

Keynote Investor Presentation

January 2012



Curtis Smith | Chief Financial Officer

leader in Internet and mobile
cloud monitoring

Safe Harbor

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Keynote Systems

The global leader in Internet and mobile cloud monitoring and testing

- **Keynote Perspective®:** On-demand performance monitoring for enterprise Web and mobile sites
- **Keynote DeviceAnywhere:** An enterprise-class, cloud-based, mobile application lifecycle management (ALM) testing & QA platform
- **Keynote SIGOS:** Active end-to-end Quality of Service (QoS) testing and monitoring solutions for mobile, fixed and VoIP communications

The Web is Now the Cloud

1995



E-commerce and Email

This panel illustrates the state of the web in 1995. It features a large light blue globe in the background. In the foreground, there is a blue shopping cart icon on the left and a laptop computer on the right. The laptop screen displays a purple envelope icon, representing email. The overall theme is limited to e-commerce and email.

2012



Everything!

This panel illustrates the state of the web in 2012. A large light blue cloud shape contains a variety of icons and logos, including Skype, YouTube, Zynga, Google, Twitter, and Facebook. A smaller globe is also visible within the cloud. The cloud is connected to a smaller, empty cloud shape below it. The overall theme is that the web now encompasses everything.

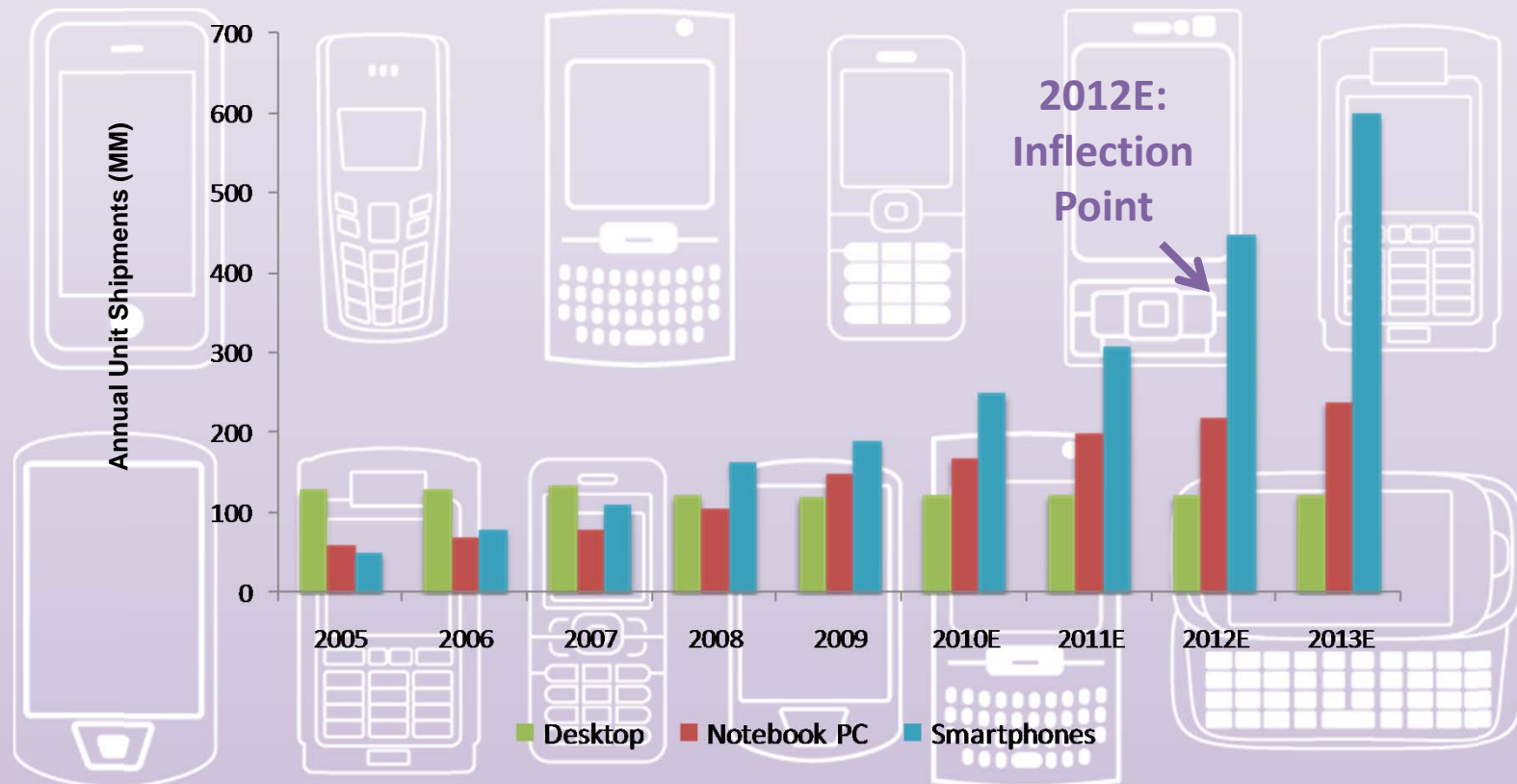
And the Cloud is Now Mobile



Fully Integrated Part of Business and Consumer Life

Consumption of Web/Cloud is Shifting to Mobile

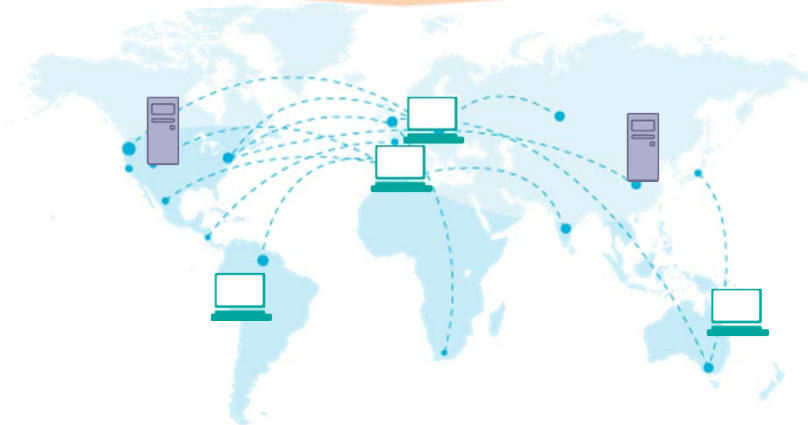
More Unit Shipments of Smartphones than Desktop and PC Combined



Source: Morgan Stanley Internet Mobile Report, 11/10

The Online Experience Challenge has Evolved

1995



2012



Backbone speed



Largely solved

Geography



Still matters

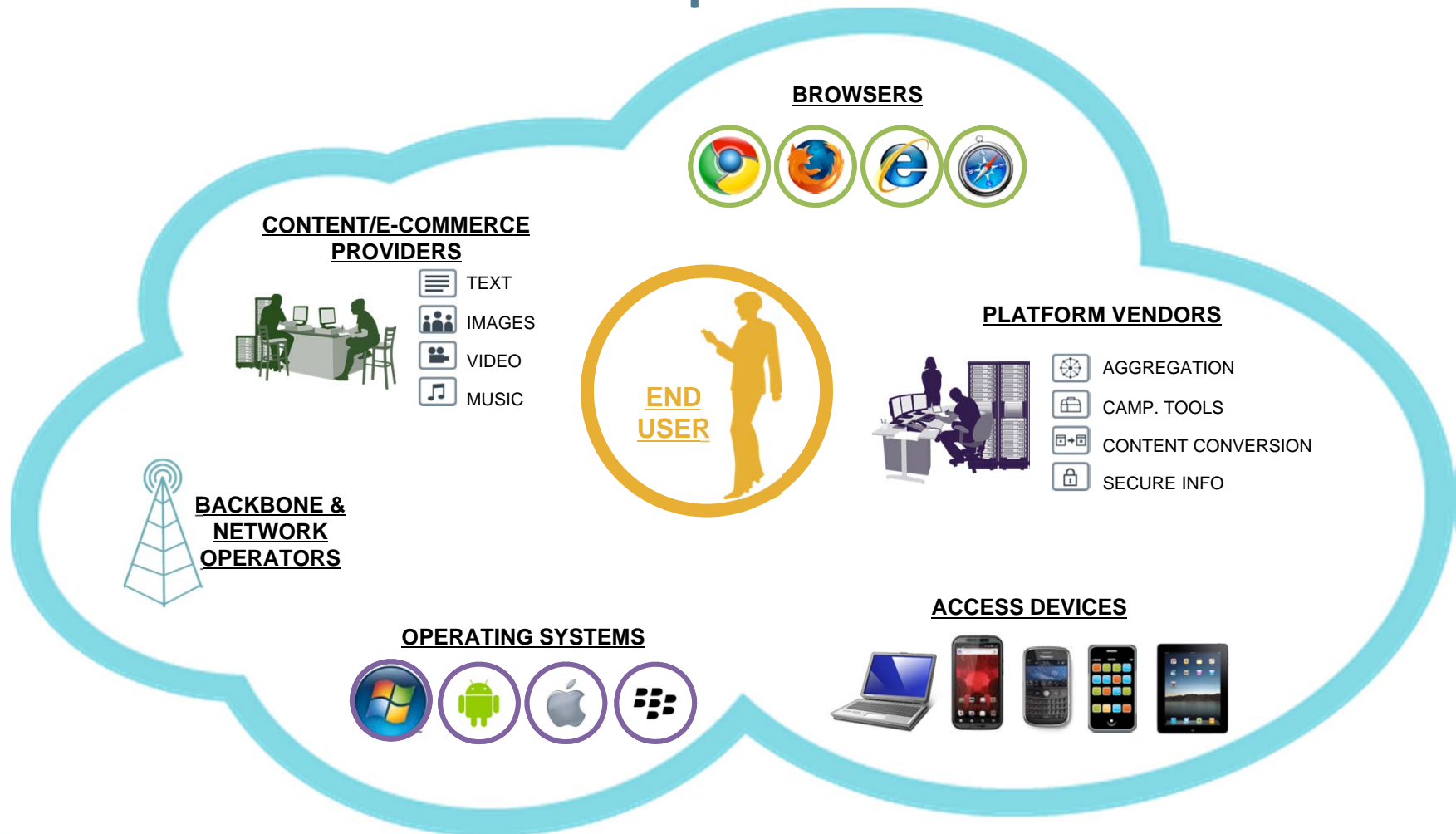
Access: wired desktops



Access proliferation: smartphone, tablet, laptop, mobile phone

Increased innovation and complexity: Apps, browsers, OSs, Web services, clouds

Multiple Variables in a Complex and Diverse Ecosystem Contribute to End User Experience



Keynote's Global Monitoring Network



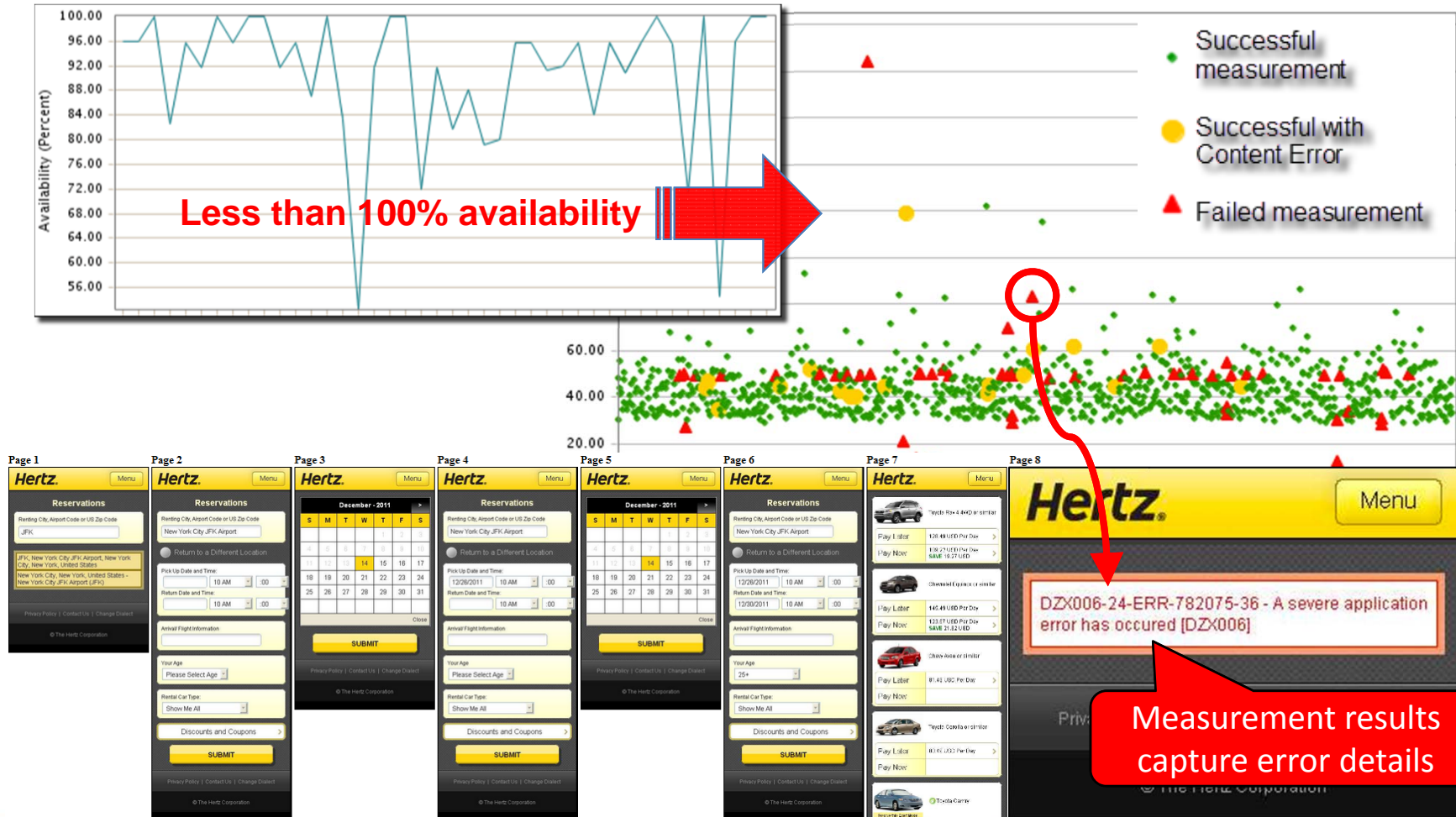
**4,000
Measurement
Computers,
Smartphones and
Devices**

**300 Unique
Access
Locations**

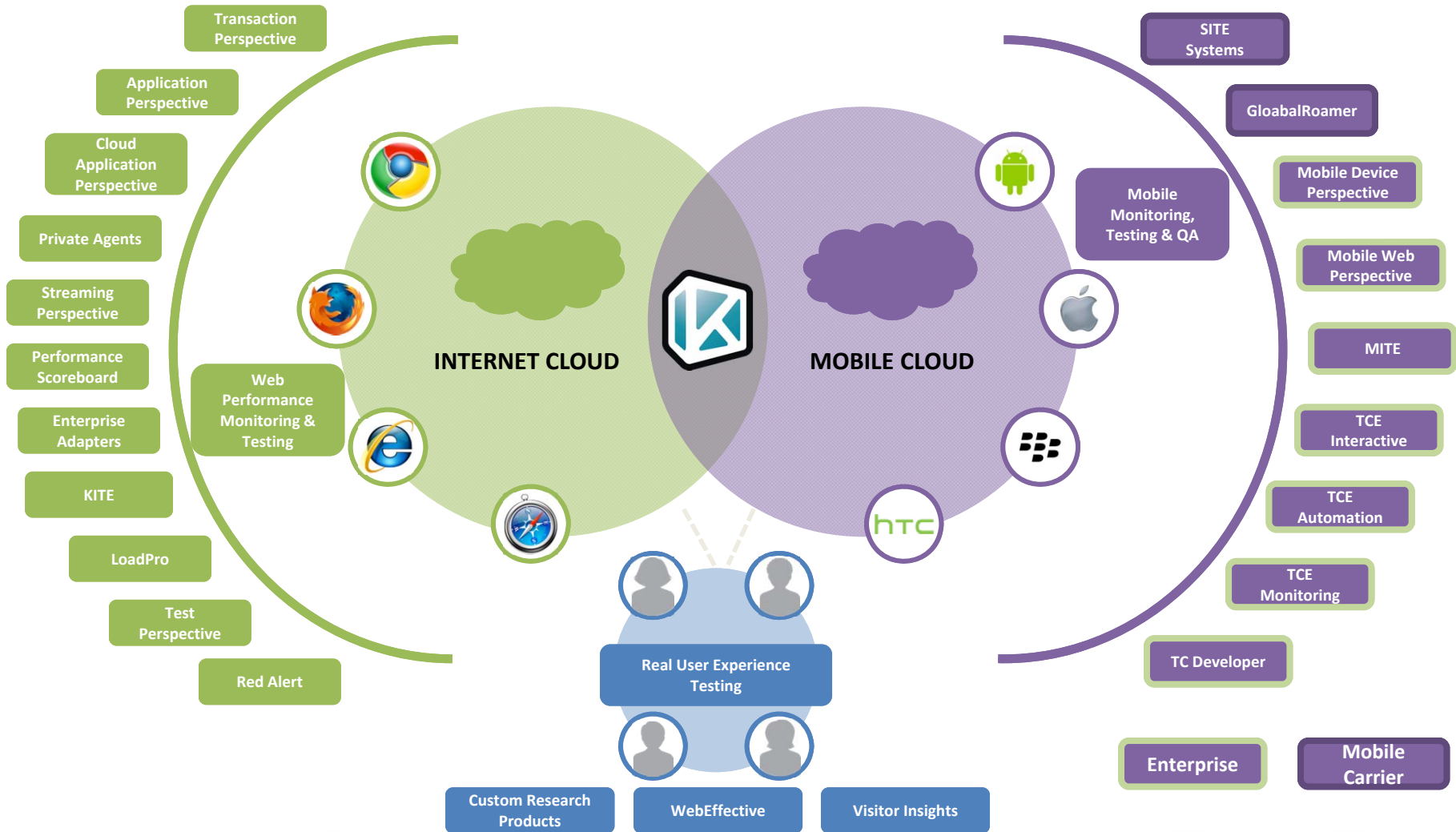
**525 M Performance
Measurements
Every DAY**

Use Case: Guarantee Availability of Online Services

Example: Mobile monitoring of car rental reservation transaction



Rich Portfolio of Products

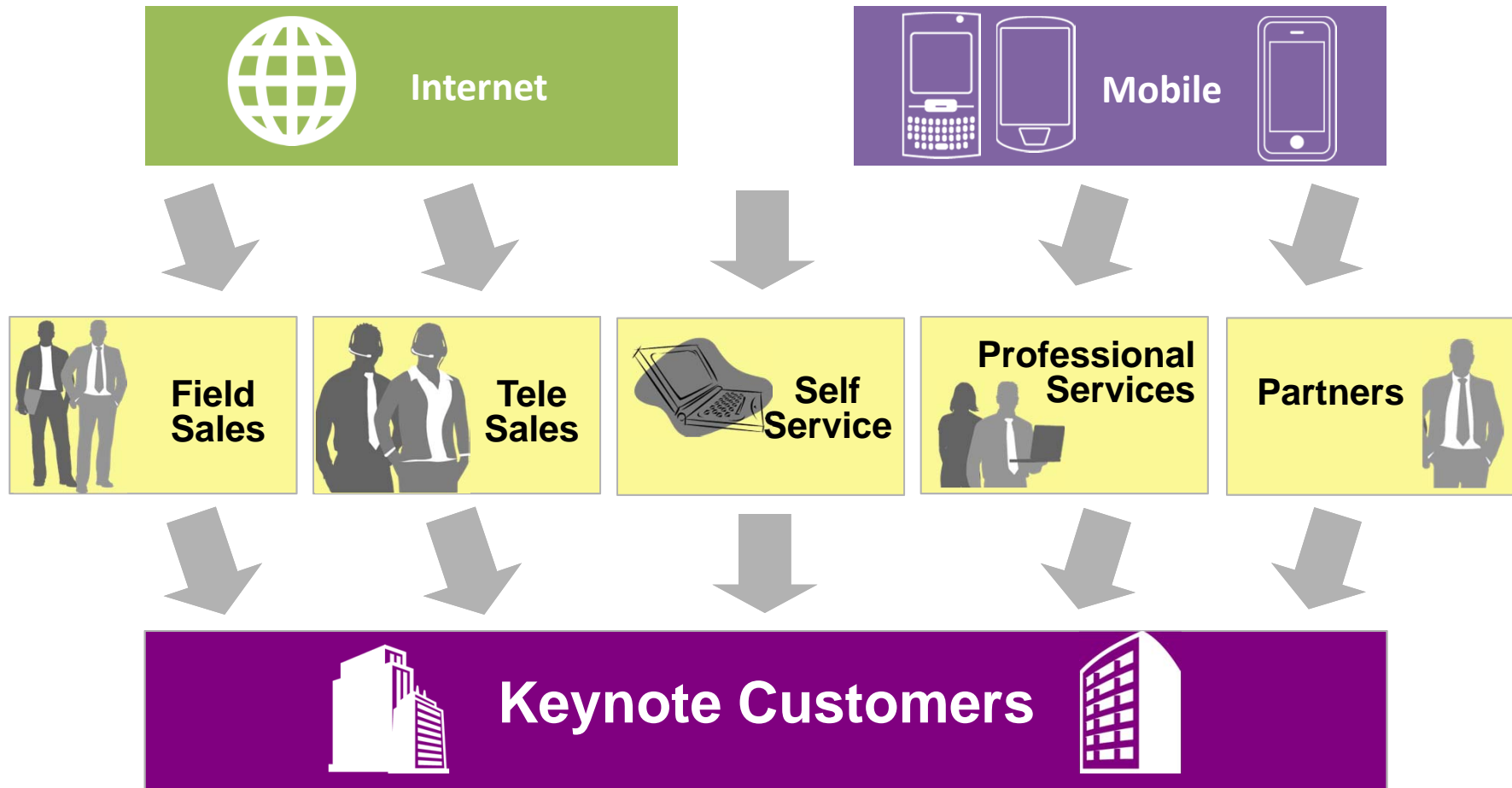


DeviceAnywhere is the Logical Extension of Keynote's Mobile Business

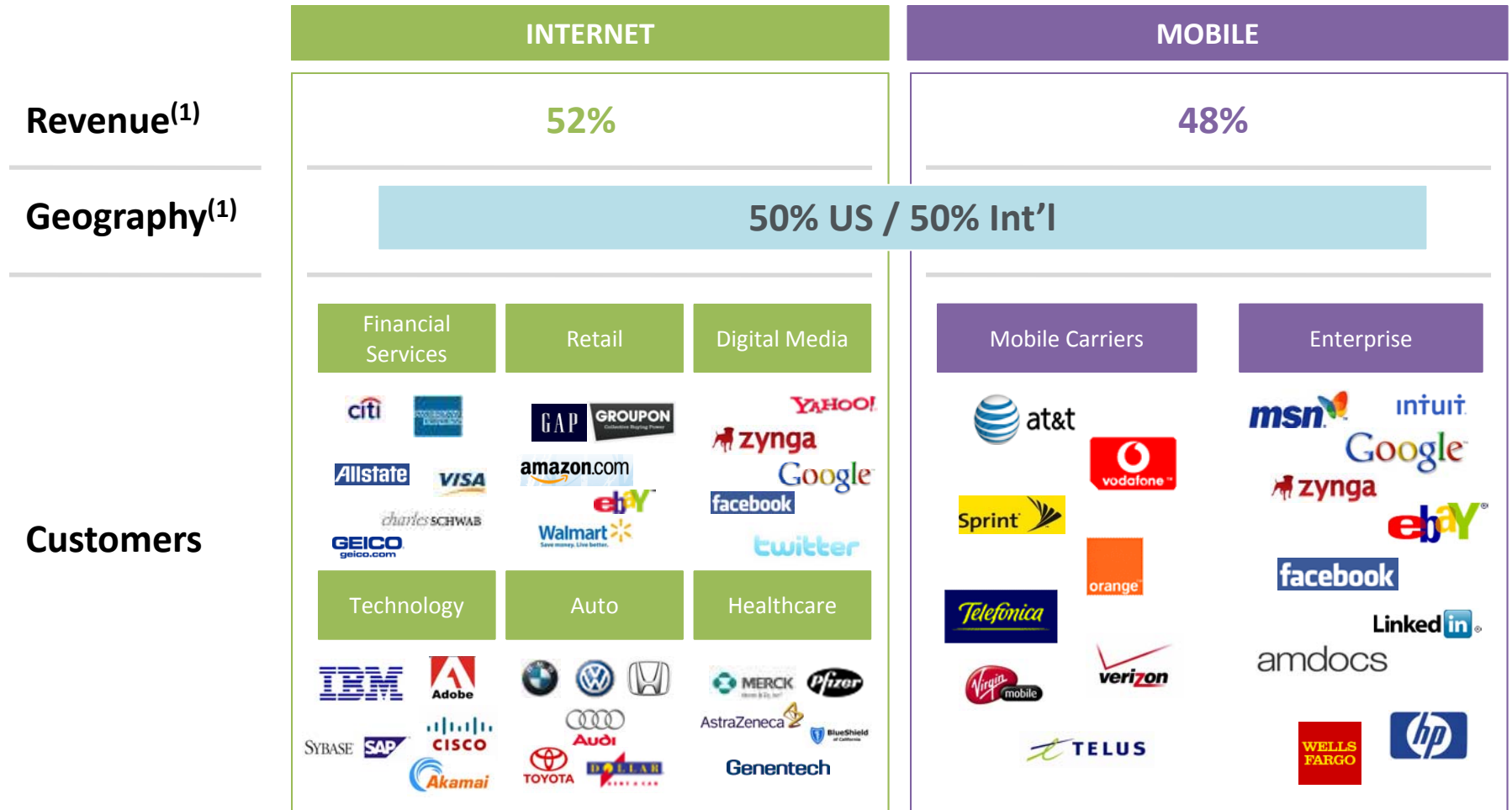


- Solidifies Keynote's mobile leadership position
 - Expands Keynote's global test and monitoring network by 1,000+ devices, reaching 4,000+
 - Adds scale to existing enterprise mobile business
- Offers enterprise customers complementary products – one stop shop for **BOTH** mobile testing and monitoring solutions
- Expands Keynote's addressable mobile market into adjacent testing/quality assurance space

Sales and Service Delivery Model



Global Balance with 2,900 Customers

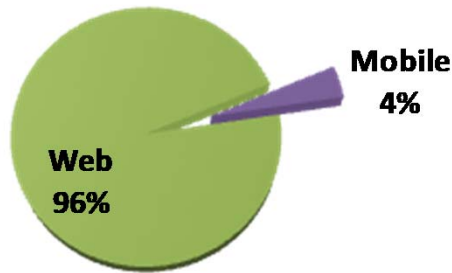


⁽¹⁾ Based on fiscal year 2011 US GAAP revenue.

Growth Drivers

Enterprise

Cross Sell / Up Sell



~90 of 2,000+ enterprise customers have mobile measurements

International

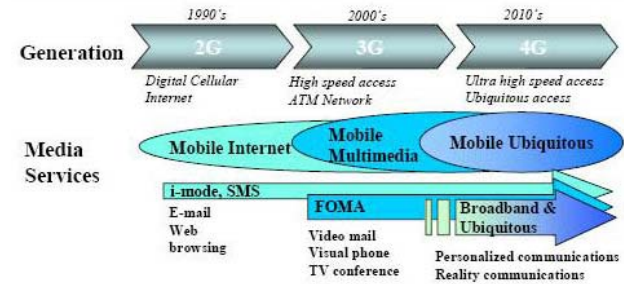


~ 15% of total Internet revenue from int'l customers

Testing & Quality Assurance – New Market

Mobile Operators

Technology / Protocol Change



New Mobile Apps / Services

SMS, MMS, Messaging, E-mail, Web Browsing, Streaming

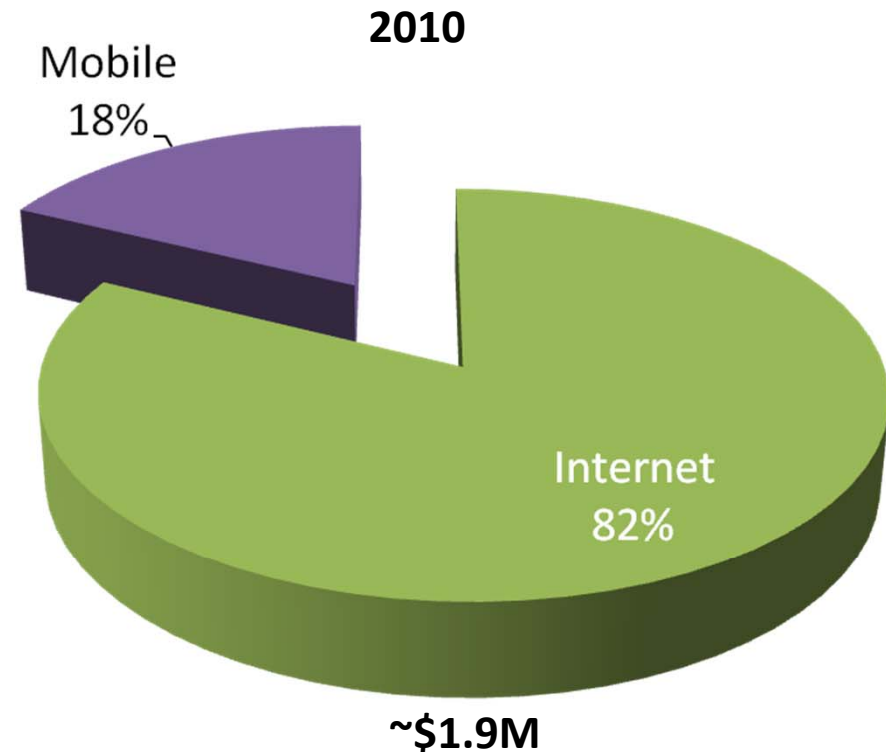
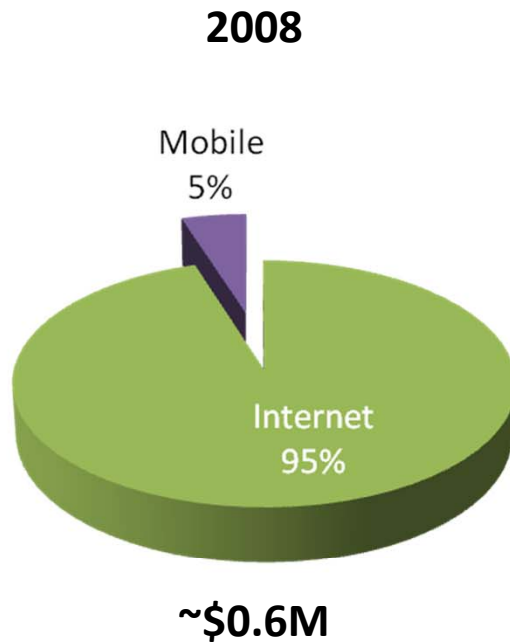
World Wide Expansion



~ 50% penetration of current global opportunity

Growth Drivers– Cross Sell / Up Sell Case Study

E-commerce Company



Total dollar spend increased more than 2x
Mobile spend increased 10x

Financial Overview



leader in Internet and mobile
cloud monitoring

Recent Financial Metrics – Q4:FY11

<i>(\$ in 000s, except per share)</i>	Q4:11	Q4:10
Revenue	\$27,504	\$20,513
Cost of Revenue	\$7,159	\$5,477
Operating Expenses	\$16,824	\$13,909
Adjusted EBITDA	\$6,231	\$3,587
Adjusted EDITDA as a % of Revenue	23%	17%
Non-GAAP EPS	\$0.27*	\$0.16
Weighted Avg. Shares Outstanding (diluted)	18,444	15,161

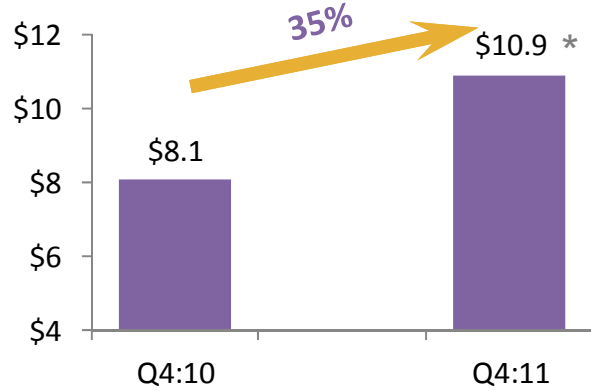
- * Includes approximately \$900,000 in one-time expenses which represents approximately \$0.05 in non-GAAP EPS per share
- Approximately \$500,000 in expenses associated with the acquisition of DeviceAnywhere
 - Approximately \$400,000 in increased COGS including mobile inventory adjustments and obsolescence

See appendix for Adjusted EBITDA/Non-GAAP reconciliation. Adjusted EBITDA is defined as earnings before interest income, taxes, depreciation, amortization, stock-based compensation and other income/expenses, net and provides a useful measure of operations. EBITDA percentages are approximate.

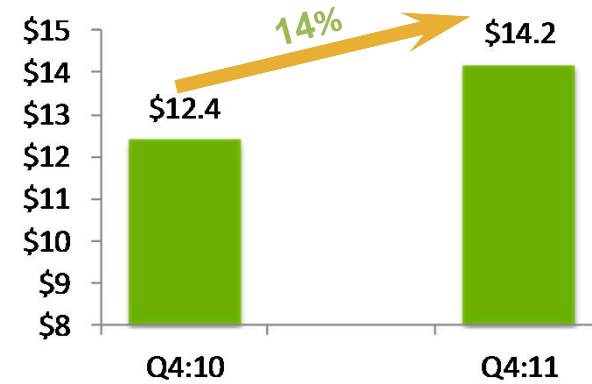
Key Reporting Metrics – Q4:11 v. Q4:10

(\$ in MM)

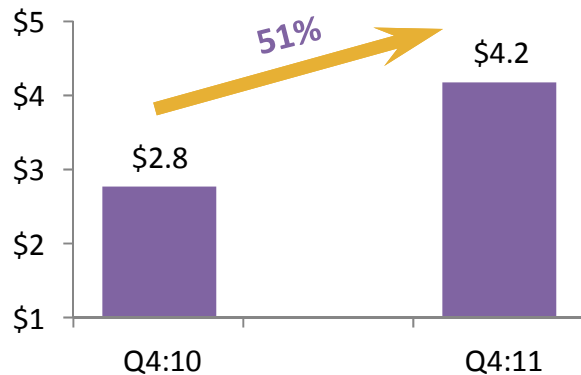
Total Mobile Revenue



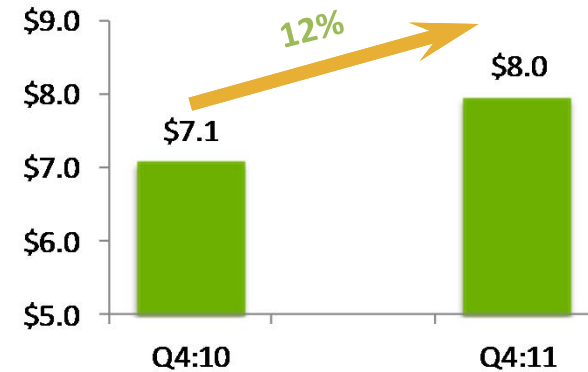
Total Internet Revenue



Mobile Subscriptions



Web Measurements



* Excludes ~\$2.4MM impact from change of accounting standards; reported total mobile revenue was \$13.3MM

Annual Results – FY2011 v. FY2010

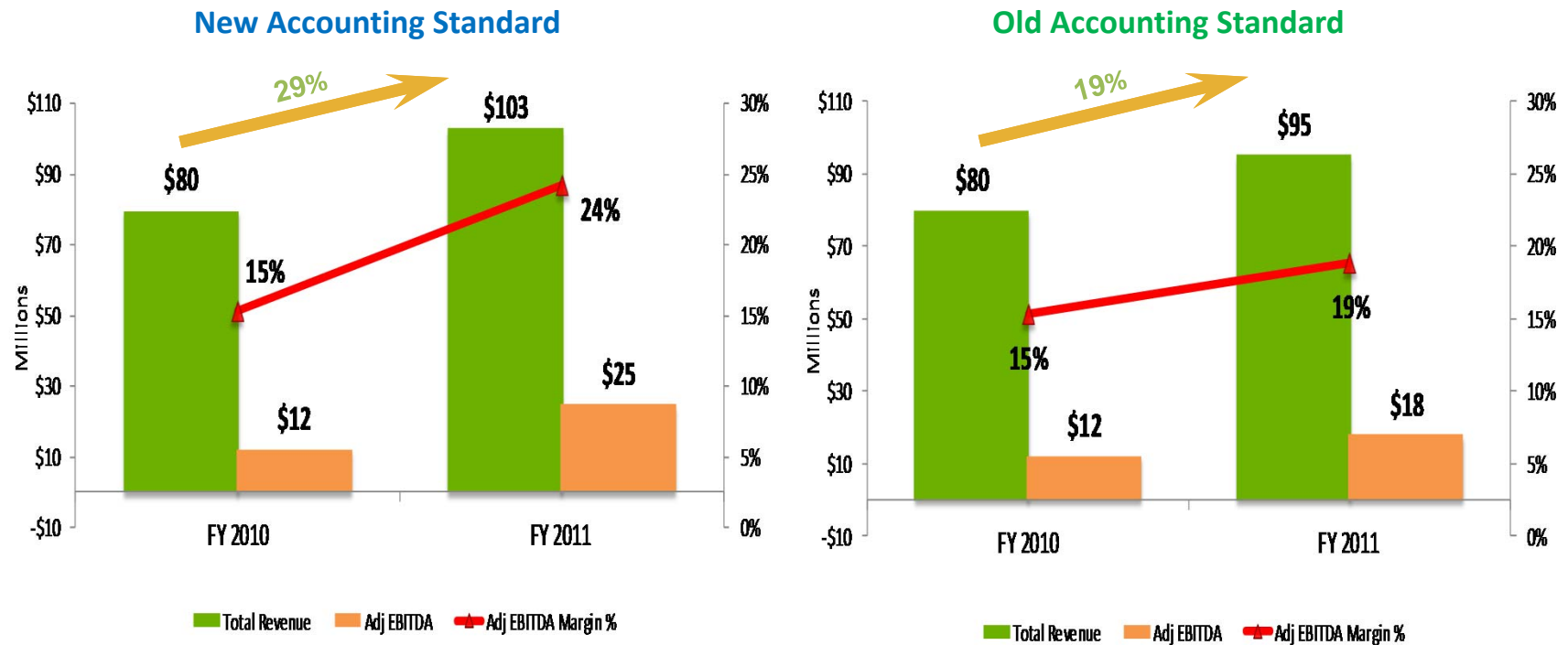
<i>(\$ in 000s, except per share)</i>	FY 2011	FY 2010
Revenue	\$103,030	\$79,851
Cost of Revenue	\$25,500	\$21,327
Operating Expenses	\$62,488	\$56,292
Adjusted EBITDA	\$24,975	\$12,270
Adjusted EDITDA as a % of Revenue	24%	15%
Non-GAAP EPS	\$1.18*	\$0.51
Weighted Avg. Shares Outstanding (diluted)	17,500	14,969

- * Includes approximately \$900,000 in one-time expenses in Q4:11 which represents approximately \$0.05 in non-GAAP EPS
- Approximately \$500,000 in expenses associated with the acquisition of DeviceAnywhere
 - Approximately \$400,000 in increased COGS including mobile inventory adjustments and obsolescence

See appendix for Adjusted EBITDA/Non-GAAP reconciliation. Adjusted EBITDA is defined as earnings before interest income, taxes, depreciation, amortization, stock-based compensation and other income/expenses, net and provides a useful measure of operations. EBITDA percentages are approximate.

New Accounting Standards – FY2011 v. FY2010

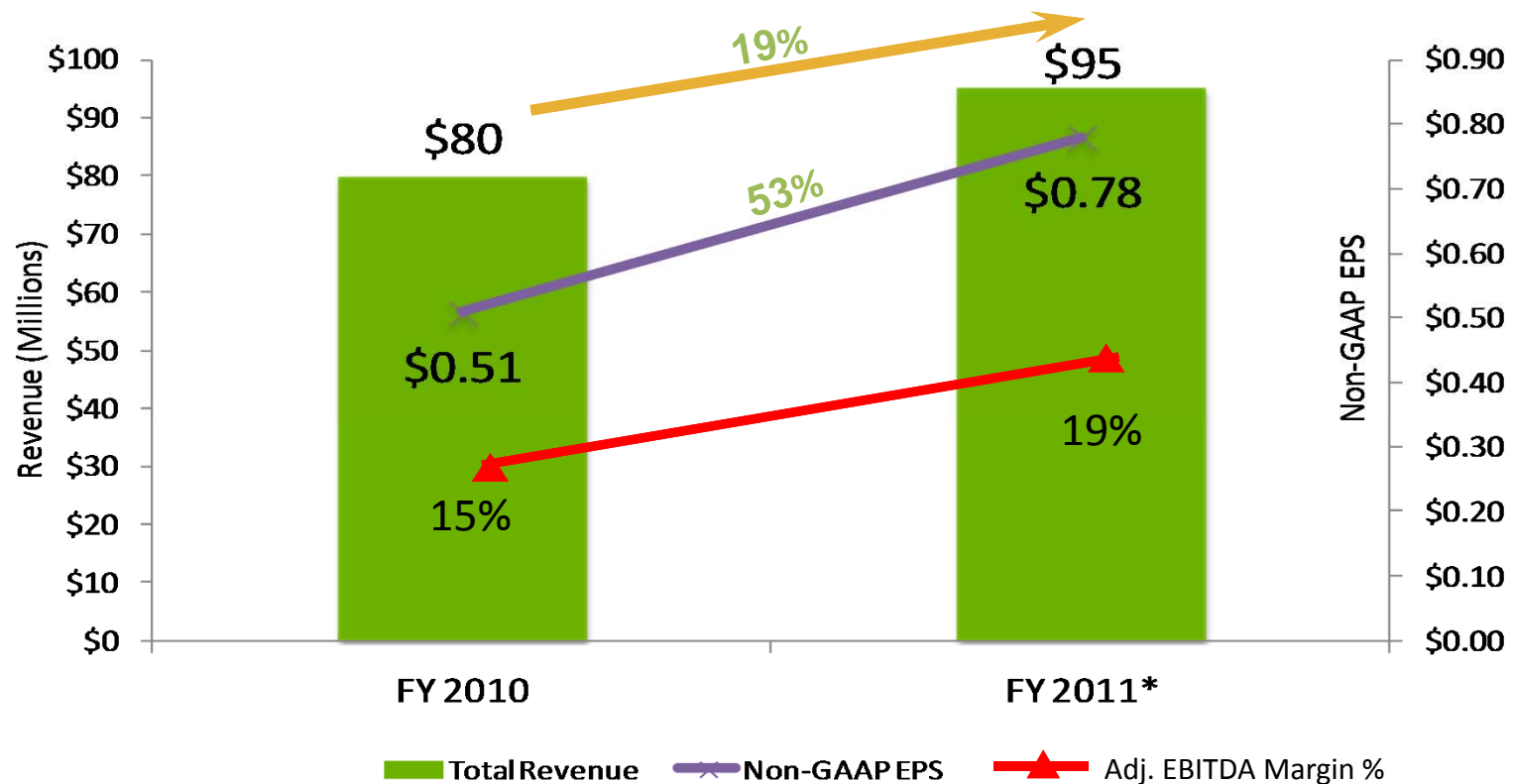
(\$ in MM)



- Keynote adopted new acct. standards effective Oct. 1, 2010, which primarily effected SITE revenue
- GAAP requires disclosure to show what FY 2011 revenue would have been under old acct. standards
- The net effect of the adoption of new acct. standards in FY2011 was an increase in revenue and profitability

See appendix for Adjusted EBITDA/Non-GAAP reconciliation. Adjusted EBITDA is defined as earnings before interest income, taxes, depreciation, amortization, stock-based compensation and other income/expenses, net and provides a useful measure of operations. EBITDA percentages are approximate.

Top and Bottom Line Expansion



* Includes \$0.9M in one-time expenses in Q4:11
 Excludes \$37.3M in tax benefit related to the valuation allowance release in Q4:11
 Excludes \$7.8M in revenue and related cost of sales in connection with the accounting standards change

See appendix for Adjusted EBITDA/Non-GAAP reconciliation. Adjusted EBITDA is defined as earnings before interest income, taxes, depreciation, amortization, stock-based compensation and other income/expenses, net and provides a useful measure of operations. EBITDA percentages are approximate.

Investor Highlights Summary

**The Web/Cloud:
A Dynamic and
Growing Market
Opportunity**

**Rich Portfolio of
Cloud and
Mobile Services**

**Stable Historical
Financial
Performance**

**New Growth
Trajectory for
Internet and
Mobile
Businesses**

**Enters Adjacent
Growth Market:
Enterprise
Mobile
QA & Testing**

Thank You



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New Accounting Standards – FY2011 v. FY2012

Old Accounting Standard

	<u>Year Ended</u>
(\$ in 000s)	<u>9/30/10</u>
Internet:	
Internet net revenue	\$ 47,276
Mobile:	
Subscriptions	10,372
Ratable licenses	22,203
System licenses	NA
Maintenance and support	NA
Mobile net revenue	<u>32,575</u>
Net revenue	<u>\$ 79,851</u>

New Accounting Standard

	<u>Year Ended</u>		<u>Year Ended</u>
(\$ in 000s)	<u>9/30/11</u>	(\$ in 000s)	<u>9/30/12E</u>
Internet:		Internet:	
Internet net revenue	\$ 53,327	Internet net revenue	XX
Mobile:		Mobile:	
Subscriptions	14,758	Subscriptions	XX
Ratable licenses	14,278	Ratable licenses	\$ 4,000
System licenses	10,224	System licenses	XX
Maintenance and support	10,443	Maintenance and support	XX
Mobile net revenue	<u>49,703</u>	Mobile net revenue	<u>XX</u>
Net revenue	<u>\$ 103,030</u>	Net revenue	<u>\$ XX</u>

Different Acct. Standards

Same Acct. Standards

- Because FY10 and FY11 revenue are recorded under DIFFERENT acct. standards, GAAP requires disclosure to show what FY 2011 revenue would have been under old acct. standards
- Because FY11 and FY12 revenue are recorded under SAME acct. standard, the disclosure is not necessary
- Ratable licenses revenue in FY 2011 does not equal the positive effect of new acct. standards adoption
- Keynote estimates that Ratable licenses revenue, which represents the remaining SITE contracts signed prior to Oct. 1, 2010, will equal ~\$4.0M in FY2012, or ~\$10M less than Ratable license revenue in FY11**

Non-GAAP Net Income Reconciliation as of 9/30/2011

(\$ in 000s, except per share data)	Q4:11 Ended 9/30/11	Q4:10 Ended 9/30/10
Revenue	\$ 27,504	\$ 20,513
Direct Costs	(7,159)	(5,477)
Operations	(2,195)	(1,900)
Development Expenses	(3,558)	(2,894)
Sales and Marketing Expenses	(7,335)	(6,469)
General and Administrative	(3,464)	(2,630)
Excess Occupancy	285	545
Stock-based Compensation	1,020	818
Depreciation	1,133	1,081
Adjusted EBITDA	\$ 6,231	\$ 3,587
Interest and Other income	(328)	145
Cash Tax Expense	152	(205)
Depreciation	(1,133)	(1,081)
Non-GAAP Net Income	4,922	2,446
Diluted Weighted Avg. Shares Outstanding	18,444	15,161
Non-GAAP EPS	\$ 0.27	\$ 0.16
Adjusted EBITDA	6,231	3,587
Stock-based Compensation	(1,020)	(818)
Amortization of Intangible Assets	(557)	(561)
Interest and Other Income	(328)	145
Depreciation	(1,133)	(1,081)
(Provision) /Benefit f or Income Taxes*	36,558	(108)
GAAP Net Income (Loss)	\$ 39,751	\$ 1,164

Adjusted EBITDA is defined as earnings before interest income, taxes, depreciation, amortization, stock based compensation and other income/expenses, net and provides a useful measure of operations. Adjusted EBITA is defined as GAAP net income/loss before income taxes, interest income and other, net, stock-based compensation and amortization of intangibles.

*The Q4:11 Tax Benefit related to the release of the Valuation Allowance is \$37,282.

Annual Non-GAAP Net Income Reconciliation

(\$ in 000s)	FY 2009	FY 2010	FY 2011
Revenue	\$ 80,107	\$ 79,851	\$ 103,030
Direct Costs	(20,692)	(21,327)	(25,500)
Operations Expenses	(8,264)	(7,661)	(8,131)
Development Expenses	(12,186)	(11,978)	(13,189)
Sales and Marketing Expenses	(23,863)	(25,469)	(28,278)
General and Administrative	(10,967)	(10,460)	(11,702)
Excess Occupancy	1,020	1,487	1,077
Stock-based Compensation	4,392	3,365	3,360
Adjusted EBITA	\$ 9,547	\$ 7,808	\$ 20,667
Depreciation	4,854	4,462	4,308
Adjusted EBITDA	\$ 14,401	\$ 12,270	\$ 24,975
Adjusted EBITDA as a % of Revenue	18%	15%	24%
Adjusted EBITA	\$ 9,547	\$ 7,808	\$ 20,667
Stock-based Compensation	(4,392)	(3,365)	(3,360)
Amortization of Intangible Assets	(2,210)	(2,211)	(2,265)
Interest and Other Income	1,331	351	213
(Provision)/Benefit for Income Taxes*	(1,019)	(897)	35,607
GAAP Net Income (Loss)	\$ 3,257	\$ 1,686	\$ 50,862

Adjusted EBITDA is defined as earnings before interest income, taxes, depreciation, amortization, stock based compensation and other income (expenses), net and provides a useful measure of operations. Adjusted EBITA is defined as GAAP net income/loss before income taxes, interest income and other, net, stock-based compensation and amortization of intangibles.

*The FY 2011 Tax Benefit related to the release of the Valuation Allowance is \$37,282.

Long-Term Profitability Model

	FY 2011 Revenue	Goal @ \$150M Revenue
Revenue	100%	100%
Direct Costs	25%	22%
Gross Margin	75%	78%
Operating Expenses		
Research and Development	13%	12%
Sales and Marketing	27%	27%
Operations	8%	6%
General and Administrative	11%	8%
Total Operating Expenses	59%	53%
Adjusted EBITDA	24%	30%
GAAP Net Income (Loss)	20%	25%

Provided for illustrative purposes only and does not represent the company's expectation or guidance for its results. See Adjusted EBITDA/Non-GAAP reconciliation. Adjusted EBITDA is defined as earnings before interest income, taxes, depreciation, amortization, stock-based compensation and other income/expenses, net and provides a useful measure of operations.