analyst
OK. And would you looking to talking with anybody to help boost your sales, or are you still looking to trying and manage an internal sales organization? I expect, you have a lot of great products, but maybe you don’t have the sales reach that you would like on?

Radha Basu - SupportSoft Inc. - Chairman, President and CEO
Well as – the channel for us, we only have a single channel, and that is the outsourcers and managed service providers, but that is about anywhere between 20% to 25% of our business, and that’s, the large managed service providers, CSC, Accenture, IBM Global Services, CGI, those are – that’s our channel. I don’t know – what will definitely continue. You’ll see some of them next week as well. But if you’re asking are there other channels, we’re going after, we’re looking at different delivery models that would get us a much more, you know, would get us to some of the F2B businesses, especially the mid-tier businesses, but that’s – I think that’s what you’re asking about right?

Damian Augustine - George Weise Associates - Analyst
Right, right.

Radha Basu - SupportSoft Inc. - Chairman, President and CEO
Yes.
**Radha Bau** - SupportSoft Inc. - Chairman, President and CEO

Well, if you recall, Moda bought merge with Broad Jump, and Broad Jump was 100% install going back three, four years, three years. We actually partnered with Broad Jump in the broadband— in the installed base. What is clearly happened in the last, I would say six months is that we’re seeing this across the world. This IP-based services, new services that are IP-based for video and VO - voice, VOD and of course, the extension of high-speed data the home-net working and small-medium business, this has just taken tremendous, and the interest level there has grown, and I’ll give you an example. Last year at this time, even if you talk so our Telco customers, they would have said video over DSL was mapping of the future, that they would be talking about five years from now. If you go when we have arrange broadband everywhere. That it is today, video with DSL is actually being offered by some of the Telco in Europe and certainly is a big area of investment for 2005. So, it’s really, the whole business is changing. It’s going from being an install and support for high-speed data, which is what we were in as well, and going to really how do you verify service Verificationon all IP-based services, and there’s a lot of network-dependency on that in that last model, which is why we bought Core Networks. It requires a new approach for installing ongoing service.

**Damian Augustine** - George Weisz Associates - Analyst

Right, isn’t that the next opportunity in broadband?

**Radha Bau** - SupportSoft Inc. - Chairman, President and CEO

Absolutely. In fact, if you’re not in that area, then it’s just basically today’s business and you won’t grow with that. With those customers, voice, video, data, triple play and IP-based services. It’s today. It’s here today. I would say.

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**Damian Augustine** - George Weisz Associates - Analyst

OK. Thank you.

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**Operator**

I show no further questions at this time. Mr. Wilson, I would like to turn the conference back over to you for any additional or closing comments.

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Scott Wilson - SupportSoft Inc. - Director of Investor Relations

Great. Well, thank you very much, everybody, for tuning in. As Rahul mentioned, we have our user event next Tuesday, and Wednesday the 26th and 27th at the Fairmont Hotel in San Jose. Please contact me, if you're interested in attending our investor lunch. I can get you a registration code. And for those of you that can't travel out west, we will be webcasting the event as well. So again thank you for your time, and we look forward to speaking with you again in the coming quarter and as three months.

Rahul Sehgal - SupportSoft Inc. - Chairman, President and CEO

Thank you.

Operator

This does conclude today's conference. A replay of this call will be available at www.supportsoft.com. We thank you for your participation and you may now disconnect.