

Keynote Systems
Third Quarter Fiscal 2007 Results Conference Call
Tuesday, July 31, 2007

I. Operator

- A. Good afternoon, everyone, and welcome to Keynote's conference call for the third quarter of fiscal year 2007, ending June 30, 2007. Today's call is being recorded.
- B. At this time, I would like to turn the call over to Moriah Shilton for opening remarks and instructions.

II. Moriah Shilton – Lippert/Heilshorn & Associates – IR Contact

- A. Thank you. Good afternoon, everyone, and welcome to Keynote's conference call for the fiscal 2007 third quarter ended June 30, 2007. I am here today with Umang Gupta, Chairman and Chief Executive Officer; and Drew Hamer, Chief Financial Officer. Umang and Drew will review our accomplishments for the quarter and then will be available to answer questions.
- B. Hopefully, by now, you have seen our press release that was distributed over Business Wire and the major wire services. For your convenience, the press release has also been posted on our website at www.keynote.com. The replay of this call will be available by telephone by dialing 800-642-1687 -- the pass code is # 5582359 -- or by webcast at the investor relations section of our website at www.keynote.com.
- C. I would like to remind you that statements made during the course of this call that are not purely historical are forward-looking statements regarding the Company or management's intentions, hopes, beliefs, expectations and strategies for the future. Because such statements deal with future events, they are subject to various risks and uncertainties, and actual results might differ materially from those projected in the forward-looking statements. Important factors that could cause actual results to differ materially from those in the forward-looking statements are discussed in today's press release and in the Company's annual and quarterly reports filed with the SEC.
- D. We have provided detailed guidance in our earnings release today, as we have in prior quarters. This guidance assumes no additional acquisitions or other significant or extraordinary transactions, other than those described in our earnings release. We will not comment on this guidance during the quarter, but may provide an update to this guidance in the event of material changes during the quarter.

- E. Before the company reviews the financials, I will review definitions for some metrics, which are not in accordance with generally accepted accounting principles, commonly known as GAAP.
1. The company defines non-GAAP net income or loss as net income or loss adjusted for provision for income taxes, less cash tax expense, stock-based compensation expense, and amortization of purchased intangibles. Non-GAAP net income per share equals non-GAAP net income divided by the weighted diluted share count as of that period end. Non-GAAP net loss per share equals non-GAAP net loss divided by the weighted basic share count as of that period end.
 2. Keynote SIGOS' revenue recognition policy under GAAP requires the amortization of most of Keynote SIGOS' software license revenues over a 12-month to 36-month period depending on the length of a contract. Therefore, Keynote's consolidated GAAP and non-GAAP earnings are likely to remain negative until quarterly GAAP revenues normalize with quarterly billings. Consequently, cash provided by operating activities, free cash flow and deferred revenue will be important metrics to measure Keynote's financial performance during that period.
 3. Free cash flow is defined as cash flow from operations less cash used for purchases of property, equipment, and software.
- F. Now, I would like to introduce Umang Gupta, Chairman and CEO and Drew Hamer, Chief Financial Officer of Keynote. Please go ahead Umang.

Umang Gupta – Keynote Systems, Inc. – Chairman, CEO

A. Thanks Moriah. Welcome, everyone, and thank you for joining us today.

1. Our third quarter of fiscal 2007 was an especially strong quarter for Keynote – with total revenue of \$17.4 million coming in above expectations, and representing approximately 25 percent growth over last year’s third quarter. We are especially pleased with the fact that we generated cash flow from operations of \$5.9 million and free cash flow of \$3.8 million. In fact, our nine-month year-to-date cash flow from operations and free cash flows are at levels greater than any other 12-month period in our company’s history.

B. Mobile Test and Measurement

1. Our Mobile Test and Measurement business exceeded our expectations for the third quarter 2007 – driven primarily by Keynote SIGOS. Our reported Mobile Test and Measurement (MTM) revenues, most of which are attributable to Keynote SIGOS, were \$4.6 million. Our net deferred revenues compared to the end of the second quarter increased by \$4.6 million to \$24.1 million at June 30, 2007. The combination of strong increases in cash flows and deferred revenues reflect the fact that our reported results have not as yet caught up with the underlying business that has been generated but not yet recognized as revenues in our consolidated P&L statements.
2. We continue to leverage the significant synergies between the existing Keynote Mobile business and the acquired SIGOS business – as exemplified by our Mobile Perspective shared public infrastructure, which will be using Keynote SIGOS hardware in combination with Keynote developed mobile testing and monitoring software. Announced in March of this year, this industry-unique test and measurement network is expected to be available towards the end of this quarter in 17 cities across the globe including San Francisco, Chicago, Dallas, New York, Los Angeles, Nuremberg, Toronto, London, Amsterdam, Stockholm and Paris, Mexico City, Hong Kong, Singapore, Sydney, Chennai and Tokyo.
3. The new public infrastructure expands our offering from providing mobile content test and measurement services for large projects in specifically contracted geographical locations to now include small-to-medium mobile content developers and projects across the globe who otherwise have no economical way to test their mobile content across all the markets they serve. While we have already begun pilot services for some

customers using this newly implemented public infrastructure, in the fall we intend to begin an aggressive market campaign to publicize the availability of our new services via webinars, targeted conferences and a presence at CTIA.

4. Key new Keynote SIGOS MTM deals in the third quarter 2007 were AT&T and Rogers. Our Keynote SIGOS customers now total 109. Additionally, we expanded our mobile content and services deals to include Good Technology, MobiTV and American Express. Also we are working on multiple pilot installations for our Mobile Perspective services among many other innovative new mobile players, some of whom we hope to be able to close later in this year.

C. Internet Test and Measurement

1. Our overall Internet Test and Measurement business this past quarter at \$10.8 million was 13 percent higher than the comparable quarter a year ago, and the highest it has been in over 5 years. A large part of the reason for this growth was Internet engagements, which more than doubled over the comparable period a year ago, as a result of increases in load testing, SLM, and VoIP related services engagements. New deals included Ameritrade, Comcast, Embarq, Gannett Media, HBO, Honda, McKesson, NBC, Philips and Wunderman.
2. While our Internet subscriptions grew approximately 3 percent in aggregate over the comparable quarter a year ago, we were pleased with the fact that our multi-page/broadband services grew by over 21 percent and overall page count grew by 11 percent over the same period a year ago. These represent very positive trends in the underlying demand for our Internet measurements subscriptions services – which came from new deals in the third quarter such as Comcast, Gannet Media, HBO, McKesson, Phillips and Reed Business, just to name a few.
3. Our single-page/single-device subscriptions were \$2.9 million in the quarter and now represent only 31 percent of our T&M subscriptions revenues. It is our intention to continue aggressively replacing these legacy services with our transaction/broadband services, with the goal of getting the legacy services revenues down to less than 10 percent by the end of the next fiscal year, thus eliminating the current negative overhang on our subscriptions revenue growth due to declining single page/single-device services.

We anticipate there may be some near term “ebb and flow” in our subscription revenue as we work toward this very important long-term goal and so we would like to remind everyone that overall Internet subscription revenues will not always grow consistently on a sequential quarter basis.

4. We are working on upgraded versions of our Transaction and Application Perspective products and are slated to launch these services in the upcoming quarter. The key new technology focus of these releases is on continuing to widen the lead we enjoy over our competition in the accurate measurement of Rich Internet Applications involving technologies such as Ajax, Javascript and Flash. We also expect to introduce innovative new ways for our customers to achieve provisioning flexibility in their measurements in order to make our services even more “self-service” than they already are. We are also approaching the completion of our agent build out for Transaction Perspective High Frequency, the industry’s most accurate service for measuring web transaction performance across the globe using an actual embedded IE browser, and we have now begun a similar agent expansion build out for our Transaction Perspective Last Mile service for measuring performance from dial-up, DSL, cable and 3G wireless locations.

D. Customer Experience Test and Measurement

1. Our third business unit, Customer Experience Test and Measurement (CEM), appears to have stabilized with revenues around \$2 million for three quarters in a row and is generating a positive contribution margin. The revenue growth programs we began implementing last quarter are looking promising based on our marketing lead flow and sales pipelines, and we are hopeful of a positive impact starting next fiscal year. We have also started to work with a number of agencies and partners to help drive the adoption of our technology among their customers. In addition, we are working on an updated version of our WebEffective product, which we expect to roll out in the beginning of our next fiscal year. This product will be especially tailored for conducting usability studies on Web 2.0 web sites, where the demands of Rich Internet applications make it virtually impossible to be able to generate meaningful results relating to customer experience via conventional web analytics services, and the cost of doing lab based research becomes astronomical with large sample sizes.
2. Key new CEM deals in the third quarter included Bank of America, Best Buy, Hertz, MasterCard, Qwest, Royal Caribbean, Sanofi-aventis and Sony Erickson.

3. With that, I'd now like to turn the call over to Drew for a more detailed discussion of our financials.

II. Drew Hamer – Keynote Systems, Inc. – CFO, VP of Finance

- A. Thank you Umang.
- B. Ladies and Gentlemen, I am going to start by reviewing the financial details for the quarter.
 1. Starting with revenue, our total revenue for the June quarter was \$17.4 million, compared to \$13.9 million in the same period last year and \$16.7 million last quarter. Total subscription services revenue was \$14.3 million or 82 percent of total revenue for the quarter. Subscription revenue was up 25 percent compared to the same period last year and three percent compared to last quarter, reflecting continued success in our Mobile Test and Measurement products. Professional services revenue of \$3.1 million, or 18 percent of total revenue for the quarter, was up 27 percent compared to last year and 10 percent compared to last quarter due to the growth in our internet engagements business.
 2. Our customer count was approximately 2,650 companies at both the end of June and March this year – up from approximately 2,600 at June 30, 2006. We track the number of customers, excluding Keynote SIGOS, that purchased on an annualized basis at least \$100,000 or more of our services. In the third quarter it was 80 customers that represented 72 percent of total revenue, compared to 71 customers representing 71 percent of revenue and 82 customers representing 70 percent of revenue in the third quarter of 2006 and the second quarter of 2007, respectively.
 3. At the end of June 2007, we measured approximately 11,100 pages through our Internet Test and Measurement business. This compares to over 9,600 pages in the quarter a year ago and approximately 10,500 last quarter. For the third quarter 2007, overall average monthly revenue per page for the quarter was \$218, compared to \$235 and \$221 for the quarter a year ago and last quarter, respectively.
- C. Now, I'll review our expenses.
 1. Total expenses were \$18.8 million, including \$1.1 million in stock-based compensation expenses and a \$713,000 charge for amortization of intangible assets. Last quarter, total expenses were \$18.0 million, including \$1 million of stock-based compensation expenses and a \$760,000 charge for amortization of intangible assets. In the third quarter 2006, total expenses were \$18.1 million, including \$925,000 of stock-based compensation expenses, an \$840 charge for in-process research and development and a \$798,000 charge for amortization of intangible assets.

2. The increases in Cost of Subscription Services are related to growth in our Keynote SIGOS business and the cost of building out our new public infrastructure for mobile content test and measurement. For the quarter, our Cost of Subscription Services revenues also reflect a one time charge for SIGOS costs of approximately \$250,000. The lower cost of Professional Services is primarily due to head count reductions we made in our CEM consulting group. The increase in our Sales and Marketing expenses reflect our continued investment in our sales and marketing operations.
 3. Also during the quarter, we recorded a \$1.3 million charge for estimated income tax provision. This compares to a \$1 million tax benefit for the third quarter of fiscal year 2006.
- D. Reflecting the aforementioned charges and income tax adjustments, for the third quarter of fiscal year 2007, our GAAP net loss was \$1.5 million or \$(0.09) per share, compared to the third quarter of fiscal year 2006, the GAAP net loss was \$2 million or \$(0.11) per share.
- E. The non-GAAP net income for the quarter was \$1.3 million, or \$0.07 per diluted share, compared to a non-GAAP net loss of \$1.1 million, or \$(0.06) per share, for the same quarter a year ago.
- F. Now, moving to the balance sheet and our cash performance metrics,
1. At June 30, 2007, our cash and short-term investments balance was \$103.1 million.
 2. For the quarter, cash provided by operating activities was \$5.9 million, compared to \$2.9 million for the same period last year.
 3. We invested \$2.1 million in property, equipment and software this quarter and \$792,000 in the same quarter last year.
 4. Our free cash flow for the quarter was \$3.8 million, up \$1.7 million when compared to \$2.1 million for the third quarter of 2006.
 5. We also received approximately \$5.2 million from the exercise of stock options in the quarter, compared to \$384,000 in the same period last year.
- G. As of June 30, 2007, accounts receivable net was \$6.2 million. DSOs were 32 days and 98 percent of accounts receivable were less than 90 days old.
- H. Total net deferred revenue at June 30, 2007 was \$24.1 million, up 24 percent compared to \$19.5 million at March 31, 2006 and up 148 percent from \$9.7 million at June 30, 2006.
- I. Ladies and Gentlemen, having reviewed the financial details for the quarter, I would like to provide some general guidance for the September 2007 quarter. The company consolidated Keynote SIGOS' financial reporting under U.S. GAAP rules starting April 3, 2006. U.S. GAAP required Keynote SIGOS' system license revenue to be ratably

recognized over the initial duration of each deal contract, which ranges from 12 months to 36 months.

- J. As a result, Keynote will be able to recognize as revenues only a fraction of Keynote SIGOS' sales during 2007. Accordingly the acquisition will be dilutive to Keynote's U.S. GAAP net income although cash flow from operations is expected to be positive throughout.
- K. Management is providing the following guidance for the 2007 fiscal fourth quarter ending September 30, 2007:
 - 1. Total revenue is expected to be between \$17.2 million and \$17.7 million.
 - 2. Net loss per share is expected to be between (\$0.05) and (\$0.03).
 - 3. Non-GAAP earnings per share are expected to be between \$0.05 and \$0.08.
 - 4. Cash provided by operating activities is expected to be between \$2.0 million and \$2.5 million.
 - 5. Free cash flow is expected to be between \$1.0 million and \$1.5 million.
 - 6. Our cash flow guidance reflects the seasonality inherent in our European business, which tends to be slowest in the last quarter of our year.
- L. The above guidance was based on the following assumptions:
 - 1. Total stock-based compensation expense and amortization of intangible assets is expected to be approximately \$1.2 million.
 - 2. Interest income, net is expected to be approximately \$1.2 million, assuming no material changes in interest rates and currently planned use of cash.
 - 3. Cash paid for income taxes is expected to be approximately \$300,000, assuming no changes in required tax payments.
 - 4. Basic weighted average shares outstanding are expected to be approximately 17.7 million shares and diluted weighted average shares outstanding are expected to be approximately 18.8 million shares, assuming no additional issuances of equity or equity-related securities.
- M. With that, I would like to return the call to Umang.

II. Umang Gupta – Close

A. Thank you Drew.

1. As we enter the last quarter of our fiscal 2007 year, we are beginning to ramp up our “Holiday Readiness” campaign – ensuring that we provide the necessary support for what we anticipate will be greater demand on our load testing and usability testing services.
2. While our mobile test and measurement services will be impacted by the seasonally slow current quarter in Europe, long term this business is one of the most exciting areas of growth for our company, and we believe has strong growth potential.
3. We are excited about our opportunities and look forward to sharing our future successes with you.

B. Now, Drew and I would be more than happy to take any questions you have. Thank you.

III. Operator Runs Q&A

IV. Umang Gupta – Close

C. Thank you again for joining us today. As usual, we appreciate your support and look forward to discussing our company with you at various investor conferences we have scheduled in the upcoming months:

1. Drew will be presenting at the Kaufman Conference in New York City on September 5th.
2. In addition, our investor relations firm Lippert/Heilshorn & Associates is arranging 1-on-1 investor meetings in Boston the day prior. Please give them a call if you are interested in setting up a meeting.