

Keynote Systems
Fourth Quarter and Full-year Fiscal 2007 Results Conference Call
Thursday, November 1, 2007

I. Operator

- A. Good afternoon, everyone, and welcome to Keynote's conference call for the fourth quarter and full fiscal year 2007, ending September 30, 2007. Today's call is being recorded.
- B. At this time, I would like to turn the call over to Kirsten Chapman for opening remarks and instructions.

II. Kirsten Chapman – *Lippert/Heilshorn & Associates* – IR Contact

- A. Thank you. Good afternoon, everyone, and welcome to Keynote's conference call for the fourth quarter and full fiscal year 2007, ending September 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 #19147857 -- 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. 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 Kirsten. Welcome, everyone, and thank you for joining us today. Fiscal year 2007 was the best year ever for Keynote, on many levels.
1. First – revenue. Our full year revenue of \$67.8 million was up 22 percent, compared to the prior year's \$55.5 million, and was powered by our Mobile Test and Measurement business, which exceeded our expectations in each quarter of the year. Additionally, the year's revenues were supported by year over year growth in our flagship Internet test and measurement business.
 2. Second - cash flows. For the full year the Keynote team delivered total cash flow from operations of over \$20.3 million and free cash flow of \$14.8 million, which is a record high for any twelve-month period in our history.
- B. Mobile Test and Measurement**
1. The main driver of our Mobile Test and Measurement, or MTM, revenues was Keynote SIGOS. Revenue for the year were \$17.6 million - up over 220 percent compared to last year. Our net deferred revenues at the end of the fourth quarter were \$22.0 million.
 2. Deals signed in fiscal 2007 expanded our possibilities for growth, especially beyond Europe and North America. Examples include the worldwide master agreement with Vodafone, through which we became Vodafone's preferred supplier for end-to-end mobile network test and measurement systems in Germany, the UK, Spain and more than 15 additional countries.
 3. We also signed important new Keynote SIGOS MTM deals in the United States and Canada including deals for GlobalRoamer™ with AT&T and Rogers.
 4. Our Keynote SIGOS customers now total 115 versus 79 last year, and we served 68 countries, compared to 47 last year.
 5. Additionally, we expanded our mobile content and services deals to include American Express, AOL, Chase, Good Technology, ING Bank, MobiTV, MSN Mobile, Yahoo and Zenprise.
 6. Other positive news in our mobile business was the announcement last week of the availability of our shared mobile test and measurement infrastructure. The 10 cities from which Keynote customers will initially be able to test and measure the performance of mobile content include San Francisco, Dallas, New York, Chicago, London, Stockholm, Amsterdam, Paris, Nuremberg and Toronto. With the new shared infrastructure, which will grow in the next year to 20 cities globally, small-to-medium size mobile content

developers across the globe now have an economical way to test their mobile content across all the markets they serve.

7. Last week we also announced the world's first mobile Web performance indices, which will provide a weekly performance ranking of 10 popular U.S. mobile sites compiled from measurements taken on multiple carriers from different cities in the U.S. We have also built a similar mobile performance index populated by leading European mobile Web sites that will take measurements from the major cities of Europe. Our new mobile indices extend and strengthen our industry position as the pre-eminent "MOBILE and Internet Performance Authority" and will, for the first time, establish industry benchmarks for mobile Internet performance, where previously there had been none!

C. Internet Test and Measurement

1. On to our Internet Test and Measurement business. ITM, which comprises the majority of our business, grew 6 percent over 2006 to approximately \$42 million in 2007. Most of our growth in ITM revenues was attributable to Internet engagements - load testing, SLM, and VoIP-related services engagements.
2. Key subscription and engagement deals done in fiscal year 2007 included American Express, Chevron Texaco, Comcast Cable, Embarq, Morgan Stanley, Neiman Marcus and Sabre/Travelocity.
3. In fiscal 2007, we were also successful in reducing the number of single-page/single-device subscriptions, from 38 percent of our ITM subscription revenues in the fourth quarter of 2006 to only 22 percent in the fourth quarter of 2007. This occurred while we grew our multi-page/broadband services by 23 percent in the corresponding period. Our overall page count grew by 16 percent from last year. And by the end of 2008, we expect to reduce single-page/single-device subscriptions revenue to less than 10 percent of internet subscription revenue.
4. We also announced this week the launch of the next versions of our Web performance test and measurement product offerings — Transaction Perspective® 8.0 and Application Perspective 5.0.
5. The greatly enhanced versions of our flagship Web site monitoring services have many new and exciting features that make them especially appealing and useful for measuring the end user experience of Web 2.0 sites that feature AJAX and asynchronously downloaded content.
6. With the introduction of 8.0 and 5.0, we have also introduced our new Keynote Internet Testing Environment or KITE. KITE is a new desktop-based test and measurement

environment for recording, editing and analyzing the performance of sites using Web 2.0 technologies. It bridges the gap between developers, QA and Web operations teams by providing a consistent testing and measurement environment throughout a Web 2.0 application's lifecycle. And most importantly, KITE features an embedded version of the Transaction Perspective 8.0 and Application Perspective 5.0 measurement software, allowing Web developers and performance analysts to execute rapid performance analysis and validation directly from their desktop.

7. By doing so, KITE reduces Web transaction script validation time from hours to mere minutes, thereby significantly reducing the provisioning time for new Keynote measurements. Taken together, the release of 8.0, 5.0 and KITE are watershed events in our product development history and will help keep Keynote ahead of both the technology curve and the competition.

D. Customer Experience Test and Measurement

1. We made a number of operational changes in our Customer Experience Test and Measurement (CEM) business in fiscal 2007 and are seeing some signs of those efforts working. Quarterly revenues have now stabilized around \$2 million; CEM revenues for the year were \$8.3 million and are currently generating approximately a 50 percent gross margin.
2. Key new CEM deals for fiscal year 2007 included: AOL, Bank of America, Best Buy, Hertz, MasterCard, Merrill Lynch, MetLife, MTV Networks, Royal Caribbean and Sony Ericsson.
3. The recent launch of WebEffective 6.0 introduces unique capabilities allowing Web site marketers and researchers to easily track user interaction with client-side events including DHTML, AJAX and Flash. With WebEffective 6.0 we are now in a position to take advantage of the explosive growth in interactive advertising and marketing micro-sites that are built using Web 2.0 technologies. We will be demonstrating our unique solution for advertising research at the upcoming AdTech conference in New York on November 5th and 6th. One of our key goals in 2008 is to sign up more customers, specifically interactive advertisers in every industry vertical, for site license and custom research agreements.
4. As a reminder, WebEffective employs unique and proprietary technologies combining the best aspects of usability, behavioral and attitudinal research into one integrated, on-demand research solution, in effect delivering an "online usability lab without walls."

5. WebEffective 6.0 now also allows marketers to better understand how Web sites are performing using any of Keynote's 160,000 member panels' desktops. Marketers will be able to see connection speed, page load time and browse time. These valuable insights will help facilitate discussion between marketing departments and Web operation groups as they work to improve the online experience, thus providing our salespeople with the ability to do a more effective job of cross-selling our ITM and CEM services to multiple audiences.
6. 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 and year and then follow with our financial outlook for next quarter.
- C. For the quarter ended September 30, 2007,
 1. Our total revenue was \$17.8 million, compared to \$15.2 million in the same period last year and \$17.4 million last quarter. Total subscription services and ratable license revenue was \$14.9 million or 84 percent of total revenue for the quarter, which increased 23 percent, compared to the same period last year and four percent compared to last quarter, reflecting continued success in our Mobile Test and Measurement products. Professional services revenue of \$2.9 million, or 16 percent of total revenue for the quarter, was down three percent compared to last year and four percent compared to last quarter due to the completion of a large voice over IP deal last quarter.
 2. Our customer count was approximately 2,700 companies – up from approximately 2,650 at both the end of June and March of this year and 2,600 at the end of September 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 fourth quarter, it was 97 customers that represented 79 percent of total revenue, compared to 79 customers representing 73 percent of revenue and 80 customers representing 72 percent of revenue in the fourth quarter of 2006 and the third quarter of 2007, respectively.
 3. At the end of September 2007, we measured approximately 11,600 pages through our Internet Test and Measurement business. This compares to over 10,000 pages in the quarter a year ago and approximately 11,100 last quarter. For the fourth quarter 2007,

overall average monthly revenue per page for the quarter was \$202, compared to \$235 and \$218 for the quarter a year ago and last quarter, respectively.

4. Now, I'll review our expenses.
 - a) Total expenses were \$18.5 million, including \$1.0 million in stock-based compensation expenses and a \$717,000 charge for amortization of intangible assets. Last quarter, total expenses were \$18.8 million, including \$1.1 million of stock-based compensation expenses and a \$713,000 charge for amortization of intangible assets. Expenses in the current year's quarter were down sequentially due primarily to lower consulting costs and an increase in our excess occupancy income. In the fourth quarter 2006, total expenses were \$18.4 million, including \$1.1 million of stock-based compensation expenses and a \$771,000 charge for amortization of intangible assets.
 - b) Also during the quarter, we recorded a \$2.8 million charge for the adjustment of the income tax benefit associated with the partial recognition of net deferred tax assets. This compares to a \$3.9 million charge for the adjustment of net deferred tax assets on our balance sheet in the fourth quarter of fiscal year 2006.
5. Reflecting the aforementioned charges and income tax adjustments, for the fourth quarter of fiscal year 2007, our GAAP net loss was \$3.5 million or \$(0.19) per share, compared to the fourth quarter of fiscal year 2006, the GAAP net loss was \$6.0 million or \$(0.35) per share.
6. The non-GAAP net income for the quarter was \$2.2 million, or \$0.11 per diluted share, compared to a non-GAAP net loss of \$797,000, or \$(0.05) per share, for the same quarter a year ago.
7. For the quarter, cash provided by operating activities was \$2.9 million, compared to \$1.2 million for the same period last year.
8. We invested \$1.3 million in property, equipment and software this quarter and \$874,000 in the same quarter last year.
9. Our free cash flow for the quarter was \$1.6 million, up approximately \$1.2 million when compared to \$357,000 for the fourth quarter of 2006.
10. We also received approximately \$3.9 million from the issuance of common stock and exercise of stock options in the quarter, compared to \$497,000 in the same period last year.
11. During the quarter, the company repurchased approximately 92,000 shares for approximately \$1.2 million.

12. The total weighted average shares outstanding net of treasury shares as of the end of September 30, 2007 was 18.1 million as compared to 17.1 million as of September 30, 2006.

D. Now I'm going to talk about our full year ending September 30, 2007:

1. Our record total revenue of \$67.8 million increased 22% over 2006's \$55.5 million.
2. We generated record cash from operations of \$20.3 million and record free cash flow of \$14.8 million.
3. Our expenses of \$73.1 million were up 15 percent from 63.7 million in fiscal year 2006. This was primarily a reflection of our including the costs of the SIGOS acquisition for a full year as well as incremental investments we made in Sales and Marketing. We expect increasing investments in sales and marketing to continue into fiscal year 2008.
4. GAAP net loss for the year improved to \$4.7 million, or \$0.27 per share, which included the aforementioned \$2.8 million charge associated with net deferred tax asset adjustment, \$4.1 million in stock-based compensation expenses and a \$2.9 million charge for intangible assets amortization. Our 2006 net loss was \$7.5 million, or \$0.41 per share.
5. Non-GAAP net income increased in our 2007 fiscal year to \$5.4 million, or \$0.28 per diluted share, from \$2.0 million, or \$0.10 per diluted share, in 2006.

B. Now, moving to the balance sheet and our cash performance metrics:

1. At September 30, 2007, our cash and short-term investments balance was \$107.9 million.
2. As of September 30, 2007, accounts receivable net was \$6.0 million. DSOs were 31 days and 98 percent of accounts receivable were less than 90 days old.
3. Total net deferred revenue at September 30, 2007 was \$22.0 million, up 106 percent compared to \$10.6 million at September 30, 2006 and down from \$24.1 million at June 30, 2007 due to the expected seasonally weak summer period in Europe for Keynote SIGOS bookings.
4. As of September 30, 2007 total shares outstanding, net of treasury shares, were approximately 18.3 million. We are entering into a trading plan to repurchase up to 2.0 million shares or approximately 11 percent of our outstanding shares over the next twelve month period. Purchases under the plan may commence as soon as November 6, 2007.

C. Now I will provide some general guidance for the 2008 fiscal first quarter ending December 31, 2007:

1. Total revenue is expected to be between \$17.8 million and \$18.3 million.
2. Net loss per share is expected to be between (\$0.02) and \$0.02.
3. Non-GAAP earnings per share are expected to be between \$0.06 and \$0.09.
4. Cash provided by operating activities is expected to be between \$2.5 million and \$3.0 million.
5. Free cash flow is expected to be between \$1.5 million and \$2.0 million. Similar to last quarter, the first fiscal quarter 2008 cash flow guidance reflects the seasonality inherent in our European business, which is still ramping up from its slowest quarter in the last quarter of our year.

D. 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 \$1.8 million.
2. Interest income, net is expected to be approximately \$1.3 million, assuming no material changes in interest rates and currently planned use of cash.
3. Also, in October, Keynote signed long-term agreements with tenants for the remaining unoccupied portion of the building, bringing the occupancy of the building to 100 percent, when including the portion occupied by Keynote. The company estimates as a result of this new occupancy rate, it will generate approximately \$270,000 in excess occupancy income in the first quarter of fiscal 2008.
4. Cash paid for income taxes is expected to be approximately \$300,000, assuming no changes in required tax payments.
5. Basic weighted average shares outstanding are expected to be approximately 18.1 million shares and diluted weighted average shares outstanding are expected to be approximately 19.1 million shares, assuming no additional issuances of equity or equity-related securities.

E. With that, I would like to return the call to Umang.

Umang Gupta – Close

F. Thank you Drew.

1. Over the last four years, in aggregate Keynote has generated cash flow from operations of over \$57 million and free cash flow of over \$40 million. These funds have supported our active acquisition strategy and helped create the Keynote we have today.
2. We spent 2007 rebuilding our sales force, and we feel very good about our progress. In 2008, we will continue to make substantial investments in marketing and sales - putting in additional coverage to build a great sales force to take advantage of the opportunities we see ahead.
3. This sales force will be supported by one of the strongest new product introduction cycle in each of our businesses: Mobile Test and Measurement, Internet Test and Measurement, and Customer Experience Test and Measurement.
4. We are excited about our opportunities and look forward to sharing our future successes with you.
5. 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

1. 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, including AeA on November 6th and 7th in Monterey, CA where Drew and Vik Chaudhary, VP of product management and corporate development, will be presenting.