
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended March 31, 2005

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File No. 000-30901

SUPPORTSOFT, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

94-3282005
(I.R.S. Employer
Identification No.)

575 Broadway
Redwood City, CA 94063
(Address of Principal Executive Offices)
(Zip Code)

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

On May 4, 2005, 42,987,744 shares of the Registrant's Common Stock, \$0.0001 par value, were outstanding.

SUPPORTSOFT, INC.
FORM 10-Q
QUARTERLY PERIOD ENDED MARCH 31, 2005
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PART I. FINANCIAL INFORMATION
ITEM 1: FINANCIAL STATEMENTS
SUPPORTSOFT, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)

| | <u>March 31,</u> <u>2005</u> | <u>December 31,</u> <u>2004</u> |
|---|---------------------------------|------------------------------------|
| | <u>(unaudited)</u> | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 16,979 | \$ 16,509 |
| Short-term investments | 100,720 | 103,832 |
| Accounts receivable, net | 12,717 | 9,594 |
| Prepays and other current assets | 2,944 | 3,523 |
| | <u>133,360</u> | <u>133,458</u> |
| Property and equipment, net | 1,562 | 1,347 |
| Goodwill | 9,792 | 9,792 |
| Purchased Intangible assets, net | 4,811 | 5,084 |
| Other assets | 592 | 524 |
| | <u>150,117</u> | <u>150,205</u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 1,501 | \$ 344 |
| Accrued compensation | 1,937 | 2,756 |
| Other accrued liabilities | 2,316 | 2,607 |
| Deferred revenue | 11,694 | 14,431 |
| | <u>17,448</u> | <u>20,138</u> |
| Deferred revenue—long-term portion | 2,682 | 2,210 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Common stock | 4 | 4 |
| Additional paid-in capital | 194,848 | 193,851 |
| Accumulated other comprehensive income (loss) | (718) | (618) |
| Accumulated deficit | (64,147) | (65,380) |
| | <u>129,987</u> | <u>127,857</u> |
| Total liabilities and stockholders' equity | <u>\$150,117</u> | <u>\$ 150,205</u> |

See accompanying notes.

SUPPORTSOFT, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts; unaudited)

| | Three Months Ended March 31, | |
|---|---------------------------------|--------------------|
| | 2005 | 2004 (restated) |
| Revenue: | | |
| License fees | \$ 9,022 | \$11,255 |
| Services | 7,103 | 4,456 |
| Total revenue | 16,125 | 15,711 |
| Costs and expenses: | | |
| Cost of license fees | 190 | 94 |
| Cost of services | 3,296 | 2,104 |
| Amortization of purchased intangible assets | 272 | — |
| Research and development | 2,933 | 2,484 |
| Sales and marketing | 6,842 | 6,260 |
| General and administrative | 2,174 | 1,243 |
| Total costs and expenses | 15,707 | 12,185 |
| Income from operations | 418 | 3,526 |
| Interest income and other, net | 931 | 726 |
| Income before income taxes | 1,349 | 4,252 |
| Provision for income taxes | (116) | (497) |
| Net income | \$ 1,233 | \$ 3,755 |
| Basic net income per share | \$ 0.03 | \$ 0.09 |
| Shares used in computing basic net income per share | 42,838 | 41,968 |
| Diluted net income per share | \$ 0.03 | \$ 0.08 |
| Shares used in computing diluted net income per share | 44,816 | 46,219 |

See accompanying notes.

SUPPORTSOFT, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands; unaudited)

| | Three Months Ended March 31, | |
|---|---------------------------------|--------------------|
| | 2005 | 2004 (restated) |
| Operating Activities: | | |
| Net income | \$ 1,233 | \$ 3,755 |
| Adjustments to reconcile net income to net cash (used in)/provided by operating activities: | | |
| Depreciation and amortization | 265 | 229 |
| Stock compensation and amortized deferred compensation | — | 183 |
| Amortization of purchased intangible assets | 273 | — |
| Other | 207 | 197 |
| Changes in assets and liabilities: | | |
| Accounts receivable, net | (3,123) | 1,216 |
| Prepays and other current assets | 579 | 331 |
| Other long-term assets | (68) | 47 |
| Accounts payable | 1,157 | (76) |
| Accrued compensation | (819) | (242) |
| Other accrued liabilities | (291) | (188) |
| Deferred revenue | (2,265) | (2,236) |
| Net cash (used in)/provided by operating activities | <u>(2,852)</u> | <u>3,216</u> |
| Investing Activities: | | |
| Purchases of property and equipment | (564) | (236) |
| Other assets | — | (38) |
| Purchases of short-term investments | (16,495) | (48,857) |
| Sales and maturities of short-term investments | 19,384 | 36,610 |
| Net cash provided by/(used in) investing activities | <u>2,325</u> | <u>(12,521)</u> |
| Financing Activities: | | |
| Proceeds from issuances of common stock, net of repurchases | 997 | 1,656 |
| Net cash provided by financing activities | <u>997</u> | <u>1,656</u> |
| Net increase/(decrease) in cash and cash equivalents | 470 | (7,649) |
| Cash and cash equivalents at beginning of period | 16,509 | 22,208 |
| Cash and cash equivalents at end of period | <u>\$ 16,979</u> | <u>\$ 14,559</u> |
| Supplemental schedule of cash flow information | | |
| Interest paid | \$ — | \$ — |
| Income taxes paid | <u>\$ 62</u> | <u>\$ 43</u> |

See accompanying notes.

SUPPORTSOFT, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

(1) Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of SupportSoft, Inc. (the “Company” or “SupportSoft”) and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. The balance sheet at March 31, 2005 and the statements of operations for the three months ended March 31, 2005 and 2004 and cash flows for the three months ended March 31, 2005 and 2004 are unaudited. In the opinion of management, these financial statements reflect all adjustments (consisting of normal recurring adjustments) that are necessary for a fair presentation of the results for and as of the periods shown. The results of operations for such periods are not necessarily indicative of the results expected for the full fiscal year or for any future period. The condensed consolidated financial statement information as of December 31, 2004 is derived from audited financial statements as of that date. These financial statements should be read with the consolidated financial statements and related notes included in the Company’s Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 16, 2005.

Adjustment to Previously Reported Financial Information

In December 2004, as part of the Company’s year-end closing procedures and in conjunction with the audit of the Company’s year-end financial statements, we identified an adjustment related to the first quarter of fiscal 2004. An adjustment related to the non-cash stock-based compensation for two terminated employees in the first quarter of 2004 increased research and development expense by \$152,000 and sales and marketing expense by \$31,000, decreased income from operations by \$183,000 and decreased diluted earnings per share by \$0.01.

Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and the accompanying notes. Actual results could differ materially from these estimates.

Financial Instruments

Estimated fair values of financial instruments are based on quoted market prices. The following is a summary of cash and available-for-sale securities (in thousands) at March 31, 2005:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---------------------------|-------------------|------------------------------|-------------------------------|------------------|
| Cash | \$ 9,306 | \$ — | \$ — | \$ 9,306 |
| Money market funds | 2,680 | — | — | 2,680 |
| Commercial paper | 4,994 | — | (1) | 4,993 |
| Federal agencies | 34,016 | — | (141) | 33,875 |
| Municipal bonds | 26,750 | — | — | 26,750 |
| Corporate bonds | 21,593 | — | (98) | 21,495 |
| Auction backed securities | 18,600 | — | — | 18,600 |
| | <u>\$117,939</u> | <u>\$ —</u> | <u>\$ (240)</u> | <u>\$117,699</u> |
| Classified as: | | | | |
| Cash and cash equivalents | \$ 16,980 | \$ — | \$ (1) | \$ 16,979 |
| Short-term investments | 100,959 | — | (239) | 100,720 |
| | <u>\$117,939</u> | <u>\$ —</u> | <u>\$ (240)</u> | <u>\$117,699</u> |

Revenue Recognition

We recognize revenue in accordance with the American Institute of Certified Public Accountants’ (AICPA) Statement of Position (“SOP”) 97-2, Software Revenue Recognition, as amended by SOP 98-4 and SOP 98-9. License revenue is recognized when all of the following criteria are met:

- Persuasive evidence of an arrangement exists;
- Delivery has occurred;

- No uncertainties surrounding product acceptance exist;
- Collection is considered probable; and
- The fees are fixed or determinable.

SupportSoft considers all arrangements with payment terms extending beyond twelve months and other arrangements with payment terms longer than normal not to be fixed or determinable. If the fee is determined not to be fixed or determinable, revenue is recognized as payments become due from the customer.

License revenue is comprised of fees for term and perpetual licenses of our software. Perpetual license revenue is recognized using the residual method described in SOP 98-9 for arrangements in which licenses are sold with multiple elements. We allocate revenues on these licenses based upon the fair value of each undelivered element (for example, undelivered maintenance and support, training and consulting). The determination of fair value is based upon vendor specific objective evidence (VSOE). VSOE for maintenance and support is determined by the customer's annual renewal rate for these services or in the absence of a renewal rate, VSOE is determined based upon separate renewals of maintenance and support to other customers. VSOE for training or consulting is based upon separate sales of these services to other customers. Assuming all other revenue recognition criteria are met, the difference between the total arrangement fee and the amount deferred for each undelivered element is recognized as license revenue. Our perpetual arrangements may include contractual obligations such as rights to unspecified future products which require license revenue to be taken ratably (monthly) over the contract period. In addition, our perpetual arrangements may include payment terms beyond our normal terms, in which case the license revenue is recognized as such payments become due.

Term licenses are sold with maintenance for which SupportSoft does not have VSOE to determine fair value. As a result, license revenue for term licenses is recognized ratably over the duration of the agreement. License fees in the accompanying financial statements includes maintenance for term licenses. We do not allocate maintenance revenue from term licenses to services revenue, as we do not believe there is an allocation methodology that provides a meaningful and supportable allocation between license and maintenance revenues. Services revenue associated with the term licenses are recognized ratably over the period associated with the initial payment, generally one year.

We also recognize license revenue from arrangements with resellers. These arrangements may be either term or perpetual licenses of our software. When term licensing arrangements with resellers include guaranteed minimum amounts due, revenue is recognized ratably over the term of the arrangement commencing when payments are made or become due. When the arrangements do not include guaranteed minimum amounts due but are instead based upon the license of our software through to the end user, revenue recognition commences upon persuasive evidence that the products have been sold to an end user; whether the license revenue is then recognized immediately or ratably depends upon the terms of the arrangements with the reseller. If a reseller is not deemed credit-worthy, revenue is recognized upon cash receipt.

Services revenue is primarily comprised of revenue from professional services, such as maintenance and support, consulting and training. Arrangements that include services are evaluated to determine whether those services are essential to the functionality of other elements of the arrangement. Non-essential consulting and training revenues are generally recognized as the services are performed. When non-essential services are bundled in a term licensing arrangement, revenue from the services is recognized ratably over the period associated with the initial payment, generally one year. Customer maintenance and support revenues are recognized over the term of the maintenance and support period which is generally one year. In the event services are considered essential to the functionality of other elements of the arrangement, revenue under the arrangement is recognized using contract accounting.

Concentration of Credit Risk and Significant Customers

Financial instruments that potentially subject us to concentrations of credit risk consist principally of cash equivalents, short-term investments and trade accounts receivable. Our investment portfolio is diversified and consists of investment grade securities. Our investment policy limits the amount of credit risk exposure to any one issuer and in any one country except the US. We are exposed to credit risks in the event of default by the issuers to the extent of the amount recorded on the balance sheet. The credit risk in our trade accounts receivable is substantially mitigated by our credit evaluation process, reasonably short collection terms and the fact that the Company sells its products primarily to large organizations in diversified industries. We maintain reserves for potential credit losses and such losses have been within management's expectations. For the three months ended March 31, 2005, two customers accounted for 10% or more of our revenue. Customer A accounted for 14% and Customer B accounted for 10% of our total revenue. No other customer individually accounted for 10% or more of our total revenue for the three months ended March 31, 2005. For the three months ended March 31, 2004, Customer C accounted for 20% of our total revenue and Customer D accounted for 15% of our total revenue. No other customer individually accounted for 10% or more of our total revenue for the three months ended March 31, 2004.

Trade Accounts Receivable

Trade accounts receivable are recorded at the invoiced amount. The allowance for doubtful accounts is SupportSoft's best estimate of the amount of probable credit losses in the existing accounts receivable. SupportSoft performs on-going evaluations of its customers' financial condition and generally does not require collateral. SupportSoft maintains reserves for credit losses, and such losses have been within management's expectations. If the financial condition of SupportSoft's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional reserves may be required. At March 31, 2005 and December 31, 2004, the Company had reserves for credit losses of \$453,000 and \$447,000, respectively. At March 31, 2005, three customers accounted for 10% or more of our total accounts receivable, net. At December 31, 2004, three different customers accounted for 10% or more of our total accounts receivable, net. At March 31, 2005, three customers in aggregate accounted for approximately 41% of total accounts receivable, net. At December 31, 2004, three different customers in aggregate accounted for approximately 62% of total accounts receivable, net.

Business Combinations

When we acquire businesses, we allocate the purchase price to tangible assets and liabilities acquired and identifiable intangible assets. Any residual purchase price is recorded as goodwill. We engage independent third-party appraisal firms to assist in determining the fair values of assets acquired and liabilities assumed. Such a valuation requires management to make significant estimates, especially with respect to intangible assets. These estimates are based on historical experience and information obtained from the management of the acquired companies. These estimates can include, but are not limited to, the cash flows that an asset is expected to generate in the future, the appropriate weighted average cost of capital, and the cost savings expected to be derived from acquiring an asset. These estimates are inherently uncertain and unpredictable. In addition, unanticipated events and circumstances may occur which may affect the accuracy or validity of such estimates.

At March 31, 2005, goodwill was \$9.8 million, and other identifiable intangible assets, net were \$4.8 million. We assess the impairment of goodwill annually or more often if events or changes in circumstances indicate that the carrying value may not be recoverable. We assess the impairment of acquired product rights and other identifiable intangible assets whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. An impairment loss would be recognized when the sum of the undiscounted future net cash flows expected to result from the use of the asset and its eventual disposition is less than its carrying amount. Such impairment loss would be measured as the difference between the carrying amount of the asset and its fair value. The estimate of cash flow is based upon, among other things, certain assumptions about expected future operating performance and an appropriate discount rate determined by our management. Our estimates of discounted cash flows may differ from actual cash flows due to, among other things, economic conditions, changes to the business model or changes in operating performance. If we change our estimates, material differences may result in write-downs of net long-lived and intangible assets, which would be reflected by charges to our operating results for any period presented. We plan to test for impairment during the third quarter of each year, or earlier if indicators of impairment exist.

Net Income Per Common Share

Basic and diluted net income (loss) per share are presented in accordance with Statement of Financial Accounting Standards No. 128, "Earnings per Share" ("SFAS 128"), for all periods presented. In accordance with FAS 128, basic and diluted net loss per share have been computed using the weighted-average number of common shares outstanding during the period, less shares subject to repurchase.

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

| | Three months ended March 31, | |
|---|---------------------------------|----------|
| | 2005 | 2004 |
| Net income | \$ 1,233 | \$ 3,755 |
| Basic: | | |
| Weighted-average shares of common stock outstanding | 42,838 | 41,978 |
| Less: Weighted-average shares subject to repurchase | — | (10) |
| Shares used in computing basic net income per share | 42,838 | 41,968 |
| Basic net income per share | \$ 0.03 | \$ 0.09 |
| Diluted: | | |
| Weighted-average shares of common stock outstanding | 42,838 | 41,978 |
| Add: Common equivalent shares outstanding | 1,978 | 4,241 |

| | | |
|---|----------------|----------------|
| Shares used in computing diluted net income per share | <u>44,816</u> | <u>46,219</u> |
| Diluted net income per share: | <u>\$ 0.03</u> | <u>\$ 0.08</u> |

Stock-Based Compensation

SupportSoft accounts for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), and has adopted the disclosure only alternative of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("FAS 123"). Under APB Opinion No. 25, SupportSoft does not recognize compensation expense with respect to such awards if the exercise price equals or exceeds the fair value of the underlying security on the date of grant and other terms are fixed. Any deferred stock compensation calculated according to APB 25 is amortized over the vesting period of the individual options, generally four years, using the graded vesting method. The accelerated method provides for vesting of portions of the overall awards at interim dates and results in greater vesting in earlier years than straight-line.

For purposes of pro forma disclosures pursuant to FAS 123 as amended by FAS 148, the estimated fair value of options and employee stock purchase program shares ("ESPP") are based on the Black-Scholes valuation model and are amortized to expense over the vesting period of the options using the accelerated method. The effects of applying FAS 123 for pro forma disclosures may not be representative of the effects on reported net income or loss for future years.

SupportSoft's pro forma information follows (in thousands, except per share amounts):

| | Three Months Ended March 31, | |
|--|---------------------------------|----------|
| | 2005 | 2004 |
| Net income | \$ 1,233 | \$ 3,755 |
| Deduct: Total stock option-based employee compensation expense determined under the fair value based method for all awards | (1,941) | (2,083) |
| Deduct: Total ESPP-based compensation expense determined under the fair value based method for all awards | (165) | (154) |
| Pro forma net income (loss) | \$ (873) | \$ 1,518 |
| Basic net income (loss) per share: | | |
| As reported | \$ 0.03 | \$ 0.09 |
| Pro forma | (0.02) | 0.04 |
| Diluted net income (loss) per share: | | |
| As reported | \$ 0.03 | \$ 0.08 |
| Pro forma | (0.02) | 0.03 |

The following weighted-average assumptions were used:

| | Three months end March 31, | |
|--|-------------------------------|--------|
| | 2005 | 2004 |
| Employee and Director Stock Options | | |
| Risk-free interest rate | 3.58% | 2.58% |
| Expected life (years) | 4.0 | 4.0 |
| Volatility | 82% | 63% |
| Dividend Yield | 0.0% | 0.0% |
| | | |
| | Three months end March 31, | |
| | 2005 | 2004 |
| Employee Stock Purchase Plan | | |
| Risk-free interest rate | 3.00 % | 1.81 % |
| Expected life (years) | 1.25 | 0.25 |
| Volatility | 80.0 % | 63.0 % |
| Dividend Yield | 0.0 % | 0.0 % |

In December 2004, the FASB issued SFAS No. 123 (revised 2004), “Share-Based Payment” (SFAS 123R), which replaces SFAS No. 123, “Accounting for Stock-Based Compensation” (SFAS 123) and supersedes APB Opinion No. 25, “Accounting for Stock Issued to Employees.” SFAS 123R also amends SFAS No. 95, “Statement of Cash Flows,” to require that tax benefits from stock option exercises be classified as a financing activity, instead of an operating activity, on the statement of cash flows. SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values, beginning with the first annual period after June 15, 2005. The pro forma disclosures previously permitted under SFAS 123 will no longer be an alternative to financial statement recognition. We are required to adopt SFAS 123R in our first quarter of 2006, beginning January 1, 2006. Under SFAS 123R, we must determine the appropriate fair value model to be used for valuing share-based payments, the amortization method for recognizing compensation cost, and the transition method to be used at the date of adoption. The transition methods include prospective and retroactive adoption options. Under the retroactive option, prior periods may be restated either as of the beginning of the year of adoption or for all periods presented. The prospective method requires that compensation expense be recorded for all unvested stock options and restricted stock at the beginning of the first quarter of adoption of SFAS 123R, whereas under the retroactive method we would record compensation expense to all prior years. At this time we are unable to quantify the effect of adoption of SFAS 123R.

Warranties and Indemnifications

SupportSoft generally provides a warranty for its software products and services to its customers and accounts for its warranties under the FASB’s Statement of Financial Accounting Standards No. 5, “Accounting for Contingencies” (“FAS No. 5”). Warranty periods can vary from customer to customer but our standard warranty period is 90 days. In the event there is a failure of the product in breach of such warranties, SupportSoft generally is obligated to correct the product or service to conform to the warranty provision or, if SupportSoft is unable to do so, the customer is entitled to seek a refund of the purchase price of the product or service. SupportSoft did not provide for a warranty accrual as of March 31, 2005 or December 31, 2004. To date, SupportSoft’s product warranty expense has not been significant.

SupportSoft generally agrees to indemnify its customers against legal claims that SupportSoft’s software products infringe certain third-party intellectual property rights and accounts for its indemnification obligations under FAS No. 5. To date, SupportSoft has not been required to make any payment resulting from infringement claims asserted against our customers and has not recorded any related accruals.

Recent Accounting Pronouncements

In March 2004, the Emerging Issues Task Force (EITF) of the FASB reached a consensus on Issue No. 03-01, “The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments” (EITF 03-01). EITF 03-01 provides guidance for identifying other-than-temporarily impaired investments. In September 2004, the FASB issued a FASB Staff Position EITF 03-1-1 that delays the effective date of the recognition and measurement provisions of EITF 03-01 until further notice. We do not expect the adoption of the accounting provisions of EITF 03-01 to have a material effect on our results of operations and financial condition.

(2) Business Combination

On September 2, 2004, the Company acquired substantially all of the assets of Core Networks Incorporated (“Core Networks”) and certain liabilities for approximately \$16.9 million in cash (the “Acquisition”). Accordingly, the operations of Core Networks have been included in the accompanying consolidated statement of operations for the Company from September 2, 2004. Core Networks specialized in software products for network monitoring, management and activation of advanced digital services for DSL and cable broadband providers. We acquired the Core Networks technology to strengthen our Real-Time Service Management product portfolio by adding various network management and monitoring capabilities. The purchase price for Core Networks exceeded the fair value of Core Networks’ net tangible and intangible assets acquired; as a result, we have recorded goodwill in connection with this transaction.

Upon consummation of the Acquisition, the Company charged to expense \$1.6 million representing acquired in-process research and development that had not yet reached technological feasibility and had no alternative future use. The amount of purchase price allocated to acquired in-process research and development was determined through established valuation techniques. The value was determined by estimating viable products, estimating the resulting net cash flows from such products, and discounting the net cash flows back to their present value. The discount rate included a factor that took into account the inherent risk and expected growth of in-process products.

The total purchase price is summarized as follows (in thousands):

| | |
|----------------------|----------|
| Cash consideration | \$16,850 |
| Acquisition costs | 713 |
| | <hr/> |
| Total purchase price | \$17,563 |
| | <hr/> |

An allocation among the tangible and identifiable intangible assets and liabilities acquired (including acquired in-process research and development) is summarized as follows. The financial information presented includes purchase accounting adjustments to the tangible and intangible assets (in thousands):

| | <u>Amount</u> | <u>Amortization Period</u> |
|-------------------------------------|-------------------|--------------------------------|
| Net tangible assets | \$ 706 | 2 years |
| Amortizable intangible assets: | | |
| Developed and core technology | 4,360 | 5 years |
| Customer relationships | 1,087 | 5 years |
| In-process research and development | 1,618 | Expensed |
| Goodwill | 9,792 | Indefinite |
| | <u> </u> | |
| Purchase price | <u>\$17,563</u> | |

As of March 31, 2005, the purchased intangible assets, net was approximately \$4.8 million and the accumulated amortization of purchased intangibles was approximately \$635,000. We expect to amortize approximately \$1.1 million annually through the third quarter of September 30, 2009.

The results of operations of Core Networks are included in our Condensed Consolidated Statements of Operations from September 2, 2004, the date of the Acquisition. If we had acquired the assets of Core Networks at the beginning of the periods presented, our unaudited pro forma net revenues, net income and net income per share would have been as follows (in thousands):

| | <u>Three months ended March 31,</u> | |
|------------------------------|---|-------------|
| | <u>2005</u> | <u>2004</u> |
| Revenue | \$16,125 | \$16,189 |
| Net income | 1,233 | 2,033 |
| Basic net income per share | 0.03 | 0.05 |
| Diluted net income per share | 0.03 | 0.04 |

(3) Comprehensive Income

Statement of Financial Accounting No. 130, "Reporting Comprehensive Income" ("SFAS 130") establishes standards for reporting and displaying comprehensive net income and its components in stockholders' equity. However, it has no impact on our net income as presented in our financial statements. SFAS 130 requires foreign currency translation adjustments and changes in the fair value of available-for-sale securities to be included in comprehensive income.

The following are the components of comprehensive income (in thousands):

| | <u>Three months ended March 31,</u> | |
|--|---|-------------------|
| | <u>2005</u> | <u>2004</u> |
| Net income | \$1,233 | \$3,755 |
| Net unrealized gain on available-for-sale securities | 29 | 32 |
| Foreign currency translation gain (loss) | (129) | 165 |
| | <u> </u> | <u> </u> |
| Comprehensive income | <u>\$1,133</u> | <u>\$3,952</u> |

The components of accumulated other comprehensive income relate entirely to translation adjustment gains and unrealized gains (losses) on available-for-sale securities and are \$(478,000) and \$(240,000) at March 31, 2005, respectively.

(4) Income Taxes

We recorded an income tax expense of \$116,000 for the three months ended March 31, 2005. For the three months ended March 31, 2004, we recorded a provision for income taxes of approximately \$497,000. The effective rate used to record the provision for income taxes in the three months ended March 31, 2005 and the three months ended March 31, 2004 differed from the expected US federal statutory rate primarily due to the utilization of previously unbenefited net operating losses.

As of March 31, 2005, our deferred tax assets are fully offset by a valuation allowance because we expect that it is more likely than not that all deferred tax assets will not be realized in the foreseeable future.

(5) Contingencies

Between December 9, 2004 and January 21, 2005, several purported securities class action suits were filed in the United States District Court for the Northern District of California against the Company, its CEO, Radha R. Basu, and its CFO, Brian M Beattie. These actions were consolidated on March 22, 2005 as *In re SupportSoft, Inc. Securities Litigation*, Civil Action No.: c 04-5222 SI. The consolidated complaint alleges generally violations of certain federal securities laws and seek unspecified damages on behalf of a class of purchasers of the Company's common stock between January 20, 2004 and October 1, 2004. Plaintiffs allege, among other things, that defendants made false and misleading statements concerning the Company's business and guidance for the third quarter 2004, purportedly violating Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder. We intend to move to dismiss the Complaint on May 20, 2005 and set the hearing on the motion for July 8, 2005. While we cannot predict with certainty the outcome of the litigation, we believe that the claims against us and our officers are without merit.

In November 2001, a class action lawsuit was filed against us and two of our officers in the United States District Court for the Southern District of New York. The lawsuit alleged that our registration statement and prospectus dated July 18, 2000 for the issuance and initial public offering of 4,250,000 shares of our common stock contained material misrepresentations and/or omissions, related to alleged inflated commissions received by the underwriters of the offering. The defendants named in the lawsuit are SupportSoft, Radha Basu, Brian Beattie, Credit Suisse First Boston Corporation, Bear, Stearns & Co. Inc. and FleetBoston Robertson Stephens Inc. The lawsuit seeks unspecified damages as well as interest, fees and costs. Similar complaints have been filed against 55 underwriters and more than 300 other companies and other individual officers and directors of those companies. All of the complaints against the underwriters, issuers and individuals have been consolidated for pre-trial purposes before U.S. District Court Judge Scheindlin of the Southern District of New York. On June 26, 2003, the plaintiffs announced that a proposed settlement between the issuer defendants and their directors and officers had been reached. As a result of the proposed settlement, which is subject to court approval, we anticipate that our insurance carrier will be responsible for any payments other than attorneys' fees prior to June 1, 2003. On September 2, 2003, plaintiffs' executive committee advised the court that the lead plaintiff in the action against us was unwilling to serve as a class representative, and sought leave to seek a new class representative. On October 20, 2003, we were notified that a new class representative would be substituted into the case against us, but our attempts to formally confirm this substitution have not been successful. At a court conference on March 4, 2004, plaintiffs' executive committee advised the court that the negotiators for plaintiffs and issuers have agreed on the terms of the settlement. During mid-2004, the plaintiffs moved for preliminary approval of the proposed settlement. After full briefing and argument, on February 15, 2005, the court issued an opinion preliminarily approving the proposed settlement, contingent upon modifications being made to one aspect of the proposed settlement—the proposed “bar order”. At a further conference on April 13, 2005, the court set a further schedule for submission of documents concerning the form and substance of class notice, and tentatively set a Rule 23 public hearing on the fairness of the proposed settlement for January 9, 2006. While we cannot predict with certainty the outcome of the litigation or whether the settlement will be approved, we believe that the claims against us and our officers are without merit.

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. The ultimate outcome of any litigation is uncertain, and either unfavorable or favorable outcomes could have a material negative impact. Regardless of outcome, litigation can have an adverse impact on SupportSoft because of defense costs, diversion of management resources and other factors.

We are required to make periodic filings in the states where we are deemed to have a presence for tax purposes. We have undergone state audits in the past and have paid assessments arising from these audits. To date, such amounts have not been material. We evaluate estimated losses that could arise from similar assessments in accordance with Statement of Financial Accounting Standard No. 5, “Accounting for Contingencies.” We consider such factors as the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss. As of March 31, 2005, we have no accrued liabilities related to any potential assessment in our financial statements.

(6) Reclassifications of Previously Reported Financial Information

We have reclassified certain amounts in the consolidated statement of cash flows for the three months ended March 31, 2004 to conform to current presentation. Amortization of royalties paid to third-party vendors of \$47,000 have been reclassified from other assets within investing activities to other long-term assets within operating activities for the three months ended March 31, 2004.

We have reclassified certain amounts in the consolidated statement of cash flows for the three months ended March 31, 2004 to conform to current presentation. Market auction municipal bonds of \$21.6 million have been reclassified from cash equivalents to

short-term investments

at March 31, 2004. Due to this reclassification, net cash used in investing activities increased by \$21.6 million for the three months ended March 31, 2004.

(7) Subsequent Events

On April 27, 2005, the Board of Directors approved a share repurchase program in which the Company is authorized to repurchase up to 2,000,000 shares of its outstanding shares of common stock. Shares may be purchased in the open market or in block trades from time to time at the discretion of the Company's management. The number of shares to be purchased and the timing of the purchases will be based on the level of cash balances, general business conditions and other factors, including alternative investment opportunities. The Company may discontinue or suspend the program at any time.

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

This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read together with the unaudited condensed consolidated financial statements and related notes appearing in Item 1 of this report on Form 10-Q and the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and related notes included in SupportSoft's Annual Report on Form 10-K for the year ended December 31, 2004.

This report on Form 10-Q contains forward-looking statements. These statements relate to our, and in some cases our customers', future plans, objectives, expectations, intentions and financial performance, as well as statements as to our intent to invest in product development and technologies, including products for digital service providers, our intent to expand our international operations, pursue international digital service providers, and to expand our employee base and build our sales, marketing, customer support, technical and operational resources, the possibility of expanding by acquiring complementary businesses, the anticipated percentage of total revenue that ratable licensing arrangements, perpetual licensing arrangements and professional services may constitute in future periods, the expectation that license revenue from ratable arrangements and revenue from services will vary from period to period as a percentage of total revenue, expected cash flows, the adequacy of capital resources, the expectation that internally developed applications will continue to be a principal source of competition, the ability to compete and respond to technological change and the acceptance and performance of our products and services. In some cases, you can identify forward-looking statements because we use terms such as anticipates, believes, continue, could, enable, estimates, expects, intends, may, plans, potential, predicts, should or will or

the negative of those terms or other comparable words. These statements involve risks and uncertainties that may cause our actual results, activities or achievements to be materially different from those expressed or implied by these statements. These risks and uncertainties include those listed under Factors that May Affect Future Results and Management's Discussion and Analysis of Financial Condition and Results of Operations.

SupportSoft expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained in this report to conform these statements to actual results or changes in our expectations or in events, conditions or circumstances on which any such statement is based. You should not place undue reliance on these forward-looking statements, which apply only as of the date hereof.

Overview

We develop, market and distribute real-time service management software designed to accelerate and automate the management of computing endpoints as well as the servicing and supporting of individuals who utilize them. Our software solutions are utilized by:

- Corporate enterprises, either directly or as part of an outsourced solution from managed service providers, to automate the management of computing endpoints and to provide service and support automation to customers, partners and employees; and
- Digital service providers, to provide automated installation, verification and support of the broadband data, voice over Internet protocol (VoIP), and digital video services they provide to their subscribers.

Our revenue consists mostly of software license fees. We license our software under perpetual and term licenses. We recognize revenue from perpetual licenses at one point in time, or several points in time in the event payment terms are beyond our standard practice. We refer to this type of revenue as "immediate" revenue. We recognize revenue from term licenses ratably over the length of the agreement with the customer. We refer to this type of revenue as "ratable" revenue. In some cases, however, perpetual licenses result in "ratable" revenue. For example, if a customer purchases a technology subscription to unspecified future products, the revenue would be taken ratably over the length of the subscription period.

We also derive revenue from consulting and training services and maintenance and support. Maintenance and support fees relating to perpetual software licenses result in ratable revenue over the length of the maintenance and support term. Our consulting and training services, which are generally recognized over time as services are performed but not necessarily evenly each month, are also included in our definition of ratable revenue. Among the many factors we use in evaluating our business, we consider the mix of ratable revenue and immediate revenue for visibility into our future revenue.

Our total revenue grew by 3% for the quarter ended March 31, 2005 over the same quarter for 2004. Overall revenue growth was driven by the growth in services revenue, which increased by \$2.6 million, or 59%. Services revenue increased year-over-year due to additional consulting services for new and existing customers and increased maintenance revenue associated with perpetual licensing arrangements. License fees decreased by approximately 20% for March 31, 2005 over the same quarter for 2004, reflecting fewer large new licensing transactions. In addition, the decrease in license fees was due to a large ratable license arrangement included in license fees in the first quarter of 2004 that was fully recognized by August 2004, and therefore was not included in the first quarter of 2005. To address the decrease in license fees, we intend to pursue various initiatives. For example, we intend to continue to invest in product development and technologies to enhance our current products and to develop new products, including products for the broadband data, VoIP and digital video services provided by digital service providers, and endpoint management and service automation for enterprise employees, customers and partners. We may seek to acquire other businesses that possess products, technology, or operations that are complementary to our existing operations. However, the process of integrating an acquired business, technology, service or product into our business and operations may result in additional risks, including unforeseen operating difficulties and expenditures.

We also intend to continue to expand our operations on several fronts. We intend to invest in the expansion of our international operations and to aggressively pursue international digital service providers, as well as other customer types, in these international markets. We also intend to expand our employee base and build our sales, marketing, customer support, technical and operational resources.

However, we cannot provide assurances that these initiatives will grow our license revenue or that our financial performance will not be affected by other factors, such as a continued slowdown in enterprise IT spending or a decrease in the demand for enterprise software. Competitive pressures, including from new competitors or alliances or mergers among competitors, could reduce our market share or require us to reduce the price of products and services, thereby also impacting our operating results. Furthermore, we typically derive a portion of our revenue each quarter from a number of orders received in the last month of a quarter. If we fail to close orders expected to be completed toward the end of a quarter, particularly if these orders are for perpetual licenses or large customer orders, our quarterly results would suffer. In conjunction with this, as further described under results of operations, immediate license revenue is becoming a larger percentage of our total revenue, which results in less ratable license revenue and more dependence on a few customers for a substantial portion of our license revenue in any one quarter.

Total costs and operating expenses increased by 29% for the quarter ended March 31, 2005, over the same quarter for 2004, reflecting our initiatives to expand our operations in all areas of the business, including professional services, research and development and

sales and marketing. The increase in operating expenses in the quarter ended March 31, 2005 also reflects increased costs associated with Sarbanes-Oxley compliance and legal fees.

Diluted earning per share decreased from \$0.08 in the quarter ended March 31, 2004 to \$0.03 in the quarter ended March 31, 2005, reflecting increased costs and expenses to expand our operations.

We intend the discussion of our financial condition and results of operations that follows to provide information that will assist in understanding our financial statements, the changes in certain key items in those 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 financial statements.

Critical Accounting Policies and Estimates

In preparing our consolidated financial statements in conformity with accounting principles generally accepted in the United States, we make assumptions, judgments and estimates that can have a significant impact on our net revenue, operating income and net income, 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, allowance for doubtful accounts, valuation allowance and realization of deferred tax assets 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. Historically, our assumptions, judgments and estimates relative to our critical accounting policies have not differed materially from actual results. For further information on the critical accounting policies, see Note 1 of our Notes to Consolidated Financial Statements.

Revenue Recognition

We recognize revenue in accordance with current generally accepted accounting principles that have been prescribed for the software industry. Revenue recognition requirements in the software industry are very complex and are subject to change. Our revenue recognition policy is one of our critical accounting policies because revenue is a key component of our results of operations and is based on complex rules which require us to make judgments. In applying our revenue recognition policy we must determine which portions of our revenue are recognized currently and which portions must be deferred. In order to determine current and deferred revenue, we make judgments with regard to future deliverable products and services and the appropriate pricing for those products and services. Our assumptions and judgments regarding future products and services could differ from actual events.

We do not record revenue on sales transactions when the collection of cash is in doubt at the time of sale. Rather, revenue is recognized from these transactions as cash is collected. The determination of collectibility requires significant judgment.

Allowance for Bad Debt

We maintain reserves for estimated credit losses resulting from the inability of our customers to make required payments. A considerable amount of judgment is required when we assess the realization of receivables, including assessing the probability of collection and the current credit-worthiness of each customer. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional reserves may be required.

Accounting for Income Taxes

As part of the process of preparing consolidated financial statements, 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 actual current tax exposure together with an assessment of temporary differences resulting from different treatments between tax and accounting of certain items. These differences result in net deferred tax assets and liabilities, which are included within the consolidated balance sheet. We must then assess the likelihood that the deferred tax assets will be recovered from future taxable income and to the extent we believe that recovery is not likely, we must establish a valuation allowance. To the extent we establish a valuation allowance or adjust this allowance in a period, we must include a tax expense or benefit within the tax provision in the statement of operations.

Business Combinations

When we acquire businesses, we allocate the purchase price to tangible assets and liabilities acquired and identifiable intangible assets. Any residual purchase price is recorded as goodwill. We engage independent third party appraisal firms to assist in determining the fair values of assets acquired and liabilities assumed. Such a valuation requires management to make significant estimates, especially with respect to intangible assets. These estimates are based on historical experience and information obtained from the management of the acquired companies. These estimates can include, but are not limited to, the cash flows than an asset is expected to generate in the future, the appropriate weighted average cost of capital, and the cost savings expected to be derived from acquiring an asset. These estimates are inherently uncertain and unpredictable. In addition, unanticipated events and circumstances may occur which may affect the accuracy or validity of such estimates.

At March 31, 2005, goodwill was \$9.8 million, and other identifiable intangible assets were \$4.8 million. We assess the impairment of goodwill annually or more often if events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss would be recognized when the sum of undiscounted future net cash flows expected to result from the use of the asset and its eventual disposition is less than the carrying value. Such impairment loss would be measured as the difference between the carrying amount of the asset and its fair value. The estimate of cash flow is based upon, among other things, certain assumptions about expected future operating performance and an appropriate discount rate determined by our management. Our estimates of

discounted cash flows may differ from actual cash flows due to, among other things, economic conditions, changes to the business model or changes in operating performance. If we change

our estimates, material differences may result in write-downs of net long-lived and intangible assets, which would be reflected by charges to our operating results for any period presented. We plan to test for impairment during the third quarter of each year, or earlier if indicators of impairment exist.

RESULTS OF OPERATIONS

The following table sets forth the results of operations for the three months ended March 31, 2005 and 2004 expressed as a percentage of total revenue.

| | Three Months Ended March 31, | |
|-----------------------------------|---------------------------------|------------|
| | 2005 | 2004 |
| Revenue: | | |
| License fees | 56% | 72% |
| Services | 44 | 28 |
| Net revenue | 100 | 100 |
| Costs and expenses: | | |
| Cost of license fees | 1 | 1 |
| Cost of services | 20 | 13 |
| Amortization of intangible assets | 2 | — |
| Research and development | 18 | 16 |
| Sales and marketing | 42 | 40 |
| General and administrative | 13 | 8 |
| Total costs and expenses | 97 | 78 |
| Income from operations | 3 | 22 |
| Interest and other income, net | 6 | 5 |
| Income before income taxes | 8 | 27 |
| Provision for income taxes | (1) | (3) |
| Net income | 8% | 24% |

Three Months Ended March 31, 2005

Revenue

We generate revenue primarily from software licenses and related services. We offer our products through a combination of direct sales, managed service providers, and resellers.

License fees. License fees decreased to \$9.0 million for the three months ended March 31, 2005 from \$11.3 million for the three months ended March 31, 2004. The decrease reflected fewer large new licensing transactions. In addition, the decrease in license fees was due to a large ratable license arrangement included in license fees in the first quarter of 2004 that was fully recognized by August 2004, and therefore was not included in the first quarter of 2005. For the three months ended March 31, 2005 and 2004, ratable license revenue represented approximately 6% and 24% of total revenue, respectively.

Services revenue. Services revenue increased to \$7.1 million for the three months ended March 31, 2005 from \$4.5 million for the three months ended March 31, 2004. These increases were primarily due to increased maintenance and consulting revenue associated with the growth in our customer base. The increase in maintenance revenue was also attributable to an increase in our revenue mix to more perpetual arrangements, which resulted in an overall increase in the number of maintenance contracts.

Revenue from customers outside the United States accounted for approximately 31% of our total revenue for the three months ended March 31, 2005, compared with 13% for the three months ended March 31, 2004. International revenues for the three months ended March 31, 2005, were primarily due to customers in Europe.

Although the percentage of revenue we recognize in the future from ratable licensing arrangements will vary from period to period, we currently anticipate that revenue from such arrangements will represent approximately 5% to 15% of total revenue for the entire year of 2005. We anticipate that revenue we recognize on an immediate basis from perpetual licensing arrangements will be approximately 50% to 60% of total revenue for the entire year of 2005. Although the percentage of revenue we recognize in the future from services will vary from period to period, we currently anticipate that revenue from services will represent approximately 35% to 45% of total revenue for the entire year of 2005.

Cost of license fees

Cost of license fees consists primarily of costs related to third-party royalty fees under license arrangements for technology embedded into our products. Cost of license fees increased to \$190,000 in the three months ended March 31, 2005 from \$94,000 in the three months ended March 31, 2004. This increase was primarily due to third party software licenses resold with our products.

Cost of services

Cost of services consists primarily of compensation costs, travel costs, related overhead expenses for professional services personnel and payments made to third parties for subcontracted consulting services. Cost of services increased to \$3.3 million for the three months ended March 31, 2005 from \$2.1 million for the three months ended March 31, 2004. This increase was due primarily to an increase in salary and related expenses and travel expenses as a result of an increase in professional services personnel as well as an increase in the use of third party consultants to address the increased demand for SupportSoft professional services.

Amortization of intangible assets

Amortization of intangible assets was \$272,000 for the three months ended March 31, 2005 and zero for the three months ended March 31, 2004. The increase in amortization of intangible assets was due to the Core Networks acquisition which was effective as of September 2, 2004.

Operating Expense

Research and development. Research and development costs are expensed as incurred. Research and development expense consists primarily of compensation costs, consulting expenses and related overhead costs for research and development personnel. Research and development expense increased to \$2.9 million for the three months ended March 31, 2005 from \$2.5 million for the three months ended March 31, 2004. This increase was due to an increase in salary and related expenses, primarily due to the addition of former Core Networks employees and related overhead costs, offset by a slight decrease in third-party consulting services.

Sales and marketing. Sales and marketing expense consists primarily of compensation costs, including salaries, sales commissions and related overhead costs for sales and marketing personnel and promotional expenses, including public relations, advertising and trade shows. Sales and marketing expense increased to \$6.8 million for the three months ended March 31, 2005 from \$6.3 million for the three months ended March 31, 2004. This change was due primarily to increases in salary and related expenses, international marketing events, and travel expenses.

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. General and administrative expense increased to \$2.2 million for the three months ended March 31, 2005 from \$1.2 million for the three months ended March 31, 2004. This increase was due primarily to an increase in fees for professional services related to Sarbanes-Oxley compliance and legal fees related to a class action lawsuit.

Interest income and other, net. Interest income and other, net increased to \$931,000 for the three months ended March 31, 2005 from \$726,000 for the three months ended March 31, 2004. This increase was due primarily to an increase in other income resulting from the receipt of overdue payments from one customer for the three months ended March 31, 2005 and to a lesser extent an increase in interest rates on securities held in our short-term investment portfolio.

Income tax expense. The income tax expense decreased to \$116,000 for the three months ended March 31, 2005 from \$497,000 for the three months ended March 31, 2004. The income tax expense recorded for the three months ended March 31, 2005 reflects a decrease from the same quarter in 2004 due to lower pre-tax income in the quarter ended March 31, 2005 as compared to the quarter ended March 31, 2004 and the projected utilization of previously unbenefited net operating losses in 2005 that were not available for utilization in 2004 due to limitations under Section 382 of the Internal Revenue Code. The effective rate used to record the provision for income taxes in the three months ended March 31, 2005 and the three months ended March 31, 2004 differed from the expected US federal statutory rate primarily due to the utilization of previously unbenefited net operating losses.

Each quarter, we evaluate the realizability of our deferred tax assets. At March 31, 2005, we had recorded a full valuation allowance against our deferred tax assets based on the realization criteria outlined in the applicable accounting literature. Amongst other important factors, SupportSoft has considered and will continue to consider its history of earnings and its ability to generate pre-tax income in the future. Giving appropriate consideration to all the relevant factors and assuming we perform as we expect in the future, we believe the release of a portion of our valuation allowance will be appropriate at some point in the future. This would result in an income tax benefit within the statement of operations in the period of adjustment.

LIQUIDITY AND CAPITAL RESOURCES

Since our incorporation in December 1997, we have financed our operations primarily through our initial public offering, follow-on public offering, cash flows from operations and, to a lesser extent, from the private placement of our preferred and common stock, bank borrowings and capital equipment lease financing. In November 2003, we completed our follow-on public offering from which we received net proceeds of approximately \$77.7 million.

Operating Activities

Net cash provided by/(used in) operating activities was \$(2.9) million and \$3.2 million for the three months ended March 31, 2005 and 2004, respectively. Amounts included in net income, which did not require the use of cash included depreciation and amortization of fixed assets, amortization of intangible assets, and other items amounted to \$265,000, \$273,000 and \$207,000 for the three months ended March 31, 2005, respectively. Net cash generated by operating activities for the three months ended March 31, 2004 was primarily the result of net income of \$3.8 million, a decrease of \$1.2 million in accounts receivable, net and \$331,000 in prepaid and other current assets offset by a decrease of \$2.2 million in deferred revenue, \$242,000 in other accrued compensation and \$188,000 in other accrued liabilities.

Investing Activities

Net cash provided by/(used in) in investing activities was \$2.3 million and \$(12.5) million for the three months ended March 31, 2005 and 2004, respectively. Net cash provided by investing activities for the three months ended March 31, 2005, was due primarily to the purchase of \$16.5 million in short-term investments offset by the sale and maturity of \$19.4 million in short-term investments.

Financing Activities

Net cash generated by financing activities was \$997,000 and \$1.7 million for the three months ended March 31, 2005 and 2004, respectively. For the three months ended March 31, 2005, net cash generated by financing activities was attributable to net proceeds from the purchase of common stock under the employee stock purchase plan and the exercise of employee stock options.

Commitments

At March 31, 2005, our principal commitments consisted of obligations outstanding under operating leases. The following summarizes our contractual obligations as of March 31, 2005 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 | | | | |
|------------------|------------------------|-----------|-----------|----------|---------|
| | <1 Year | 1-3 Years | 4-5 Years | >5 Years | Total |
| Operating Leases | \$1,053 | \$ 563 | \$ 222 | \$ 74 | \$1,912 |
| Total | \$1,053 | \$ 563 | \$ 222 | \$ 74 | \$1,912 |

Working Capital and Capital Expenditure Requirements

At March 31, 2005, we had stockholders' equity of \$130.0 million and working capital of \$115.9 million. Included as a reduction to working capital is deferred revenue of \$11.7 million, which will not require dollar for dollar of cash to settle, but will be recognized as revenue in the future. We believe that our existing cash balances will be sufficient to meet our working capital and stock repurchase requirements, as well as our planned capital expenditures for at least the next 12 months.

If we require additional capital resources to grow our business internally or to acquire complementary technologies and businesses at any time in the future, we may seek to sell additional equity or debt securities. The sale of additional equity or debt securities could result in more dilution to our stockholders. Financing arrangements may not be available to us, or may not be available in amounts or on terms acceptable to us.

Other Factors Affecting our Business and Operating Results

Our quarterly results are difficult to predict and may fluctuate, which may cause our stock price to decline.

Our quarterly revenue and operating results are difficult to predict and may fluctuate from quarter to quarter. As a result, we believe that quarter-to-quarter and year-to-year comparisons of our revenue and operating results are not necessarily meaningful, and that these comparisons may not be accurate indicators of future performance. Our operating results in future quarters may fall below our guidance or the expectations of securities analysts or investors, which would likely cause the market price of our common stock to decline.

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

- demand for our support and service automation software;
- size and timing of customer orders and our ability to receive payment and recognize revenue in a given quarter;
- the mix of license revenue from perpetual arrangements with immediate recognition versus license revenue from ratable arrangements;
- the price and mix of products and services we or our competitors offer;
- our ability to attract and retain customers;
- the amount and timing of operating costs and capital expenditures relating to expansion of our business, infrastructure and marketing activities;
- the exercise of judgment by our management in making accounting decisions in accordance with our accounting policies, such as when to recognize certain tax assets and the impairment of goodwill;
- general economic conditions and their effect on our operations; and
- the effects of external events such as terrorist acts and any related conflicts or similar events worldwide.

We license our software under perpetual and term licenses. Under perpetual licenses, we generally recognize all of the revenue from a customer at one point in time, which is immediately upon delivery of our product under the terms of the agreement. Under term licenses, we generally recognize revenue ratably over the length of the agreement with the customer. Perpetual licenses with an “immediate” recognition of revenue represent a large amount of our business. In addition, we typically derive a significant portion of our total revenue each quarter from a number of orders received in the last month of a quarter. If we fail to close orders expected to be completed toward the end of a quarter, particularly if these orders are for perpetual licenses with immediate revenue, or if there is any cancellation of or delay in the closing of orders, particularly any large customer orders, our quarterly results would suffer.

Because a small number of customers have historically accounted for and may in future periods account for substantial portions of our revenue, our revenue could decline because of delays of customer orders.

A small number of customers have historically accounted for, and may in future periods account for, substantial portions of our revenue. For the quarter ended March 31, 2005, two customers accounted for 14% and 10% of our total revenue for the quarter, respectively. For the quarter ended March 31, 2004, two customers accounted for 20% and 15% of our total annual revenue, respectively. Because a small number of customers are likely to continue to account for a significant portion of our revenue in any given quarter, our revenue could decline because of the loss or delay of a single customer order. We may not obtain new customers. The failure to obtain new customers, particularly customers that purchase perpetual licenses, the loss or delay of customer orders and the failure of existing customers to renew licenses or pay ongoing fees when due would harm our operating results.

We have only recently achieved profitability on an annual basis and may not maintain profitability.

If we fail to sustain or increase profitability, we may not be able to increase our number of employees in sales, marketing and research and development programs or increase our investments in capital equipment or otherwise execute our business plan. An inability to invest resources in our growth could cause our operating results to suffer.

Our sales cycle can be lengthy and if revenue forecasted for a particular quarter is not realized in that quarter, significant expenses incurred may not be offset by corresponding revenues.

Our sales cycle for our software typically ranges from three to nine months or more and may vary substantially from customer to customer. The purchase of our products and services generally involves a significant commitment of capital and other resources by a customer. This commitment often requires significant technical review, assessment of competitive products and approval at a number of management levels within a customer’s organization. In addition, in the wake of Sarbanes-Oxley, sales cycles appear to be lengthening as companies enhance their approval processes. While our customers are evaluating our products and services, we may incur substantial sales and marketing expenses and spend significant management effort to complete these sales. Any delay in completing sales in a particular quarter could cause our operating results to suffer.

We must achieve broad adoption and acceptance of our real-time service management products and services or we will not increase our market share or expand our business.

We must achieve broad market acceptance and adoption of our products and services or our business and operating results will suffer. Specifically, we must encourage our customers to transition from using traditional support and service methods to our support and service automation solutions. To accomplish this, we must:

- continually improve the performance, features and reliability of our products and services to address changing industry standards and customer needs; and

- develop integration with other support-related technologies.

If we fail to manage growth in our business effectively, then our infrastructure, management and resources might be strained and our ability to manage our business could be diminished.

If we experience rapid growth in the future, it will likely place a significant strain on our resources. For example, we are currently planning to hire additional sales, marketing and development personnel. Hiring of qualified employees is difficult, and we may be unable to attract and retain the required personnel to meet our business objectives. In addition, if we experience significant and rapid growth, including through acquisitions of businesses or technologies, we may need to expand and otherwise improve our internal systems, including our internal control over financial reporting, disclosure controls and procedures, management information systems, customer relationship and support systems, and other operating and administrative systems and controls. This effort may cause us to make significant capital expenditures or incur significant expenses, and divert the attention of management, sales, support and finance personnel from our business operations, which may adversely affect our financial performance in one or more quarters. Moreover, our growth has resulted, and any future growth will result, in increased responsibilities of management personnel. Managing this growth will require substantial resources that we may not have or otherwise be able to obtain.

If we are unable to successfully address the material weaknesses in our disclosure controls and procedures, including our internal control over financial reporting, our ability to report our financial results on a timely and accurate basis may be adversely affected.

We have evaluated our “disclosure controls and procedures” as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as well as our internal control over financial reporting as required by Section 404 of the Sarbanes-Oxley Act of 2002. Our independent registered public accounting firm has performed a similar evaluation of our internal control over financial reporting. Effective controls are necessary for us to provide reliable financial reports and effectively prevent fraud. If we cannot provide reliable financial reports or prevent fraud, our operating results could be harmed. For the periods ended December 31, 2004 and March 31, 2005, we concluded that we had deficiencies in our internal control over financial reporting that constitute two material weaknesses, as further described in Item 4, Controls and Procedures. We are implementing corrective actions, which we believe will remediate each of these deficiencies. However, we cannot be certain that these measures will maintain adequate controls over our financial processes and reporting in the future. If these actions are not successful in addressing these material weaknesses or if other weaknesses are identified, our ability to report our financial results on a timely and accurate basis may be adversely affected. In addition, if we cannot establish effective internal control over financial reporting and disclosure controls and procedures, investors may lose confidence in our reported financial information, which could have a negative effect on the trading price of our common stock.

We are expanding our international operations and if our revenue from this effort does not exceed the expense of establishing and maintaining international operations, our business could suffer.

We are expanding the sales and marketing of our products and services and our operations into international markets, including in Europe and Asia. For example, we now have offices in India and Canada to conduct research and development, and we are establishing several subsidiaries internationally to expand our sales reach. We have incurred and expect to incur costs and expend resources associated with commencing operations in a foreign country. We have limited experience in international operations and may not be able to compete effectively in international markets. If we do not generate enough revenue from international operations to offset the expense of these operations, our business and our ability to increase revenue and enhance our operating results could suffer. Risks we face in conducting business internationally include:

- difficulties and costs of staffing and managing international operations;
- differing technology standards and legal considerations;
- longer sales cycles and collection periods;
- dependence on local vendors;
- difficulties in staffing and managing international operations, including the difficulty in managing a geographically dispersed workforce in compliance with diverse local laws and custom;
- potential adverse tax consequences;
- changes in currency exchange rates and controls;
- restrictions on repatriation of earnings from our international operations;
- difficulties in maintaining effective internal control over financial reporting as a result of a geographically-dispersed workforce and customers;

- longer collection cycles for accounts receivable; and
- the effects of external events such as terrorist acts and any related conflicts or similar events worldwide.

If our existing customers do not renew term licenses or maintenance services or purchase additional products, our operating results could suffer.

Historically, we have derived, and expect to continue to derive, a significant portion of our total revenue from existing customers who purchase additional products or renew term licenses and maintenance services. Our customers may not renew term licenses or maintenance services or purchase additional products and may not expand their use of our products. In addition, as we introduce new products, our current customers may not require or desire the functionality of our new products and may not ultimately purchase these products. If our customers do not renew term licenses or maintenance services or do not purchase additional products, our revenue levels and operating results could suffer.

Our product innovations may not achieve the market penetration necessary for us to expand our market share.

If we fail to develop new or enhanced versions of our real-time service management software in a timely manner or to provide new products and services that achieve rapid and broad market acceptance, we may not maintain or expand our market share. We may fail to identify new product and service opportunities for our current market or new markets that we enter into in the future. In addition, our existing products will become obsolete if we fail to introduce new products or product enhancements that meet new customer demands, support new standards or integrate with new or upgraded versions of packaged applications. We have limited control over factors that affect market acceptance of our product and services, including:

- the willingness of enterprises, including management service providers, to transition to support and service automation solutions; and
- acceptance of competitors' solutions or other similar technologies.

Our software may not operate with the hardware and software platforms that are used by our customers now or in the future, and as a result our business and operating results may suffer.

We currently serve a customer base with a wide variety of constantly changing hardware, packaged software applications and networking platforms. If we fail to release versions of our software that are compatible with operating systems, software applications or hardware devices used by our customers, our business and operating results would suffer. Our future success also depends on:

- the ability of our products to inter-operate with multiple platforms and to modify our products as new versions of packaged applications are introduced and used by our customer base; and
- our management of software being developed by third parties for our customers or for use with our products.

We may engage in investments or acquisitions that could divert management attention and prove difficult to integrate with our business and technology.

We may engage in acquisitions of other companies, products or technologies, such as our recent acquisition of substantially all of the assets of Core Networks. If we fail to integrate successfully any future acquisitions, or the technologies associated with such acquisitions, into our company, the revenue and operating results of the combined company could decline. The process of integrating an acquired business, technology, service or product into our business and operations may result in unforeseen operating difficulties and expenditures. Acquisitions involve a number of other potential risks to our business, including the following:

- potential adverse effects on our operating results, including unanticipated costs and liabilities, unforeseen accounting charges or fluctuations resulting from failure to accurately forecast the financial impact of an acquisition;
- failure to integrate acquired products or technologies with our existing products, technologies and business model;
- failure to integrate management information systems, personnel, research and development and marketing, sales and support operations;
- potential loss of key employees from the acquired company;
- diversion of management's attention from other business concerns and disruption of our ongoing business;
- difficulty in maintaining controls and procedures;
- potential loss of the acquired company's customers;
- uncertainty on the part of our existing customers about our ability to operate on a combined basis;

- failure to realize the potential financial or strategic benefits of the acquisition; and
- failure to successfully further develop the acquired company's technology, resulting in the impairment of amounts capitalized as intangible assets.

In addition, our capital resources may be insufficient to acquire businesses, technology, services or products and we may require additional financing. This financing may not be available in sufficient amounts or on terms acceptable to us and may be dilutive to existing stockholders.

We rely on third-party technologies and our inability to use or integrate third-party technologies could delay product or service development.

We intend to continue to license technologies from third parties, including applications used in our research and development activities and technologies such as third-party search engine technology, which are integrated into our products and services. Our inability to obtain or integrate any of these technologies with our own products could delay product and service development until equivalent technology can be identified, licensed and integrated. These technologies may not continue to be available to us on commercially reasonable terms or at all. We may fail to successfully integrate any licensed technology into our products or services, 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;
- 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 failure to establish and expand third-party alliances would harm our ability to sell our real-time service management software.

We have several alliances with third parties that are important to our business. Our existing relationships include those with software and hardware vendors, and relationships with companies who provide outsourced support and service capabilities to enterprise customers. If these relationships fail, we may have to devote substantially more resources to the sales and marketing of our products and services than we would otherwise, and our efforts may not be as effective. For example, companies that provide outsourced support and services often have extensive relationships with our existing and potential customers and significant input in the purchase decisions of these customers. Our failure to maintain these existing relationships, or to establish new relationships with key third parties, could significantly harm our ability to sell our products and services.

We may lose the services of our key personnel, which in turn would harm the market's perception of our business and our ability to achieve our business goals.

Our success will depend on the skills, experience and performance of our senior management, engineering, sales, marketing and other key personnel. The loss of the services of any of our senior management or other key personnel, including Radha R. Basu, our president, chief executive officer and chairman, Brian Beattie, our executive vice president of finance and administration and chief financial officer, Scott W. Dale, our chief technical officer, Cadir B. Lee, our vice president of engineering, Chris Grejtak, our senior vice president of products and marketing and chief marketing officer, and John Van Siclen, our senior vice president of worldwide field operations, could harm the market's perception of our business and our ability to achieve our business goals. In addition, if the integration of new members of our senior management team does not go as smoothly as anticipated, it could negatively affect our ability to execute our business plans.

We must compete successfully in the real-time service management market or we will lose market share and our business will suffer.

We compete in markets that are highly competitive, subject to rapid change and significantly affected by new product introductions and other market activities of industry participants. We compete with a number of companies in the market for automated delivery of support and service endpoint management and other vendors who may offer products or services with features that compete with specific elements of our software suites or with our component products. In addition, our customers and potential customers have developed or may develop real-time service management software systems in-house. We expect that internally developed applications will continue to be a principal source of competition in the foreseeable future.

The markets for our products are still rapidly evolving, and we may not be able to compete successfully against current and potential competitors. Our ability to expand our business will depend on our ability to maintain our technological advantage, introduce timely enhanced products to meet the growing support needs, deliver on-going value to our customers and scale our business. Our potential competitors may have longer operating histories, significantly greater financial, technical and other resources or greater name recognition than we do. Competition in our markets could reduce our market share or require us to reduce the price of products and services, which could harm our business, financial condition and operating results.

We may need additional capital and if funds are not available on acceptable terms, we may not be able to hire and retain employees, fund our expansion or compete effectively.

We believe that our existing capital resources will enable us to maintain our operations for at least the next 12 months. However, if our capital requirements vary materially from those currently planned, we may require additional financing sooner than anticipated. This financing may not be available in sufficient amounts or on terms acceptable to us and may be dilutive to existing stockholders. If adequate funds are not available or are not available on acceptable terms, our ability to hire, train or retain employees, fund our expansion, take advantage of business opportunities, develop or enhance services or products or respond to competitive pressures would be significantly limited.

Our system security is important to our customers and we may need to spend significant resources to protect against or correct problems caused by security breaches.

A fundamental requirement for online communications, transactions and support is the secure transmission of confidential information. Third parties may attempt to breach our security or that of our customers. We may be liable to our customers for any breach in security and any breach could 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 further protect against security breaches or to correct problems caused by any breach.

Failure to resolve pending securities claims and other lawsuits may lead to continued costs and expenses and divert management's attention from our business, which could cause our revenues and our stock price to decline.

In the past, securities class action litigation has often been brought against public companies after periods of volatility in the market price of securities. The market price of our common stock has been subject to significant fluctuations and may continue to fluctuate or decline. For example, during the fourth quarter of 2004, the closing sale prices of our common stock on the Nasdaq National Market ranged from \$9.62 on October 1, 2004 to \$4.88 on October 25, 2004. In addition, the anti-takeover provisions we have adopted in the past, such as prohibiting stockholder action by written consent, or may adopt in the future may be perceived negatively by the market causing a decline in our stock price or litigation against us. Securities class action lawsuits were filed against us in November 2001 and again in December 2004. Should these lawsuits linger for a long period of time, whether ultimately resolved in our favor or not, or further lawsuits be filed against us, coverage limits of our insurance or our ability to pay such amounts may not be adequate to cover the fees and expenses and any ultimate resolution associated with such litigation. The size of these payments, if any, individually or in the aggregate, could seriously impair our cash reserves and financial condition. The continued defense of these lawsuits also could result in continued diversion of our management's time and attention away from business operations, which could cause our financial results to decline. A failure to resolve definitively current or future material litigation in which we are involved or in which we may become involved in the future, regardless of the merits of the respective cases, could also cast doubt as to our prospects in the eyes of customers, potential customers and investors, which could cause our revenues and stock price to decline.

We may face claims of invasion of privacy or inappropriate disclosure, use or loss of our customers' information and any liability imposed could harm our reputation and cause us to lose customers.

Our software contains features which may allow us or our customers to control, monitor or collect information from computers running the software without notice to the computing users. Therefore we may face claims about invasion of privacy or inappropriate disclosure, use or loss of this information. Any imposition of liability could harm our reputation, cause us to lose customers and cause our operating results to suffer.

Any system failure that causes an interruption in our customers' ability to use our products or services or a decrease in their performance could harm our relationships with our customers and result in reduced revenue.

Our software depends in part on the uninterrupted operation of our internal and outsourced communications and computer systems. These systems are vulnerable to damage or interruption from computer viruses, human error, natural disasters, electricity grid failures and intentional acts of vandalism and similar events. Our disaster recovery plan may not be adequate and insurance may not be enough to compensate us for losses that occur. These problems could interrupt our customers' ability to use our real-time service management products or services, which could harm our reputation and cause us to lose customers and revenue.

We may not obtain sufficient patent protection, which could harm our competitive position, increase our expenses and harm our business.

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

- our pending patent applications may not be issued;
- 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.

Our products depend on and work with products containing complex software and if our products fail to perform properly due to errors in the software, we may need to devote resources to correct the errors or compensate for losses from these errors and our reputation could be harmed.

Our products depend on complex software, both internally developed and licensed from third parties. Also, our customers may use our products with other companies' products which also contain complex software. Complex software often contains errors and may not perform properly. These errors could result in:

- delays in product shipments;
- unexpected expenses and diversion of resources to identify the source of errors or to correct errors;
- damage to our reputation;
- lost sales;
- demands, claims and litigation and related defense costs; and
- warranty claims.

If our products fail to perform properly due to errors, bugs or similar problems in the software, we could be required to devote valuable resources to correct the errors or compensate for losses from these errors. Furthermore, if our products are found to contain errors or bugs, whether resulting from internally developed or third-party licensed software, our reputation with our customer base could be harmed and our business could suffer.

We rely upon patents, trademarks, copyrights and trade secrets to protect our proprietary rights and if these rights are not sufficiently protected, it could harm our ability to compete and to generate revenue.

We rely on a combination of laws, such as patents, copyright, trademark and trade secret laws, 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 misappropriation of our technologies or deter others from developing similar technologies; and
- policing unauthorized use of our products and trademarks is difficult, expensive and time-consuming, and we may be unable to determine the existence or extent of this unauthorized use.

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.

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

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. Intellectual property litigation is expensive and time-consuming and could divert management's attention from our business. If there is a successful claim of infringement, we may be required to develop non-infringing technology or enter into royalty or license agreements which may not be available on acceptable terms, if at all. Our failure to develop non-infringing technologies or license the proprietary rights on a timely basis would harm our business.

Risks Related To Our Industry

We may experience a decrease in market demand due to uncertain economic conditions in the United States and in international markets, which has been further exacerbated by the concerns of terrorism, war and social and political instability.

The United States and international economies have recently experienced a period of slow economic growth. A sustained economic recovery is uncertain. In addition, the terrorists attacks in the United States and turmoil in the Middle East have increased the uncertainty in the United States economy and may further exacerbate the decline in economic conditions, both domestically and internationally. Terrorist acts and similar events, or war in general, could contribute further to a slowdown of the market demand for goods and services, including real-time service management solutions. If the economy declines as a result of economic, political and social turmoil, or if there are further terrorist attacks in the United States or elsewhere, we may experience decreases in the demand for our products and services, which may harm our operating results.

Governmental regulation and legal changes could impair the growth of the Internet and decrease demand for our products or increase our cost of doing business.

The laws and regulations that govern our business can change rapidly. Any change in laws and regulations could impair the growth of the Internet and could reduce demand for our products, subject us to liability or increase our cost of doing business. The United States government and the governments of states and foreign countries have attempted to regulate activities on the Internet and the distribution of software. Also, in 1998, the Internet Freedom Act was enacted into law, which imposed a three-year moratorium on state and local taxes on Internet-based transactions. Congress has extended this moratorium on several occasions, including the most recently approved extension to the moratorium until November 1, 2007. Failure to renew this moratorium once again or to pass a bill that would permanently prohibit state and local taxes on Internet-based transactions would allow states to impose taxes on Internet-based commerce. This might harm our business directly and indirectly by harming the businesses of our customers, potential customers and the parties to our technology relationships. The applicability to the Internet of existing laws is uncertain and may take years to resolve. Evolving areas of law that are relevant to our business include privacy laws, intellectual property laws, proposed encryption laws, content regulation and sales and use tax laws and regulations.

We may be required to change our business practices if there are changes in accounting regulations and related interpretations and policies, such as the recent changes in accounting rules for employee stock options.

Accounting standards groups and regulators are actively re-examining various accounting policies, guidelines and interpretations related to revenue recognition, expensing stock options, income taxes, investments in equity securities, facilities consolidation, accounting for acquisitions, allowances for doubtful accounts and other financial reporting matters. These standards groups and regulators could promulgate interpretations and guidance that could result in material and potentially adverse changes to our business practices and accounting policies.

Accounting rules relating to employee stock option grants, have recently been revised. The Financial Accounting Standards Board and other agencies have finalized changes to U.S. generally accepted accounting principles that will require us, starting in our first quarter of 2006, to record a charge to earnings for employee stock option grants and other equity incentives. We may have significant and ongoing accounting charges resulting from option grant and other equity incentive expensing that could reduce our overall net income. In addition, since we historically have used equity-related compensation as a component of our total employee compensation program, the accounting change could make the use of equity-related compensation less attractive to us and therefore make it more difficult to attract and retain employees.

New rules and regulations for public companies may increase our administrative costs.

The Sarbanes-Oxley Act of 2002, as well as new rules subsequently implemented by the Securities and Exchange Commission and the Nasdaq National Market, have required changes in corporate governance practices of public companies. These new rules and regulations are increasing our legal and financial compliance costs, and making some activities more time-consuming and costly. We also expect these new rules and regulations to make it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. These new rules and regulations could also make it more difficult for us to attract and retain qualified members of our board of directors, particularly to serve on our audit committee, and qualified executive officers.

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

We develop products in the United States and market and sell in North America, South America, Asia and Europe. As a result, our financial results could be affected by factors such as changes in foreign currency exchange rates or weak economic conditions in foreign markets. As most sales are currently made in U.S. dollars, a strengthening of the dollar could make our products less competitive in foreign markets.

As of March 31, 2005, we held \$17.0 million in cash and cash equivalents consisting of highly liquid investments having original maturity dates of no more than 90 days. Declines of interest rates over time would reduce our interest income from our highly liquid short-term investments. Based upon our balance of cash and cash equivalents, a decrease in interest rates of 100 basis points would cause a corresponding decrease in our annual interest income of approximately \$170,000. Due to the nature of our highly liquid cash equivalents, a change in interest rates would not materially change the fair market value of our cash and cash equivalents.

As of March 31, 2005, we held \$100.7 million in short-term investments, which consisted primarily of money market funds held by large institutions in the U.S., municipal bonds and commercial paper, and our short-term investments were primarily invested in corporate bonds, government debt securities maturing in less than eighteen months and auction backed securities resetting in less than forty-five days. The weighted average interest rate of our portfolio was approximately 2.38% at March 31, 2005. A decline in interest rates over time would reduce our interest income from our short-term investments. A decrease in interest rates of 100 basis points would cause a corresponding decrease in our annual interest income of approximately \$1.01 million. Due to the nature of our highly liquid cash equivalents, a change in interest rates would not materially change the fair market value of our short-term investments.

ITEM 4: CONTROLS AND PROCEDURES.

Evaluation of disclosure controls and procedures .

We maintain “disclosure controls and procedures,” as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the “Exchange Act”), that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Additionally, in designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

As of March 31, 2005 and as previously reported in the Company’s Annual Report on Form 10-K, as of December 31, 2004, the Company’s Chief Executive Officer and Chief Financial Officer concluded that the Company’s disclosure controls and procedures were not effective due to material weaknesses in its internal controls over financial reporting, specifically:

1. We identified a material weakness for insufficient controls over the review, approval, and accounting for stock option modifications in connection with employee terminations.
2. We identified the following insufficient internal controls, which relate to certain areas of our financial statement close process and constitute a material weakness in the aggregate.
 - a. Insufficient controls over the preparation and review of the Company’s spreadsheet detail used to account for prepaid commissions.
 - b. Insufficient controls over the review and accounting for a third party services consulting payment.
 - c. Insufficient controls over the classification of auction rate securities as cash equivalents on the balance sheet due to management’s reliance on its broker statements which lacked sufficient details to identify such securities.

Changes in internal control over financial reporting.

In response to the material weaknesses identified, the Company instituted several new internal controls in order to remediate the weaknesses:

1. In December 2004, management instituted a control procedure which requires non-standard terminations of personnel to be reviewed and approved by our legal and finance organization(s).
2. In the first quarter of 2005, we supplemented our financial statement close process by adding additional review procedures to address the identified deficiencies.

The Company believes these additional internal controls will be effective in remediating the material weaknesses described above and intends to continue to monitor the operating effectiveness of these controls.

In addition to the new controls described above, the Company migrated from its previous accounting system to a new financial accounting system in the first quarter of 2005. In connection with this implementation we added new controls over the input of certain transactions into the accounting system.

Other than the changes described above there was no significant change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) identified in connection with the evaluation described above that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II: OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

Between December 9, 2004 and January 21, 2005, several purported securities class action suits were filed in the United States District Court for the Northern District of California against the Company, its CEO, Radha R. Basu, and its CFO, Brian M Beattie. These actions were consolidated on March 22, 2005 as In re SupportSoft, Inc. Securities Litigation, Civil Action No.: c 04-5222 SI. The consolidated complaint alleges generally violations of certain federal securities laws and seek unspecified damages on behalf of a class of purchasers of the Company’s common stock between January 20, 2004 and October 1, 2004. Plaintiffs allege, among other things, that defendants made false and misleading statements concerning the Company’s business and guidance for the third quarter 2004, purportedly violating Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder. We intend to move to dismiss the Complaint on May 20, 2005 and set the hearing on the motion for July 8, 2005. While we cannot predict with certainty the outcome of the litigation, we believe that the claims against us and our officers are without merit.

In November 2001, a class action lawsuit was filed against us and two of our officers in the United States District Court for the Southern District of New York. The lawsuit alleged that our registration statement and prospectus dated July 18, 2000 for the issuance and initial public offering of 4,250,000 shares of our common stock contained material misrepresentations and/or omissions, related to alleged inflated commissions received by the underwriters of the offering. The defendants named in the lawsuit are SupportSoft, Radha Basu, Brian Beattie, Credit Suisse First Boston Corporation, Bear, Stearns & Co. Inc. and FleetBoston Robertson Stephens Inc. The lawsuit seeks unspecified damages as well as interest, fees and costs. Similar complaints have been filed against 55 underwriters and more than 300 other companies and other individual officers and directors of those companies. All of the complaints against the underwriters, issuers and individuals have been consolidated for pre-trial purposes before U.S. District Court Judge Scheindlin of the Southern District of New York. On June 26, 2003, the

plaintiffs announced that a proposed settlement between the issuer defendants and their directors and officers had been reached. As a result of the proposed settlement, which is subject to court approval, we anticipate that our insurance carrier will be responsible for any payments other than attorneys' fees prior to June 1, 2003. On September 2, 2003, plaintiffs' executive committee advised the court that the lead plaintiff in the action against us was unwilling to serve as a class representative, and sought leave to seek a new class representative. On October 20, 2003, we were notified that a new class representative would be substituted into the case against us, but our attempts to formally confirm this substitution have not been successful. At a court conference on March 4, 2004, plaintiffs' executive committee advised the court that the negotiators for plaintiffs and issuers have agreed on the terms of the settlement. During mid-2004, the plaintiffs moved for preliminary approval of the proposed settlement. After full briefing and argument, on February 15, 2005, the court issued an opinion preliminarily approving the proposed settlement, contingent upon modifications being made to one aspect of the proposed settlement—the proposed “bar order”. At a further conference on April 13, 2005, the court set a further schedule for submission of documents concerning the form and substance of class notice, and tentatively set a Rule 23 public hearing on the fairness of the proposed settlement for January 9, 2006. While we cannot predict with certainty the outcome of the litigation or whether the settlement will be approved, we believe that the claims against us and our officers are without merit.

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. The ultimate outcome of any litigation is uncertain, and either unfavorable or favorable outcomes could have a material negative impact. Regardless of outcome, litigation can have an adverse impact on SupportSoft because of defense costs, diversion of management resources and other factors.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(c) On April 27, 2005, the Board of Directors approved a share repurchase program in which the Company is authorized to repurchase up to 2,000,000 shares of its outstanding shares of common stock. Shares may be purchased in the open market or in block trades from time to time at the discretion of the Company's management. The number of shares to be purchased and the timing of the purchases will be based on the level of cash balances, general business conditions and other factors, including alternative investment opportunities. The Company may discontinue or suspend the program at any time. As of March 31, 2005, the program was not yet in effect and therefore no shares were repurchased.

ITEM 5. OTHER INFORMATION

On May 6, 2005, SupportSoft and MPTP Holding, LLC entered into an agreement to extend the term of the current lease for SupportSoft's corporate headquarters in Redwood City, California for a period of one (1) year, with an option to extend for an additional year.

ITEM 6. EXHIBITS.

Exhibits.

- 10.1 Second Amendment to Lease effective as of May 6, 2005 by and between MPTP Holding, LLC and the Registrant
- 31.1 Chief Executive Officer Section 302 Certification.
- 31.2 Chief Financial Officer Section 302 Certification.
- 32.1 Statement of the Chief Executive Officer under 18 U.S.C. § 1350 ¹
- 32.2 Statement of the Chief Financial Officer under 18 U.S.C. § 1350 ¹

¹ The certifications filed as Exhibits 32.1 and 32.2 are not deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934 and are not to be incorporated by reference into any filing of the Company under the Securities Exchange Act of 1933 or the Securities Exchange Act of 1934, whether made before or after the date hereof irrespective of any general incorporation by reference language contained in any such filing, except to the extent that the registrant specifically incorporates it by reference.

EXHIBIT INDEX TO SUPPORTSOFT, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED MARCH 31, 2005

| <u>Exhibit Number</u> | <u>Description</u> |
|---------------------------|---|
| 10.1 | Second Amendment to Lease effective as of May 6, 2005 by and between MPTP Holding, LLC and the Registrant |
| 31.1 | Chief Executive Officer Section 302 Certification. |
| 31.2 | Chief Financial Officer Section 302 Certification. |
| 32.1 | Statement of the Chief Executive Officer under 18 U.S.C. § 1350 ¹ |
| 32.2 | Statement of the Chief Financial Officer under 18 U.S.C. § 1350 ¹ |

¹ The certifications filed as Exhibits 32.1 and 32.2 are not deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934 and are not to be incorporated by reference into any filing of the Company under the Securities Exchange Act of 1933 or the Securities Exchange Act of 1934, whether made before or after the date hereof irrespective of any general incorporation by reference language contained in any such filing, except to the extent that the registrant specifically incorporates it by reference.

SECOND AMENDMENT TO LEASE

THIS SECOND AMENDMENT TO LEASE (the "Second Amendment to Lease"), dated as of May 6, 2005, is made and entered into by and between MPTP HOLDING, LLC, a Delaware limited liability company ("Landlord"), and SUPPORTSOFT, INC., a Delaware corporation and successor by merger to Support.com, Inc. ("Tenant").

RECITALS

This Second Amendment to Lease is entered into upon the basis of, and with reference to the following facts, understandings and intentions of the parties:

A. By a certain office lease dated as of October 1, 2001 (the "Original Lease"), Martin/Campus LLC, a Delaware limited liability company (predecessor in interest to Landlord), leased and demised to Tenant certain premises consisting of approximately 23,660 square feet (the "Premises") comprising a part of and located in that certain building commonly known as 575-595 Broadway (the "Building") in the City of Redwood City, County of San Mateo, State of California.

B. The Original Lease has been amended by that certain First Amendment to Lease, dated as of May 31, 2003, by and between Landlord and Tenant (the "First Amendment to Lease"). The First Amendment to Lease and the Original Lease are collectively referred to herein as the Lease.

C. Paragraph 6 of the First Amendment to Lease deleted the option to extend the Term of the Original Lease, which was set forth in Paragraph 4B of the Original Lease, and granted to Tenant an option to extend the Lease for two (2) additional terms of one (1) year each. Tenant has not exercised, and is not exercising, the options described in Paragraph 6 of the First Amendment to Lease but Landlord and Tenant have agreed to extend the Term of the Lease on the terms and conditions set forth herein.

NOW, THEREFORE, for good and valuable consideration, including the mutual covenants contained in the Lease, Landlord and Tenant hereby agree as follows:

1. Defined Terms. Except as expressly provided in this Second Amendment to Lease to the contrary, terms which are defined in the Lease shall have the same meaning when used in this Second Amendment to Lease.

2. Monthly Rent. Paragraph 2 of the First Amendment to Lease is hereby deleted. The definition of Monthly Rent in the Lease Summary of the Original Lease is hereby deleted and the following is inserted in place thereof:

"Monthly Rent: \$0.95/square foot/month for the period commencing June 1, 2003 to May 31, 2004
\$1.05/square foot/month for the period commencing June 1, 2004 to May 31, 2006".

Option Term: if the Renewal Option is exercised by Tenant pursuant to Paragraph 6 of the Second Amendment to Lease, Monthly Rent shall be \$1.15/square foot/month for the period commencing June 1, 2006 to May 31, 2007.

3. Term. Paragraph 5 of the First Amendment to Lease is hereby deleted. Paragraph 4.A. of the Original Lease is hereby deleted and the following is inserted in place thereof: "The Term shall commence on October 1, 2001 (the "Commencement Date") and shall, subject to the terms of Paragraph 4.B below, terminate on May 31, 2006."

4. Prior Options Paragraph 6 of the First Amendment to Lease is hereby deleted. Paragraph 4.B of the Original Lease is hereby deleted and the following is inserted in place thereof:

4B. Option.

(a) Grant of Renewal Option. Landlord hereby grants to Tenant an option (the "Renewal Option") to extend the Term of this Lease for an additional term of one (1) year (the "Renewal Term"), which shall commence upon the expiration of the Term. The Renewal Option is expressly conditioned upon Tenant's not being in default under any term or condition of this Lease after the expiration of any applicable cure period granted by this Lease, either at the time the Renewal Option is exercised or at the time the Renewal Option term would commence. The Renewal Option shall be personal to the Tenant originally named in this Lease or any successor to Tenant's interest in this Lease pursuant to a Permitted Transfer (as defined in Paragraph 25.G.), and shall not be assigned, sold, conveyed or otherwise transferred to any other party (including without limitation any assignee or sublessee of such Tenant) without the prior written consent of Landlord, which consent may be withheld in Landlord's reasonable discretion; provided, however, that Landlord's decision to grant or withhold its consent shall be made in accordance with the provisions of Paragraph 25.F. Under no circumstances shall Landlord be required to pay any real estate commission to any party with respect to Tenant's exercise of the Renewal Option.

(b) Manner of Exercise. Tenant may exercise the Renewal Option only by giving Landlord written notice not less than six (6) months prior to the expiration of the Term. If Tenant fails to exercise the Renewal Option prior to such six (6) month period, then the Renewal Option automatically shall lapse and thereafter Tenant shall have no right to exercise the Renewal Option.

(c) Terms and Rent. If the Renewal Option is exercised in accordance with the terms hereof, then the Monthly Rent shall be \$1.15/square foot/month for the Renewal Term. Landlord shall not under any circumstances be

required to construct or pay for any additional interior improvements to the Premises for the Renewal Term. All other terms and conditions of the Lease, as amended from time to time by the parties in accordance with the provisions of the Lease, shall remain in full force and effect and shall apply during the Renewal Term; provided, however, that notwithstanding the foregoing: (i) there shall be no further option to extend the Term beyond May 31, 2007, (ii) there shall be no rent concessions, and (iii) there shall be no construction allowance, tenant improvement allowance or similar provision, excepting only that Landlord shall provide an additional tenant improvement allowance of Twenty Five Thousand Dollars (\$25,000.00) (“Additional Interior Improvement Allowance”) on the same terms and conditions as the Interior Improvement Allowance described in the Second Amendment to Lease.

5. Interior Improvement Allowance. Landlord shall provide Tenant with an “Interior Improvement Allowance” in the amount of Twenty Five Thousand Dollars (\$25,000.00), which amount shall be applied by Tenant toward the construction and installation of tenant improvements in the Premises (which improvements shall be subject to Paragraph 13 of the Original Lease) and which amount shall be disbursed to Tenant within 45 days from Tenant submitting paid invoices for improvement work completed in the Premises.

6. Right of First Offer. Pursuant to the First Amendment to Lease, a new Paragraph 43 was added to the Lease. Notwithstanding any inconsistent or contrary provision in the Lease, the rights granted in Paragraph 43 shall apply throughout the Term (including, without limitation, the Renewal Term if Tenant exercises the Renewal Option in accordance with the requirements of Paragraph 4A as described herein).

7. Interpretation of Amendment. This Second Amendment to Lease and Lease shall be construed as a whole in order to effectuate the intent of the parties to amend the Lease in the manner specified in this Second Amendment to Lease. All provisions of the Lease affected by this Second Amendment to Lease shall be deemed amended regardless of whether so specified in this Second Amendment to Lease. Subject to the foregoing, if any provision of the Lease conflicts with any provision of this Second Amendment to Lease, the provision of this Second Amendment to Lease shall control.

8. No Further Amendment. Except as amended by this Second Amendment to Lease, the Lease shall continue in full force and effect and in accordance with its terms.

9. Effective Date of Amendment. Except as expressly set forth to the contrary in any Paragraph of this Second Amendment to Lease, the effective date of this Second Amendment to Lease and each and every provision hereof shall be the date first hereinabove set forth.

10. Representations and Warranties. As a material inducement to Landlord to enter into this Second Amendment to Lease, Tenant represents and warrants to Landlord that, as of the date of this Second Amendment to Lease:

(a) The Lease is in full force and effect. There are no defaults by Landlord or Tenant under the Lease, and no circumstance has occurred which, but for the expiration of an applicable grace period, would constitute an event of default by Landlord or Tenant under the Lease. Tenant has no defenses or rights of offset under the Lease.

(b) Tenant has full right, power and authority to enter into this Second Amendment to Lease, and has obtained all necessary consents and resolutions from its board of directors required under the documents governing its affairs in order to consummate this transaction, and the persons executing this Second Amendment to Lease have been duly authorized to do so. This Second Amendment to Lease and the Lease are binding obligations of Tenant, enforceable in accordance with their terms.

(c) Tenant is the sole lawful tenant under the Lease and Tenant has not sublet, assigned, conveyed, encumbered or otherwise transferred any of the right, title or interest of Tenant under the Lease or arising from its use or occupancy of the Premises, and no other person, partnership, corporation or other entity has any right, title or interest in the Lease or the Premises, or the right to occupy or use all or any part of the Premises.

(d) Tenant has had no dealings with any real estate broker or agent in connection with the negotiation of this Second Amendment to Lease, excepting Colliers Parrish on behalf of Tenant and BT Commercial on behalf of Landlord, and Tenant knows of no other real estate broker or agent who is entitled to a commission in connection with this Second Amendment to Lease. Tenant agrees to indemnify and defend Landlord against and hold Landlord harmless from any and all claims, demands, losses, liabilities, lawsuits, judgments, costs and expenses (including without limitation reasonable attorneys' fees) with respect to any leasing commission or equivalent compensation alleged to be owing on account of any dealings with any real estate broker or agent, other than the brokers named above, occurring by, through, or under Tenant. Tenant acknowledges and agrees that no commission shall be paid in connection with Tenant's exercise of the Renewal Option.

[SIGNATURES FOLLOW ON NEXT PAGE]

IN WITNESS WHEREOF, the parties have executed this Second Amendment to Lease as of the date first hereinabove set forth.

LANDLORD:

MPTP HOLDING, LLC,
a Delaware limited liability company

By: MIDPOINT HOLDING, LLC,
a Delaware limited liability company
Its: Manager

By: CALYON NEW YORK BRANCH
Its: Member

/s/ David P. Messing

By: David P. Messing
Its: Director

/s/ Michael J. Vanderlay

By: Michael J. Vanderlay
Its: Director

TENANT:

SUPPORTSOFT, INC.
a Delaware corporation

/s/ Brian Beattie

By: Brian Beattie
Its: Chief Financial Officer

/s/ Ken Owyang

By: Ken Owyang
Its: Vice President of Finance

STATEMENT OF CHIEF EXECUTIVE OFFICER UNDER 18 U.S.C. § 1350

I, Radha R. Basu, the chief executive officer of SupportSoft, Inc. (the “Company”), certify for the purposes of section 1350 of chapter 63 of title 18 of the United States Code that, to the best of my knowledge,

- (i) the Quarterly Report of the Company on Form 10-Q for the quarter ended March 31, 2005 (the “Report”), fully complies with the requirements of section 13(a) of the Securities Exchange Act of 1934, and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 10, 2005

/s/ RADHA R. BASU

Radha R. Basu
Chief Executive Officer and President

A signed original of this written statement required by 18 U.S.C. § 1350 has been provided to SupportSoft, Inc. and will be retained by SupportSoft, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

¹ The material contained in this Exhibit 32.1 is not 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 and irrespective of any general incorporation language contained in such filing, except to the extent that the registrant specifically incorporates it by reference.

STATEMENT OF CHIEF FINANCIAL OFFICER UNDER 18 U.S.C. § 1350

I, Brian M. Beattie, the chief financial officer of SupportSoft, Inc. (the “Company”), certify for the purposes of section 1350 of chapter 63 of title 18 of the United States Code that, to the best of my knowledge,

- (i) the Quarterly Report of the Company on Form 10-Q for the quarter ended March 31, 2005 (the “Report”), fully complies with the requirements of section 13(a) of the Securities Exchange Act of 1934, and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 10, 2005

/s/ BRIAN M. BEATTIE

Brian M. Beattie
Executive Vice President of Finance
and Administration and Chief Financial Officer

A signed original of this written statement required by 18 U.S.C. § 1350 has been provided to SupportSoft, Inc. and will be retained by SupportSoft, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

¹ The material contained in this Exhibit 32.1 is not 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 and irrespective of any general incorporation language contained in such filing, except to the extent that the registrant specifically incorporates it by reference.