

PRESS RELEASE

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Keynote Announces First Quarter Fiscal Year 2005 Financial Results

- **Diluted EPS of \$0.04 Meets Company's Guidance**
- **Revenue of \$13.6 Million up 40% Compared to the Same Quarter Last Fiscal Year**
- **Performance Management Solutions Revenue Up 143% Compared to Same Quarter Last Fiscal Year**
- **Sixth Consecutive Quarter of Increased Revenue and Sixth Consecutive Quarter of Profitability**
- **Twelfth Consecutive Quarter of Positive Cash Flow from Operations**
- **Entering into a plan to repurchase up to 2.0 million shares of common stock**

SAN MATEO, Calif., – January 25, 2005 – Keynote Systems, Inc., (Nasdaq: KEYN), The Internet Performance Authority®, today announced financial results for its first quarter of fiscal year 2005, which ended December 31, 2004.

Revenue for the first quarter of fiscal year 2005 was \$13.6 million, a 12% increase compared to the preceding quarter and a 40% increase compared to the first quarter of fiscal year 2004. Net income for the first quarter of fiscal year 2005 was \$791,000 or \$0.04 per diluted share, compared to net income of \$1.3 million, or \$0.06 per diluted share, for the preceding quarter, and net income of \$667,000, or \$0.03 per diluted share, for the first quarter a year ago.

Keynote generated cash flow from operations for the first quarter of fiscal year 2005 of \$2.8 million. Cash flow from operations was \$3.0 million for the preceding quarter and \$4.3 million for the first quarter of fiscal 2004. Cash used for purchases of property, equipment, and software totaled \$712,000 for the first quarter of fiscal year 2005 compared to \$2.3 million for the preceding quarter and \$405,000 for the first quarter of fiscal 2004. The Company generated free cash flow, defined as cash flow from operations less

cash used for purchases of property, equipment, and software, of \$2.1 million for the first quarter of fiscal year 2005 compared to \$682,000 for the preceding quarter and \$3.9 million for the first quarter of fiscal 2004. The Company believes that free cash flow is an important measure of its performance as it provides investors with an additional method for evaluating its operating performance and liquidity, and reflects the resources available for the Company to invest in acquisitions or to repurchase stock.

“During the last six months, we made a change upwards in the scope and size of our business. Our quarterly revenues now are approximately 40% higher than they were a year ago, and our headcount during the same period has gone up approximately 36% from 165 to 225 people,” said Umang Gupta, chairman and CEO of Keynote. “In the past quarter, approximately 48% of our business came from our more complex, higher value Management solutions compared to a year ago, when it was around 27%. During the coming few quarters, our focus will be on integrating the Hudson Williams, NetRaker and Vividence consulting organizations tightly into the rest of our business.”

As of December 31, 2004, Keynote’s total worldwide customer base was over 2,100 companies and approximately 17,000 individual subscribers. During the first quarter, Keynote averaged a 99% monthly customer retention rate. New customers during the quarter included Bloomberg, Covad, Realnetworks, Softchoice, and Visible Path.

Keynote currently provides its services to 74% of the comScore Media Metrix top 50 Web sites and over half of the Fortune 100 companies. As of December 31, 2004, Keynote measured 8,661 URLs through its Perspective® services and 7,451 Internet-connected devices through Red Alert. On average during the first quarter of fiscal year 2005, Keynote captured over 60 million Internet performance measurements daily.

Keynote also announced that it is entering into a trading plan with a securities broker, intended to qualify under Rule 10b5-1 of the Securities Exchange Act of 1934. The trading plan will instruct the broker to repurchase for Keynote, , in accordance with Rule 10b-18 of the Securities Exchange Act of 1934, up to 2 million shares of Keynote’s Common Stock representing approximately 10% of Keynote’s outstanding common shares, over a period of twelve months commencing as soon as March 1, 2005.

Expectations for the Second Quarter of Fiscal Year 2005

The statements in this section of this press release are forward looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934.

Keynote currently expects that for the second fiscal quarter ending March 31, 2005:

- total revenue will be between \$13.0 million and \$13.6 million;
- total expenses will decrease by approximately 2% to 4% compared to the first quarter of fiscal 2005;
- interest income, net will be approximately \$700,000, absent any additional transactions, and assuming no material changes in interest rates;
- effective income tax rate will be approximately 6.5%;
- diluted weighted average shares outstanding will be approximately 21.5 million shares, assuming no additional acquisitions using shares of Keynote stock as the consideration and no other significant transactions involving Keynote's equity securities;
- diluted earnings per share will be between \$0.03 to \$0.06;
- cash flow from operations will be between \$2.0 million to \$2.5 million; and
- capital expenditures will be approximately \$1.0 million, absent any acquisition costs or other extraordinary transactions.

Keynote will host a conference call and simultaneous Web cast at 2:00 pm (PDT), today January 25, 2005. The web cast of the call will be available at the Investor section of our web site at www.keynote.com. The replay will be available after the call by telephone by dialing (800) 642-1687, and the pass code is #3280131 or by Web cast at the Investor section of our web site at www.keynote.com.

Forward-Looking Statements

This press release contains forward-looking statements that are not purely historical 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 could differ materially from the Company's current expectations.

Forward-looking statements in this release include, but are not limited to, forecasts concerning Keynote's expected revenues, total expenses, and other future financial results. It is important to note that actual outcomes and Keynote's actual results could differ materially from those in such forward-looking statements. Factors that could cause actual results to differ materially include risks and uncertainties such as Keynote's ability to develop and introduce new services in a timely manner and customer acceptance of new services, the extent to which demand for Keynote's performance measurement services fluctuates and the extent to which revenue from other service lines, including performance management services, can continue to increase, the extent to which existing customers renew their subscriptions and purchase additional services, particularly enterprise customers, Keynote's ability to retain customers of acquired businesses, Keynote's ability to operate acquired businesses and manage related costs successfully, which businesses may be in areas in which Keynote has little experience, Keynote's ability to retain key employees of acquired companies as well as its own key employees, pricing pressure with respect to Keynote's services, unforeseen expenses, competition in Keynote's markets, integration of acquired companies, including its recently-completed acquisition of Vividence, or technologies and costs associated with any future acquisitions, Keynote's ability to keep pace with changes in the Internet infrastructure as well as other technological changes, and the success of Keynote's international operations. Readers should also refer to the risks outlined in Keynote's reports filed with the Securities and Exchange Commission, including its Annual Report on Form 10-K for its fiscal year ended September 30, 2004, and its quarterly reports on Form 10-Q and any current reports on Form 8-K filed during the fiscal year.

All forward-looking statements and reasons why results might differ included in this release are made as of the date of this press release, based on information available to Keynote as of the date of this

press release, and Keynote assumes no obligation to update any such forward-looking statement or reasons why results might differ.

About Keynote

Founded in 1995, Keynote Systems (Nasdaq "KEYN"), The Internet Performance Authority®, is the worldwide leader in e-business performance management services. Over 2,100 corporate IT and marketing departments and approximately 17,000 individual subscribers rely on Keynote's growing range of measurement and monitoring, service level and customer experience management services to improve e-business performance by reducing costs, improving customer satisfaction and increasing profitability.

Keynote is viewed as The Internet Performance Authority® due to the company's global infrastructure of over 1,600 measurement computers in more than 50 cities worldwide that capture and store on a daily basis over 60 million Internet performance measurements, frequent media citations quoting Keynote's Web performance data and analysis, the company's market-leading Web performance indices for vertical markets and leading customer research that provides critical business insight into online customer experiences, industry trends and competitive Web strategies.

Keynote Systems, Inc. is headquartered in San Mateo, California and can be reached at www.keynote.com or by phone in the U.S. at 650-403-2400.

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Keynote Systems, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	Three months ended		
	Dec31 2004	Sep 30 2004	Dec 31 2003
Revenue:			
Subscription services	\$ 10,283	\$ 10,162	\$ 8,671
Consulting and support services	3,305	1,985	1,052
Total revenue	13,588	12,147	9,723
Expenses:			
Costs of subscription services	1,351	1,425	1,506
Costs of consulting and support services	2,609	1,690	803
Research and development	1,962	1,964	1,624
Sales and marketing	3,548	2,975	2,709
Operations	1,384	1,322	1,255
General and administrative	1,793	1,431	1,164
Excess occupancy costs	134	156	266
In-process research and development and amortization of identifiable intangible assets	664	783	362
Total expenses	13,445	11,746	9,689
Income from operations	143	401	34
Interest income and other, net	703	685	663
Income before provision for income taxes	846	1,086	697
Provision for income taxes	(55)	231	(30)
Net income	\$ 791	\$ 1,317	\$ 667
Income per share:			
Basic	\$ 0.04	\$ 0.07	\$ 0.04
Diluted	\$ 0.04	\$ 0.06	\$ 0.03
Weighted average common shares outstanding used:			
Basic	19,866	19,697	19,031
Diluted	21,357	21,267	20,435

Keynote Systems, Inc. and Subsidiaries

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)
(unaudited)

	December 31, 2004	September 30, 2004
Assets		
Current assets:		
Cash and cash equivalents	\$ 26,129	\$ 19,338
Short-term investments	123,554	128,779
Total cash, cash equivalents and short-term investments	149,683	148,117
Accounts receivable, net	5,912	6,138
Prepaid and other current assets	2,210	2,329
Total current assets	157,805	156,584
Property and equipment, net	34,492	34,573
Goodwill, net	24,665	24,442
Identifiable intangible assets, net	5,467	6,131
Total assets	\$ 222,429	\$ 221,730
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	1,495	\$ 1,692
Accrued expenses	9,722	10,188
Current portion of capital lease obligation	78	80
Deferred revenue	7,228	7,741
Total current liabilities	18,523	19,701
Long term portion of capital lease obligation	29	35
Total liabilities	18,552	19,736
Stockholders' equity:		
Common stock	19	19
Treasury stock	(29)	(29)
Additional paid-in capital	341,033	339,734
Accumulated deficit	(136,618)	(137,409)
Accumulated other comprehensive loss	(528)	(321)
Total stockholders' equity	203,877	201,994
Total liabilities and stockholders' equity	\$ 222,429	\$ 221,730

Keynote Systems, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (In thousands) (unaudited)

	Three months ended		
	Dec 31	Sept 30	Dec 31
	2004	2004	2003
Cash flows from operating activities:			
Net income	\$ 791	\$ 1,317	\$ 667
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	793	802	1,088
In-process research and development	0	241	
Amortization of intangible assets	664	542	362
Amortization of debt investment premium	794	1,132	1,017
Changes in operating assets and liabilities, net of acquired assets and liabilities:			
Accounts receivable, net	226	(686)	(331)
Prepays and other assets	(120)	(591)	116
Accounts payable and accrued expenses	122	635	(40)
Deferred revenue	(497)	(376)	1,439
Net cash provided by operating activities	<u>2,773</u>	<u>3,016</u>	<u>4,318</u>
Cash flows from investing activities:			
Purchase of property, equipment and software	(712)	(2,334)	(405)
Proceeds from (Purchase of) businesses and assets	(385)	(22,026)	(582)
Sales / (Purchases) of short-term investments, net	4,224	21,083	(3,693)
Net cash provided by (used in) investing activities	<u>3,127</u>	<u>(3,277)</u>	<u>(4,680)</u>
Cash flows from financing activities:			
Repayment of Credit Facility	(8)	(658)	-
Proceeds from issuance of common stock	899	1,553	3,358
Net cash provided by financing activities	<u>891</u>	<u>895</u>	<u>3,358</u>
Net increase in cash and cash equivalents	6,791	634	2,996
Cash and cash equivalents at beginning of the period	<u>19,338</u>	<u>18,704</u>	<u>23,242</u>
Cash and cash equivalents at end of the period (1)	<u>\$ 26,129</u>	<u>\$ 19,338</u>	<u>\$ 26,238</u>

(1) Excludes \$123.6 million, \$128.8 million, and \$139.4 million of short-term investments at December 31, 2004, September 30, 2004, and December 31, 2003, respectively.