FORM S-1 · REGISTRATION STATEMENT

Keynote Systems Inc

IPO priced 1999-09-24 · $14.00 a share · KEYN



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AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON JANUARY 14, 2000 REGISTRATION NO. 333- SECURITIES AND EXCHANGE COMMISSION WASHINGTON, DC 20549 FORM S-1 REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933 KEYNOTE SYSTEMS, INC. (EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER) CALIFORNIA 7379 94-3226488 (PRIMARY STANDARD (I.R.S. EMPLOYER (STATE OR OTHER INDUSTRIAL IDENTIFICATION NO.) JURISDICTION OF CLASSIFICATION CODE INCORPORATION OR NUMBER) ORGANIZATION) KEYNOTE SYSTEMS, INC. 2855 CAMPUS DRIVE SAN MATEO, CA 94403 (650) 522-1000 (ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES) JOHN FLAVIO CHIEF FINANCIAL OFFICER KEYNOTE SYSTEMS, INC. 2855 CAMPUS DRIVE SAN MATEO, CA 94403 (650) 522-1000 (NAME, ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF AGENT FOR SERVICE) COPIES TO: MATTHEW P. QUILTER, ESQ. CURTIS L. MO, ESQ. JEFFREY R. VETTER, ESQ. MICHAEL C. DORAN, ESQ. SCOTT J. LEICHTNER, ESQ. ALEXANDER C. CHEN, ESQ. CYNTHIA E. GARABEDIAN, ESQ. BROBECK, PHLEGER & HARRISON LLP FENWICK & WEST LLP TWO EMBARCADERO PLACE TWO PALO ALTO SQUARE 2200 GENG ROAD PALO ALTO, CALIFORNIA 94306 PALO ALTO, CALIFORNIA 94303 (650) 494-0600 (650) 424-0160 APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: AS SOON AS PRACTICABLE AFTER THE EFFECTIVE DATE OF THIS REGISTRATION STATEMENT. IF ANY OF THE SECURITIES BEING REGISTERED ON THIS FORM ARE TO BE OFFERED ON A DELAYED OR CONTINUOUS BASIS PURSUANT TO RULE 415 UNDER THE SECURITIES ACT OF 1933, CHECK THE FOLLOWING BOX. [_] IF THIS FORM IS FILED TO REGISTER ADDITIONAL SECURITIES FOR AN OFFERING PURSUANT TO RULE 462(B) UNDER THE SECURITIES ACT, CHECK THE FOLLOWING BOX AND LIST THE SECURITIES ACT REGISTRATION STATEMENT NUMBER OF THE EARLIER EFFECTIVE REGISTRATION STATEMENT FOR THE SAME OFFERING. [_] IF THIS FORM IS A POST-EFFECTIVE AMENDMENT FILED PURSUANT TO RULE 462(C) UNDER THE SECURITIES ACT, CHECK THE FOLLOWING BOX AND LIST THE SECURITIES ACT REGISTRATION STATEMENT NUMBER OF THE EARLIER EFFECTIVE REGISTRATION STATEMENT FOR THE SAME OFFERING. [_] IF THIS FORM IS A POST-EFFECTIVE AMENDMENT FILED PURSUANT TO RULE 462(D) UNDER THE SECURITIES ACT OF 1933, CHECK THE FOLLOWING BOX AND LIST THE SECURITIES ACT REGISTRATION STATEMENT NUMBER OF THE EARLIER EFFECTIVE REGISTRATION STATEMENT FOR THE SAME OFFERING. [_] IF DELIVERY OF THE PROSPECTUS IS EXPECTED TO BE MADE PURSUANT TO RULE 434, PLEASE CHECK THE FOLLOWING BOX. [_] CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price Per Share(1)	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee
COMMON STOCK, $0.001 PAR VALUE.....	5,347,500(2)	$77.00	$411,757,500	$108,704

(1) ESTIMATED SOLELY FOR THE PURPOSE OF COMPUTING THE AMOUNT OF THE REGISTRATION FEE PURSUANT TO RULE 457(C) UNDER THE SECURITIES ACT OF 1933 AND BASED ON THE AVERAGE OF THE HIGH AND LOW TRADING PRICES ON THE NASDAQ NATIONAL MARKET ON JANUARY 7, 2000. (2) INCLUDES 697,500 SHARES SUBJECT TO THE UNDERWRITERS' OVER-ALLOTMENT OPTION. THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

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+The information in this prospectus is not complete and may be changed. We may +
+not sell these securities until the registration statement filed with the   +
+Securities and Exchange Commission is effective. This prospectus is not an   +
+offer to sell these securities and we are not soliciting offers to buy these +
+securities in any state where the offer or sale is not permitted.   +
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SUBJECT TO COMPLETION DATED JANUARY 14, 2000

[KEYNOTE LOGO]

4,650,000 SHARES

COMMON STOCK

KEYNOTE SYSTEMS, INC. IS OFFERING 1,000,000 SHARES OF ITS COMMON STOCK AND THE SELLING SHAREHOLDERS ARE OFFERING AN ADDITIONAL 3,650,000 SHARES. OUR COMMON STOCK IS QUOTED ON THE NASDAQ NATIONAL MARKET UNDER THE SYMBOL "KEYN." ON JANUARY 10, 2000, THE LAST SALE PRICE OF OUR COMMON STOCK AS REPORTED BY THE NASDAQ NATIONAL MARKET WAS $77.00 PER SHARE.

Investing in Our Common Stock Involves Risks. See "Risk Factors" Beginning on Page 7.

	Per Share	Total
Public Offering Price	$	$
Underwriting Discounts and Commissions	$	$
Proceeds to Keynote	$	$
Proceeds to Selling Shareholders	$	$

The Securities and Exchange Commission and state securities regulators have not approved or disapproved these securities, or determined if this prospectus is truthful or complete. any representation to the contrary is a criminal offense.

Keynote has granted the underwriters a 30-day option to purchase up to an additional 697,500 shares of common stock to cover any over-allotments. FleetBoston Robertson Stephens Inc. expects to deliver the shares of common stock to purchasers on , 2000.

Robertson Stephens

Chase H&Q

Dain Rauscher Wessels SoundView Technology Group The date of this prospectus is , 2000.

You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with information different from that contained in this prospectus. We are offering to sell, and seeking offers to buy, shares of common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of our common stock. In this prospectus, "Keynote," "we," "us" and "our" refer to Keynote Systems, Inc.

Table of Contents

Page

Prospectus Summary..... 4 Risk Factors..... 7 Special Note Regarding Forward-Looking Statements..... 19 Use of Proceeds..... 20 Dividend Policy..... 20 Price Range of Common Stock..... 20 Capitalization..... 21 Dilution..... 22 Selected Financial Data..... 23

Management's Discussion and Analysis of Financial Condition and Results of Operations..... 24 Business..... 34 Management..... 48 Certain Transactions..... 58 Principal and Selling Shareholders..... 62 Description of Capital Stock..... 66 Shares Eligible for Future Sale..... 70 Underwriting..... 72 Legal Matters..... 75 Experts..... 75 Where You Can Find Additional Information..... 75 Index to Financial Statements..... F-1 Keynote(R) is our registered trademark and Perspective(TM), Lifeline(TM), Consumer Perspective(TM), The Internet Performance Authority(TM), My Keynote(TM) and AccuStat(TM) are our trademarks or service marks. This prospectus also contains trademarks of other companies and organizations.

Prospectus Summary

You should read this summary together with the entire prospectus, including the more detailed information in our financial statements and accompanying notes appearing elsewhere in this prospectus.

Keynote Systems, Inc.

Keynote provides Internet performance measurement and diagnostic services that enable electronic commerce, or e-commerce, companies to measure, assure and improve the quality of service of their web sites. E-commerce web sites face a different set of competitive challenges than those faced by conventional "bricks and mortar" stores. In order to discourage customers from "clicking away" to competing web sites, e-commerce web sites must deliver fast page downloads, efficient transactions and high reliability of access. According to a 1999 study by Zona Research, approximately $4.4 billion per year in e- commerce sales in the United States may be lost due to unacceptable download speeds and the resulting user abandonment of online transactions.

Our Services

We currently offer three primary services, Keynote Perspective, Keynote Consumer Perspective and Keynote Lifeline. These services measure web-site performance and availability, including the time it takes for a user to download web pages.

We first introduced Keynote Perspective in April 1997 and recently introduced a new version in December 1999. This version included our My Keynote service, which offers our customers the ability to personalize their service. We introduced Keynote Consumer Perspective in December 1999. Keynote Perspective and Keynote Consumer Perspective are targeted for e-commerce web sites with heavy levels of traffic. These services measure the performance and availability of web sites by measuring the time it takes for pages and page components to be downloaded to a user's personal computer. Keynote Perspective is designed to measure a user's experience through the connections commonly used to access the Internet from the workplace. Keynote Perspective also measures the time it takes to complete a customer transaction on an e-commerce web site. With this service, measurements can be

taken from multiple geographic locations around the world and from three-minute to four-hour intervals. Keynote Consumer Perspective is designed to measure a user's experience with various other Internet access methods typically used in homes, such as dial-up connections, cable modems and digital subscriber lines. With this service, measurements can be taken from specified locations in 10 metropolitan areas and from 10-minute to one-hour intervals.

Our Keynote Lifeline service, which was introduced in July 1999, is targeted for regionally oriented web sites and web sites with lower traffic levels. This lower-priced service measures the time it takes to download web pages to one or two locations in the United States. Measurements can be taken every 10 minutes or once per hour.

In January 1999, we introduced our Competitive Audit and Diagnostic Audit professional services offerings. With Competitive Audit, we measure the performance of a customer's web site and evaluate its performance against other web sites in the customer's industry. We also identify any bottlenecks or stress points in the customer's web site or its connections to the Internet. In our Diagnostic Audit, our consultants work with our customers to further evaluate quality of service issues and provide specific recommendations to them as to how they can improve their web site's quality of service.

The foundation of our services is an extensive network of strategically located measurement computers connected to the major Internet backbones in dozens of metropolitan areas worldwide. We also have an operations center for collecting, analyzing and disseminating Internet performance and availability data. We believe our customers can use our services to measure the performance of their web sites and to ensure that their e-commerce web sites are not experiencing performance problems such as outages, slow web page download speeds or slow transaction processing times. With this information, we believe the web sites can improve their customer satisfaction and reduce support costs. In addition, it is easy for customers to begin using our services. With only a web browser, customers can try, purchase and immediately use our services.

We market and sell our services primarily through a direct telesales force in the United States. We also market our services through Network Solutions and VeriSign, which are companies that provide services complementary to ours. Our customers currently include over 700 leading e-commerce companies. Our 10 largest customers, based on revenues for the quarter ended December 31, 1999, consist of Akamai, American Express, Charles Schwab, Digex, Digital Island, Flycast, GlobalCenter, Microsoft, Sandpiper Networks and VeriSign.

Our Strategy

Our growth strategy is to expand our leadership in providing Internet performance measurement and diagnostic services to e-commerce web sites.

To achieve this goal we intend to:

. increase awareness of Keynote as "The Internet Performance Authority(TM)" through marketing programs;

. pursue marketing relationships with companies that sell products or services complementary to our services;

. offer new features and services in order make our customers continually aware of the importance of Keynote's services for measuring and ensuring the quality of service of their web sites;

. expand our operations internationally; and . expand our services to measure other aspects of quality of service and other new Internet technologies.

We Have Incurred Significant Losses and We May Not Become Profitable We have incurred losses of $12.7 million since we were formed in June 1995. In addition, we had a net loss of $7.1 million for the fiscal year ended September 30, 1999 and a net loss of $2.9 million for the 1998 fiscal year. We expect to incur net losses for the foreseeable future. The market for Internet- related products and services is highly competitive and we could face intense competition in the future. Therefore, we may not achieve or sustain profitability.

Unless otherwise indicated, all information contained in this prospectus assumes:

. no exercise of the underwriters' over-allotment option;

. no exercise of outstanding options to purchase shares of our common stock; and . the exercise of warrants to purchase 163,529 shares of our common stock prior to the completion of the offering.

The Offering

Common stock offered by Keynote..... 1,000,000 shares Common stock offered by selling shareholders..... 3,650,000 shares Common stock to be outstanding after the offering.. 24,772,285 shares Use of proceeds..... For general corporate purposes, capital expenditures and working capital. See "Use of Proceeds." Nasdaq National Market symbol..... KEYN The number of shares of our common stock to be outstanding immediately after the offering is based on the number of shares outstanding as of December 31, 1999. This number does not include 2,057,862 shares of our common stock subject to options and 7,273 shares issuable upon exercise of warrants outstanding as of December 31, 1999.

Summary Financial Data (in thousands, except per share data) Fiscal Year Ended September 30, 1996 1997 1998 1999

Statement of Operations Data:				
Revenues	$ 30	$ 81	$ 1,539	$ 7,272
Loss from operations	(628)	(2,018)	(2,957)	(7,015)
Net loss	(622)	(2,049)	(2,918)	(7,110)
Net Loss Per Share:				
Basic and diluted	$(0.23)	$ (0.84)	$ (1.10)	$ (1.54)
Weighted average shares--basic and diluted	2,733	2,434	2,649	4,622

September 30, 1999 Actual As Adjusted

Balance Sheet Data:		
Cash and cash equivalents	$64,647	$137,626
Working capital	62,288	135,267
Total assets	71,071	144,050

Notes payable, less current portion.....	2,591	2,591
Total shareholders' equity	63,242	136,221

See note 2 to our financial statements for a description of the method that we used to compute our basic and diluted net loss per share.

The as adjusted balance sheet data give effect to the sale of the 1,000,000 shares of common stock that Keynote is offering under this prospectus at an assumed public offering price of $77.00 per share, after deducting the estimated underwriting discounts and commissions and estimated offering expenses, and the exercise of warrants to purchase 163,529 shares of our common stock prior to the completion of this offering. See "Capitalization."

Recent Developments

On January 13, 2000, we announced results of operations for the three months ended December 31, 1999, the first quarter of our 2000 fiscal year. Our total revenues were $4.8 million for the first quarter of fiscal 2000, compared to total revenues of $889,000 million for the first quarter of fiscal 1999. Our revenues increased primarily due to the increase in both the number of new customers and the increase in revenue from existing customers. Net loss for the first quarter of fiscal 2000 was $2.0 million, or $0.09 per share, compared to a net loss of $798,000 million, or $0.27 per share, for the first quarter of fiscal 1999.

Keynote Systems, Inc. was incorporated in California in June 1995. Our principal offices are located at 2855 Campus Drive, San Mateo, California 94403. Our telephone numbers at this location are (650) 522-1000 and 1-800- KEYNOTE. The information on our web site does not constitute a part of this prospectus.

Risk Factors

You should carefully consider the risks described below before buying shares in this offering. If any of the following risks actually occur, our business, results of operations and financial condition could be seriously harmed, the trading price of our common stock could decline and you may lose all or part of your investment.

This prospectus includes statistical data regarding the Internet industry. These data are taken or derived from information published by sources including Zona Research and International Data Corporation. Although we believe that these data are generally indicative of the matters reflected in those reports, these data are inherently imprecise, and we caution you to read these data in connection with the rest of the disclosure in this document, particularly this "Risk Factors" section.

Risks Related to our Business We are an early stage company with an unproven business model which makes it difficult to evaluate our current business and future prospects.

We have only a limited operating history upon which to base an evaluation of our current business and future prospects. We began offering our Internet performance measurement services in May 1997. We introduced the most recent version of Keynote Perspective in December 1999, Keynote Consumer

Perspective in December 1999 and Keynote Lifeline in July 1999. We formed our professional services organization in January 1999. The revenue and income potential of our business and the related market are unproven. In addition, because of our limited operating history and because the market for Internet performance measurement and diagnostic services is relatively new and rapidly evolving, we have limited insight into trends that may emerge and affect our business. Before investing, you should evaluate the risks, expenses and problems frequently encountered by companies such as ours that are in the early stages of development and that are entering new and rapidly changing markets such as Internet performance measurement.

We have incurred losses, we expect to incur future losses and we may never achieve profitability.

We have experienced operating losses in each quarterly and annual period since inception and we expect to incur significant losses in the future. We incurred net losses of $7.1 million for the fiscal year ended September 30, 1999, and, as of September 30, 1999, we had an accumulated deficit of $12.7 million. We believe that our operating expenses will continue to increase as we grow our business. As a result, although this offering will provide, and our initial public offering provided, us with cash for our working capital, we will need to significantly increase our revenues to achieve and maintain profitability, as reflected in our financial statements. We may not be able to sustain our recent revenue growth rates. In fact, we may not have any revenue growth, and our revenues could decline. For a more detailed description of our operating results, please see "Management's Discussion and Analysis of Financial Condition and Results of Operations."

The success of our business depends on customers renewing their subscriptions for our services and purchasing additional services.

We depend on achieving high customer renewal rates for our revenues. Our customers have no obligation to renew our services and therefore, they could cease using our services at any time. We cannot assure you that we will continue to experience high renewal rates. Our customer renewal rates may decline as a result of a number of factors, including consolidations in the Internet industry or if a significant number of our customers cease operations. Further, because of the relatively small size of initial orders, we depend on sales to new customers and sales of additional services to our existing customers.

In addition, initial sales of our services and subsequent customer follow- up are conducted almost exclusively by telephone. A few customers have, in the past, expressed a preference for more personal, face-to-face customer service. Dissatisfaction by a customer with the nature or quality of our services could lead that customer to elect not to renew its subscription to our services. If our renewal-rate percentage declines, our revenues could decline unless we are able to obtain additional customers or sources of revenues.

Our quarterly financial results are subject to significant fluctuations, and if our future results are below the expectations of public-market analysts and investors, the price of our common stock may decline.

As indicated in our "Quarterly Results of Operations" on page 29, our results of operations could vary significantly from quarter to quarter. For example, our operating loss decreased to $798,000 for the quarter ended December 31, 1998 from $1.0 million for the quarter ended September 30, 1998 and then increased to $1.1 million for the quarter ended March 31, 1999, to $1.8 million for the quarter ended June 30, 1999 and to $3.5 million for the quarter ended September 30, 1999. We expect to incur significant sales and marketing expenses to promote our brand and our services, as well as additional expenses to expand our presence world wide. If revenues fall below our expectations, we will not be able to reduce our spending rapidly in response to the shortfall.

Other factors that could affect our quarterly operating results include those described below and elsewhere in this prospectus:

. the renewal rate of subscriptions to our Internet performance measurement services;

. our ability to increase the number of web sites we measure for our existing customers in a particular quarter;

. our ability to attract new customers in a particular quarter;

. the amount and timing of operating costs and capital expenditures relating to expansion of our operations infrastructure, including our planned international expansion; and . the amount and timing of professional services revenues.

Due to these and other factors, we believe that period-to-period comparisons of our results of operations are not meaningful and should not be relied upon as indicators of our future performance. It is possible that in some future periods, our results of operations may be below the expectations of public-market analysts and investors. If this occurs, the price of our common stock may decline.

The success of our business depends on the widespread adoption of the Internet by businesses and consumers for e-commerce and communications.

Because our business is based on providing performance measurement and diagnostic services for web sites, the Internet must be widely adopted, in a timely manner, as a means of electronic commerce, or e-commerce, and communications. Because e-commerce and communications over the Internet are new and evolving, it is difficult to predict the size of this market and its sustainable growth rate. In addition, we believe that the use of the Internet for conducting business transactions could be hindered for a number of reasons, including, but not limited to:

. security concerns including the potential for fraud or theft of stored data and information communicated over the Internet;

. inconsistent quality of service, including well-publicized outages of popular web sites;

. lack of availability of cost-effective, high-speed service;

. limited numbers of local access points for corporate users;

. delay in the development of enabling technologies or adoption of new standards;

. inability to integrate business applications with the Internet;

. the need to operate with multiple and frequently incompatible products; and . a lack of tools to simplify access to and use of the Internet.

Our operating results depend on sales of our Keynote Perspective service.

Because we have only recently begun to offer professional services and we only recently introduced our Keynote Consumer Perspective and Keynote Lifeline services, the success of our business currently depends, and for the immediate future will continue to substantially depend, on the sale of our Keynote Perspective service. Therefore, we believe that initial sales and renewals of our Keynote Perspective service will account for substantially all of our revenues for the immediate future. A decline in the price of, or fluctuation in the demand for, Keynote Perspective, or our inability to maintain or increase sales, would cause our revenues to decline.

If one of our competitors' Internet performance measurement service is adopted as the industry standard for measuring the speed and reliability of web sites, we may lose existing customers or encounter difficulties in attracting new customers.

To date, no Internet performance measurement service has been adopted as an accepted industry standard for measuring the speed and reliability of web sites. As a result, if one of our current or potential competitors develops an Internet performance measurement service that is adopted as the industry standard, our customers may turn to the services provided by these competitors. In addition, it would be more difficult for us to attract the additional customers for our Internet performance measurement services that are necessary for our business to grow. If this were to occur, our business would be harmed.

Improvements to the infrastructure of the Internet could reduce or eliminate demand for our Internet performance measurement services.

The demand for our Internet performance measurement services could be reduced or eliminated if future improvements to the infrastructure of the Internet lead companies to conclude that measuring and evaluating the performance of their web sites is no longer important to their business. The Internet is a complex, heterogeneous network of communications networks with multiple operators and vendors supplying and managing the underlying infrastructure as well as connections to this infrastructure. Because the inherent complexity of the Internet currently causes significant e-commerce quality of service problems for companies, the vendors and operators that supply and manage the underlying infrastructure are continuously seeking to improve the speed, availability, reliability and consistency of the Internet. If these vendors and operators succeed in significantly improving the performance of the Internet, which would result in corresponding improvements in the performance of companies' web sites, demand for our services would likely decline.

It would be more difficult for us to deliver our services and therefore earn revenues if we cannot expand and manage our computer infrastructure successfully.

We will need to deploy a large number of measurement computers if we experience an increase in our customer base or if we expand our operations and measurement capabilities on a worldwide basis. These computers are responsible for measuring the performance of web sites and collecting performance data and it is critical to our ability to deliver our services that they operate effectively. We currently measure the performance of approximately 7,000 web- site addresses for our customers. Based on the number of measurement computers we currently have deployed and the communications capacity available to these computers, we believe we are able to measure the performance of approximately 15,000 web-site addresses. We are in the process of deploying additional measurement computers and upgrading the underlying infrastructure so that we will have the ability by the end of fiscal year 2000 to measure in excess of 40,000 web-site addresses. With more measurement computers deployed, we will need to monitor and maintain a larger and more geographically dispersed computer network, which would require us to devote significant additional resources for these tasks. In addition, if we experience increases in the number of our customers prior to deploying additional measurement computers, our existing infrastructure may not have the capacity to accommodate the additional customers. This could result in outages, interruptions or slower response times, any of which could impair our ability to retain and attract customers.

We may face liability for supplying inaccurate information to our customers or from our customers' use of the data that we provide.

We may face liability if the information that we supply to our customers is inaccurate. The data that we collect and store in our measurement database, although reported to customers at over a 99% level of accuracy, may contain inaccuracies due to distortions and bottlenecks caused by inadequate network capacity preventing our measurement computers from gaining access to all requested measurements. Any dissatisfaction by our customers with our measurement data would impair our credibility in the marketplace and significantly harm our ability to attract new customers and retain existing customers. In addition, if we were to supply customers with inaccurate information, these customers might initiate litigation against us on such theories as breach of contract, breach of warranty or negligence. Our general insurance policy does not specifically cover liability for providing inaccurate data.

Our customers are responsible for the manner in which they use the data that we provide to them, and our customer contracts provide that each customer must indemnify us for any damages arising from their use of the data, reports or analyses. However, we cannot be certain that these contract provisions provide us with sufficient legal protection. For example, a company could use our comparative performance data, which evaluates the relative performance of the company's web site against web sites in an industry, and make claims to assert that their service is superior to those of their competitors or that their competitors' services are inferior. As a result, a third party might initiate litigation against one of our customers on such theories as defamation, trade libel or unfair competition relating to the customer's use of the information that we provided to them. Even if the information that we provided were accurate, we could be named as a defendant in any resulting litigation. Any litigation could be expensive and could divert management's attention from operating our company.

We may face liability for publishing indices that evaluate and rank the relative Internet performance of web sites.

We periodically publish indices that evaluate and rate the relative performance of various e-commerce web sites in a particular market segment. Some companies whose web sites have performed poorly in our published indices have asserted that our indices are not indicative of the overall consumer experience because the indices do not measure qualitative factors such as web- site content, navigability and appearance. Companies could potentially bring a claim against us if they believe that their business has been harmed by their low ranking in one of our indices. In addition, if the information published in one of our performance indices is inaccurate, we could lose credibility in the marketplace. This could harm our ability to attract new customers and retain existing customers, and could result in potentially expensive litigation against us on such theories as defamation, trade libel or unfair competition.

The inability of our services to perform properly could result in loss of or delay in revenues, injury to our reputation or other harm to our business.

Services as complex as those we offer may not perform as we expect. We have given credits to a limited number of customers as a result of past problems with our service, though we do not believe that any customers failed to renew their subscription to our services due to these problems. Despite our testing, our existing or future services may not perform as expected due to unforeseen problems, including those related to the year 2000, which could result in loss of or delay in revenues, loss of market share, failure to achieve market acceptance, diversion of development resources, injury to our reputation, increased insurance costs or increased service costs.

These problems could also result in tort or warranty claims. Although we attempt to reduce the risk of losses resulting from any claims through warranty disclaimers and liability-limitation clauses in our customer agreements, these contractual provisions may not be enforceable in every instance. Furthermore, although we maintain errors and omissions insurance, this insurance coverage may not adequately cover us for claims. If a court refused to enforce the liability-limiting provisions of our contracts for any reason, or if liabilities arose that were not contractually limited or adequately covered by insurance, we could be required to pay damages.

If we do not continually improve our services in response to technological changes, including changes to the Internet, we may encounter difficulties retaining existing customers and attracting new customers.

The ongoing evolution of the Internet requires us to continually improve the functionality, features and reliability of our Internet performance measurement and diagnostic services, particularly in response to competitive offerings. If we do not succeed in developing and marketing new services that respond to competitive and technological developments and changing customer needs, we may encounter difficulties retaining existing customers and attracting new customers. We must also introduce any new Internet services as quickly as possible. The success of new services depends on several factors, including properly defining the scope of the new services and timely completion,

introduction and market acceptance of our new services. If new Internet, networking or telecommunication technologies or standards are widely adopted or if other technological changes occur, we may need to expend significant resources to adapt our services.

Our services and brand name might not attain the brand awareness necessary for our business to succeed.

We believe that maintaining and strengthening the Keynote brand is an important aspect of our business and an important element in attracting new customers. Our efforts to build our brand will involve significant expense. To promote our brand, we may increase our marketing budget or increase our financial commitment to building our brand. If our brand-building strategy is unsuccessful, we may fail to attract enough new customers or retain our existing customers to the extent necessary to realize a sufficient return on our brand-building efforts.

If we are not successful in selling our Keynote Lifeline service, our revenues may fall short of our expectations.

We introduced our Keynote Lifeline service in July 1999, and we have currently sold this service to 52 customers. We cannot be certain that there will be increased customer demand for this service or that we will be successful in penetrating this segment of the market. In addition, because our Keynote Lifeline service is sold at a lower price than our Keynote Perspective service, we will need to sell our Keynote Lifeline service to a large volume of customers in order to significantly grow our revenues. We may not succeed in selling our Keynote Lifeline service on a wide-scale.

We face growing competition which could make it difficult for us to acquire and retain customers.

The market for Internet performance measurement and diagnostic services is new and rapidly evolving. We expect competition in this market to intensify in the future. Our competitors vary in size and in the scope and breadth of the products and services that they offer. Our principal competitors today include Freshwater Software, Internet Resources Group, Inverse Network Technology, a unit of Visual Networks, and Service Metrics, a unit of Exodus Communications. We also indirectly compete with WebCriteria, MIDS Matrix IQ Service, and INS INSoft Division, and free services such as the WebSite Garage unit of Netscape, NetMechanic and Internet Weather Report. While the free services are not as comprehensive as ours, as they only take measurements from one location, they do not measure the speed of transactions and they only measure simple download time, customers could still choose to use these less comprehensive services.

If we expand the scope of our products and services, we may encounter many additional, market-specific competitors. These potential competitors include companies that sell network management software such as CompuWare HP-Overview and IBM's Tivoli Unit, and companies that sell load-testing software such as Mercury Interactive and Segue Software, each of which has announced products that could potentially compete with us in the future. Some of our competitors have, and our future competitors may have:

. longer operating histories;

. larger customer bases;

. greater brand recognition in similar businesses; and . significantly greater financial, marketing, technical and other resources.

In addition, some of our competitors may be able to:

. devote greater resources to marketing and promotional campaigns;

. adopt more aggressive pricing policies; and . devote substantially more resources to technology and systems development.

Increased competition may result in price reductions, increased costs of providing our services and loss of market shares, any of which could seriously harm our business. We may not be able to compete successfully against our current and future competitors.

A limited number of customers account for a significant portion of our revenues, and the loss of a major customer could harm our operating results.

For the fiscal year ended September 30, 1999, 10 customers accounted for approximately 32% of our total revenues, and this trend may continue in the future. We cannot be certain that customers that have accounted for significant revenues in past periods, individually or as a group, will renew our services and continue to generate revenue in any future period. In addition, our customer agreements can generally be terminated at any time with little or no penalty. If we lose a major customer, our revenues could decline.

In order to grow our business, we need to establish and maintain relationships with other companies to help market our Internet performance measurement and diagnostic services.

In order to increase sales of our Internet performance measurement and diagnostic services worldwide, we must complement our direct sales force with relationships with companies to market and sell our services to their customers. If we are unable to maintain our existing contractual marketing and distribution relationships, or fail to enter into additional relationships, we will have to devote substantially more resources to the direct sale and marketing of our services. We would also lose anticipated revenues from customer referrals and other co-marketing benefits. Our success depends in part on the ultimate success of these relationships and the ability of these companies to market and sell our services. Our existing relationships do not, and any future relationships may not, afford us any exclusive marketing or distribution rights. Therefore, they could reduce their commitment to us at any time in the future. Many of these companies have multiple relationships and they may not regard us as significant for their business. In addition, these companies may terminate their relationships with us, pursue other relationships with our competitors or develop or acquire products or services that compete with our services. Even if we succeed in entering into these relationships, they may not result in additional customers or revenues.

In addition, growth in the sales of our services depends on our ability to obtain domestic and international resellers, distributors and integrators who will market and sell our services on our behalf. In the future, we intend to increase our indirect distribution channels through distribution

arrangements. We may not be successful in establishing relationships with these companies, and any of these relationships, if established, may not increase our revenue.

In order to grow our business, we must attract and retain qualified personnel while competition for personnel in our industry is intense.

We may be unable to retain our key employees, namely our management team and experienced engineers, or to attract, assimilate or retain other highly qualified employees. The volatility and current market price of our common stock may make it more difficult for us to recruit, hire and retain qualified personnel or cause us to incur higher salary costs. We have from time to time in the past experienced, and we expect in the future to continue to experience, difficulty in hiring and retaining highly skilled employees with experience in the Internet industry, a complex industry that requires a unique knowledge base. In addition, there is significant competition for qualified employees in the Internet industry. Umang Gupta, our chief executive officer, is our only key employee with whom we have entered into an employment agreement. Our other key employees are not bound by employment agreements that could prevent them from terminating their employment at any time.

In addition, because we sell our Internet performance measurement and diagnostic services primarily through our telesales force, we believe that we will need to attract additional sales personnel to grow our revenues. Our ability to deliver our services also depends on our ability to attract and retain operations personnel. There is a shortage of qualified sales and operations personnel and competition for personnel in our industry is intense. If we are unable to hire, train, motivate or retain qualified employees, including sales and operations personnel, our business could be harmed.

If our professional services are not accepted by the market, our results of operations could be harmed.

We formed our professional services organization in January 1999. As a result, we have limited experience in delivering consulting services and we may not be able to successfully introduce additional consulting services. We will also need to successfully market these services to potential customers. There are many experienced firms which offer computer network and Internet-related consulting services. These consulting services providers include the consulting groups of "Big Five" accounting firms, such as Andersen Consulting and Ernst & Young, as well as consulting divisions of large technology companies such as IBM. Because we do not have an established reputation for delivering consulting services, because this area is very competitive, and due to our general inexperience in delivering consulting services, we may not succeed in selling these services.

If we are unable to attract, educate and retain qualified professional service personnel, we may not be able to successfully expand our professional services organization.

We plan to increase the number of our professional services personnel. If we hire additional services personnel prior to securing a large customer base our operating results would be adversely affected as we would incur expenses for these personnel without commensurate revenue increases. This was the reason that our cost of consulting services revenues exceeded our consulting services in the fiscal year ended September 30, 1999. Competition for highly qualified professional services personnel with

knowledge of our industry is intense. We cannot be certain that we can attract or retain a sufficient number of professional services personnel that our business requires. In addition, new employees will require training and education, and consequently, they will take time to reach full productivity.

The growth of our business depends on the continued performance of and future improvements to the Internet.

The growth in Internet traffic has caused frequent periods of decreased performance, requiring Internet service providers and web sites on the Internet to upgrade their infrastructures. Our ability to increase the speed with which we provide services to our customers and to increase the scope of these services is limited by and depends upon the speed and reliability of the Internet. Consequently, the emergence and growth of the market for our services and, consequently our revenues, depends on the performance of and future improvements to the Internet.

Because we have expanded our operations, our success will depend on our ability to manage our growth, improve our existing systems and implement new systems, procedures and controls.

We are expanding, and we intend to continue to expand, our operations by deploying additional measurement computers, both domestically and internationally, hiring new personnel and implementing and integrating new accounting and control systems to manage this expansion. We may encounter difficulties in managing this growth. Our ability to compete effectively and to manage any future expansion of our operations will require us to continue to improve our financial and management controls, reporting systems and procedures on a timely basis. We may not succeed in these efforts and a disruption could impair our ability to retain existing customers or attract new customers.

Our network infrastructure could be disrupted by a number of different occurrences, which could impair our ability to retain existing customers or attract new customers.

All data collected from our measurement computers are stored in and distributed from our operations center. Therefore, our operations depend upon our ability to maintain and protect our computer systems, most of which are located at our corporate headquarters in San Mateo, California which is an area susceptible to earthquakes. If we experience outages at our operations center, we would not be able to receive data from our measurement computers and we would not be able to deliver our services to our customers. We currently do not have a redundant system for computer-network and other services at an alternate site. Therefore, our operations systems are vulnerable to damage from break- ins, computer viruses, unauthorized access, vandalism, fire, floods, earthquakes, power loss, telecommunications failures and similar events. Although we maintain insurance against fires and general commercial liability, the amount and scope of this coverage may not be adequate. If our operations center is damaged, causing a disruption in our services, this could impair our ability to retain existing customers or attract new customers.

If our computer infrastructure is not functioning properly, we may not be able to deliver our services in a timely or accurate manner. We have occasionally experienced outages of our service in the past, the last of which occurred approximately six months ago. The outages that we have experienced have

lasted no more than a few hours, with the longest outage that occurred in the fall of 1998 having lasted approximately 12 hours. These outages have been caused by a variety of factors including operator error, the failure of a back- up computer to operate when the primary computer ceased functioning and power outages. Although we do not believe we have lost any customers due to these prior outages, any outage for any period of time could cause us to lose customers.

Hackers, or individuals who attempt to breach our network security, could, if successful, misappropriate proprietary information or cause interruptions in our services. Although we have not yet experienced any breaches of our network security or sabotage, we might be required to expend significant capital and resources to protect against, or to alleviate, problems caused by hackers. We may not have a timely remedy against a hacker who is able to breach our network security. In addition to purposeful security breaches, the inadvertent transmission of computer viruses could expose us to litigation or to a material risk of loss.

Our measurement computers are located at sites which we do not own or operate and it could be difficult for us to maintain or repair them if they do not function properly.

Our measurement computers are located at facilities that are not owned by us or our customers. Instead, these computers are installed at locations near various Internet access points worldwide. Because we do not own or operate these facilities, we have little control over how these computers are maintained on a day-to-day basis. We do not have long-term contractual relationships with the companies that operate the facilities where our measurement computers are located. We may have to find new locations for these computers if we are unable to maintain or develop relationships with these companies or if these companies cease their operations. In addition, if our measurement computers were not functioning properly, we may not be immediately aware of these difficulties or we may not be able to repair or service these computers on a timely basis as we may not have immediate access to our measurement computers. Our ability to collect data in a timely manner could be impaired if we are unable to maintain and repair our computers should performance problems arise.

The success of our business depends on our ability to protect and enforce our intellectual property rights.

The intellectual property we use in our business is important to us. We have trademarks, service marks, one issued U.S. patent and one U.S. patent application with respect to our Internet performance measurement technology, and we have also developed proprietary software that we use to deliver our services to our customers. Despite our efforts, we may be unable to prevent others from infringing upon or misappropriating our intellectual property, which could harm our business.

It is possible that no patent will issue from our currently pending patent application. Moreover, new patent applications may not result in issued patents and may not provide us with any competitive advantages over, or may be challenged by, others. Legal standards relating to the validity, enforceability and scope of protection of intellectual property rights in Internet-related industries are uncertain and still evolving, and the future viability or value of any of our intellectual property rights is uncertain. Effective trademark, copyright and trade secret protection may not be available in every country in

which our products are distributed or made available. Furthermore, our competitors may independently develop similar technology that substantially limits the value of our intellectual property, or they may design around patents issued to us.

Most of our customers' use of our services is governed by web-based subscription agreements, rather than by means of a formal, written contract. Each time customers use our services, they "click" on a web page to agree to terms and conditions that are posted on our web site, and our relationship with these customers is then governed by these terms and conditions. There is a possibility that a court, arbiter or regulatory body could deem this type of agreement to be invalid or determine that the terms and conditions governing the agreement do not fully protect our intellectual property rights. If that were to occur, our business could be harmed. Although we are not currently engaged in litigation, we may in the future need to initiate a lawsuit to enforce our intellectual property rights and to protect our patents, if issued, trademarks and copyrights. Any litigation could result in substantial costs and diversion of resources and could seriously harm our business. For a description of our intellectual property, see "Business--Intellectual Property."

Others might bring infringement claims against us or our suppliers that could harm our business.

In recent years, there has been significant litigation in the United States involving patents and other intellectual property rights. We expect that we could become subject to intellectual property infringement claims as the number of our competitors grows and our services overlap with competitive offerings. These claims, even if not meritorious, could be expensive and divert management's attention from operating our company. If we become liable to others for infringing their intellectual property rights, we would be required to pay a substantial damage award and to develop noninfringing technology, obtain a license or cease selling the services that contain the infringing intellectual property. We may be unable to develop noninfringing technology or to obtain a license on commercially reasonable terms, if at all.

We depend on technologies licensed from other companies for portions of our services.

We cannot assure you that our technology licenses will not infringe the proprietary rights of others or will continue to be available to us on commercially reasonable terms, if at all. We license statistical, graphical, database and other technologies from third parties to operate our services. The loss of this technology could require us to obtain or develop substitute technology of lower quality or performance standards or at greater cost. If we do not obtain or develop substitute technology, we could be unable to offer all of the features or functionality that we desire to include in our services.

If we expand our international activities, our business will be susceptible to additional risks associated with international operations.

We believe we must expand the sales of our services outside the United States and hire additional international personnel. Therefore, we expect to commit significant resources to expand our international sales and marketing activities, which represented an insignificant portion of our total revenues for the fiscal year ended September 30, 1999 and our prior periods. In addition, we intend to

deploy additional measurement computers worldwide, which would require us to maintain and service computers over larger distances. Conducting international operations would subject us to risks we do not face in the United States. These include:

. currency exchange rate fluctuations;

. seasonal fluctuations in purchasing patterns;

. unexpected changes in regulatory requirements;

. maintaining and servicing computer hardware in distant locations;

. longer accounts receivable payment cycles and difficulties in collecting accounts receivable;

. difficulties in managing and staffing international operations;

. potentially adverse tax consequences, including restrictions on the repatriation of earnings;

. the burdens complying with a wide variety of foreign laws; and . and reduced protection for intellectual property rights in some countries.

The Internet may not be used as widely in other countries and the adoption of e-commerce may evolve slowly or may not evolve at all. As a result, we may not be successful in selling our services to customers in markets outside the United States.

Our business might be harmed if the systems we use are not year 2000 compliant or if our customers or potential customers alter their purchasing patterns as a result of the year 2000 problem.

Our information technology systems could be impaired or cease to operate due to computer systems or software products being unable to distinguish between 20th and 21st century dates, which is known as the year 2000 problem. Notwithstanding the passage of January 1, 2000, our business could still face year 2000 problems. If our Keynote Perspective, Consumer Perspective and Lifeline services and our network of measurement computers fail to accurately measure, process and assess web-site performance data due to the year 2000 problem, we could lose customers. We also rely on technology supplied by other companies. These companies may experience year 2000 related problems. Any year 2000 problems experienced by us or any of these companies could harm our business. Additionally, because the Internet is comprised of numerous computers and communications lines, it may fail to function properly or at all, causing unavailability or disruption of Internet services. If either of these occurred, we may be unable to measure Internet performance which would cause our revenues to decline.

Customers', or potential customers', purchasing plans could be affected by year 2000 issues if they need to expend significant resources to correct their existing systems. This situation could result in reduced funds available for these customers to purchase our services. As a result, some customers may defer the purchase of our services until after the year 2000. A decrease in the demand for our services due to customers' year 2000 issues could harm our business.

A previous version of our Keynote Perspective service which we no longer sell was not year 2000 compliant. Despite our testing and remediating, our services may contain errors or faults with respect to the year 2000. Although there are no users of non-year 2000 compliant versions of our services, we may face liability in the future for any unknown or unforeseen errors or faults relating to the year 2000. Although our directors' and officers' liability insurance will cover liability arising from year 2000 claims, this insurance policy has a low coverage limit, has a deductible of $250,000 and will only cover at most an amount equal to 25% of the final claim. Therefore, we could incur significant expenses if we were subject to one of these types of claims. We currently have limited contingency plans with respect to the year 2000 problem, and these consist of our having established connections with other Internet service providers to provide service if our primary Internet service provider fails. If we experience other year 2000 issues, we may not be able to react quickly.

We may face difficulties assimilating and may incur costs associated with any future acquisitions.

As part of our business strategy, we may seek to acquire or invest in businesses, products or technologies that we feel could complement or expand our business, augment our market coverage, enhance our technical capabilities or that may otherwise offer growth opportunities. Acquisitions could create risks for us, including:

. difficulties in assimilation of acquired personnel, operations and technologies;

. unanticipated costs associated with the acquisition;

. diversion of management's attention from other business concerns;

. adverse effects on existing business relationships with resellers of our service and our customers; and . use of substantial portions of our available cash, including the proceeds of this offering, to consummate the acquisition.

Risk Related to this Offering Our officers, directors and other existing shareholders will own a large percentage of our voting stock and will be able to control us.

After this offering and assuming no additional issuances of common stock, our officers, directors and 5% or greater shareholders will beneficially own or control, directly or indirectly, 8,606,009 shares of our common stock, which in the aggregate will represent approximately 34.6% of the outstanding shares of our common stock. As a result, if these persons act together, they will have the ability to influence all matters submitted to our shareholders for approval, including . the election and removal of directors and . any merger, consolidation or sale of all or substantially all of our assets.

This ability to exercise influence over all matters requiring shareholder approval could prevent or significantly delay another company or person from acquiring or merging with us. For a further discussion of the stock ownership of our officers, directors and 5% or greater shareholders, please see "Principal and Selling Shareholders."

The market price for our common stock, like other technology stocks, may continue to be volatile and could result in class-action securities litigation against us.

The market prices of the securities of Internet-related companies have been especially volatile, including the market price of our common stock. The value of your investment in our common stock could decline due to the impact of any of the following factors upon the market price of our common stock:

. actual or anticipated variations in our quarterly operating results;

. announcements of new Internet performance measurement service offerings by us or our competitors;

. announcements of technological innovations;

. competitive developments;

. changes in financial estimates by securities analysts;

. failure in one or more future quarters of our operating results to meet the expectations of securities analysts or investors;

. changes in market valuations of Internet-related companies;

. additions or departures of key personnel, notably our management team and experienced engineers;

. conditions and trends in the Internet and e-commerce industries; and . general economic conditions.

Further, the stock markets, particularly the Nasdaq National Market on which our common stock is listed, have experienced substantial price and volume fluctuations. These fluctuations have particularly affected the market prices of equity securities of many technology and Internet-related companies and have often been unrelated or disproportionate to the operating performance of those companies. The trading prices of many technology companies' stocks are at or near historical highs. These high trading prices may not be sustained. In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been instituted against that company. Litigation, if instituted, could result in substantial costs and a diversion of management's attention and resources. See "Price Range of Common Stock."

Future sales of our common stock may cause our stock price to decline.

Sales of a large number of shares of our common stock in the market after this offering, or the belief that these sales could occur, could cause a drop in the market price of our common stock. Upon completion of this offering, we will have outstanding 24,772,285 shares of common stock. Of these shares, the 4,600,000 shares sold in our initial public offering as well as the 4,650,000 shares to be sold in this offering will be freely tradable without restriction or further registration under the Securities Act, unless the shares are purchased by our "affiliates."

The remaining 15,522,285 shares of common stock outstanding upon completion of this offering will be "restricted securities," as that term is defined under Rule 144 of the Securities Act. Our directors, executive officers and other shareholders who held a total of 18,392,332 shares, or over 95%, of the total outstanding shares of our common stock immediately prior to our initial public offering, have executed lock-up agreements that limit their ability to sell common stock. These shareholders have

agreed not to sell or otherwise dispose of any shares of our common stock until March 23, 2000 without the prior written approval of FleetBoston Robertson Stephens Inc. In addition, our officers, directors and selling shareholders, who will hold 14,221,555 shares of common stock after this offering, have agreed not to sell or otherwise dispose of any shares of our common stock for a period of 90 days from the date of this prospectus. When the lock-up agreements expire, these shares and shares underlying outstanding stock options and warrants will become eligible for sale, in some cases only subject to the volume, manner of sale and notice requirements of Rule 144. As of December 31, 1999 there were outstanding options to purchase 2,057,862 shares of our common stock and outstanding warrants to purchase 7,273 shares of our common stock.

Assuming the cash exercise of these options and warrants outstanding as of December 31, 1999, the remaining 17,587,420 shares of our common stock will become eligible for public sale as follows:

. 0 shares as of the date of this prospectus;

. 3,307,456 shares as of March 23, 2000;

. 5,288 shares as of April 26, 2000;

. 23,224 shares as of April 30, 2000;

. 22,624 shares as of May 11, 2000;

. 14,221,555 shares 90 days after the date of this prospectus; and . 7,273 shares one year after the date of this prospectus.

We are uncertain of our ability to obtain additional financing for our future capital needs.

We may need to raise funds in the future to meet our working capital and capital expenditure needs. However, we may not be successful in raising additional funds at all or on terms that are favorable to us. We expect the net proceeds from this offering, together with our existing cash and cash equivalents, will be sufficient to meet our working capital and capital expenditure needs for at least the next twelve months. After that, we may need additional funds to fund more rapid expansion, to expand our marketing activities, to develop new or enhance existing services or products, to respond to competitive pressures or to acquire complementary services, businesses or technologies.

New investors will experience immediate and substantial dilution from this offering.

We expect that the public offering price of our common stock will be substantially higher than the book value per share of the outstanding common stock. As a result, investors purchasing stock in this offering will experience an immediate dilution in the net tangible book value of the common stock of $71.34 per share, based on the number of outstanding shares as of September 30, 1999. In the past, we issued options and warrants to acquire our common stock at prices significantly below the current market price. To the extent these outstanding options and warrants are ultimately exercised, there will be further dilution to investors in this offering.

Management might apply the net proceeds from this offering to uses that do not improve our operating results or market value.

The net proceeds from the sale of our common stock in this offering will be added to our general working capital. We have not reserved or allocated the net proceeds for any specific purpose, and we cannot specify with certainty how we will use these proceeds. Consequently, our management will have broad discretion with respect to the application of proceeds from this offering, and you will not have the opportunity, as part of your investment in our common stock, to assess whether the proceeds are being used appropriately. The net proceeds may be used for corporate purposes that do not improve our operating results or market value. Pending application of the proceeds, they might be placed in investments that do not produce income or that lose value.

Special Note Regarding Forward-looking Statements

Some of the statements under "Prospectus Summary," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business" and elsewhere in this prospectus constitute forward- looking statements. In some cases, you can identify forward-looking statements by terms such as "may," "might," "could," "will," "should," "expect," "plan," "intend," "forecast," "anticipate," "believe," "estimate," "predict," "foreseeable," "potential," "continue" or the negative of these terms or other comparable terminology. The forward-looking statements contained in this prospectus involve known and unknown risks, uncertainties and other factors that may cause our or our industry's actual results, level of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these statements. These factors include, among others, those listed under "Risk Factors" and elsewhere in this prospectus.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. You should not place undue reliance on these forward-looking statements.

Use of Proceeds

We estimate that our net proceeds from the sale of the 1,000,000 shares of common stock that we are offering will be approximately $72.7 million, after deducting the estimated underwriting discounts and commissions and estimated offering expenses. If the underwriters' over-allotment option is exercised in full, we estimate that our net proceeds will be approximately $123.8 million. We will not receive any proceeds from the sale of shares of common stock by the selling shareholders.

We intend to use the proceeds for working capital, capital expenditures and other general corporate purposes. In addition, we may use a portion of the net proceeds from this offering to acquire or invest in businesses, technologies or products that are complementary to our business. We currently have no commitments or agreements with respect to any acquisitions. Pending our use of the net proceeds, we intend to invest them in short-term, interest-bearing, investment-grade securities.

Dividend Policy

We have never declared or paid any cash dividends on our capital stock and do not anticipate paying any cash dividends in the foreseeable future. In addition, the terms of our loan agreements prevent us from paying cash dividends.

Price Range of Common Stock

Our common stock has been traded on the Nasdaq National Market under the symbol "KEYN" since September 24, 1999. Prior to this time, there was no public market for our common stock. We had approximately 112 shareholders as of December 31, 1999, but because brokers and other financial institutions hold many of the shares on behalf of shareholders, we believe the total number of beneficial holders is greater than that represented by these record holders.

Common Stock Price High Low Fiscal Year Ended September 30, 1999 Fourth Quarter (from September 24, 1999)..... $33.38 $17.25 Fiscal Year Ended September 30, 2000 First Quarter ..... 82.00 23.50 Second Quarter (through January 10, 2000)..... 78.50 69.00 On January 10, 2000, the last reported sales price of our common stock on the Nasdaq National Market was $77.00 per share.

Capitalization

The following table sets forth our capitalization as of September 30, 1999. The as adjusted information reflects the sale of the 1,000,000 shares of common stock that we are offering, at an assumed public offering price of $77.00 per share, after deducting estimated underwriting discounts and commissions and our estimated offering expenses and the exercise of warrants to purchase 163,529 shares of our common stock prior to the completion of this offering.

As of September 30, 1999 As Actual Adjusted (in thousands, except share data)

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Notes payable, less current portion.....  $  2,591  $  2,591
Shareholders' equity:
 Preferred stock, $0.001 par value; 5,000,000 shares
   authorized, no shares issued and outstanding, actual and
   as adjusted.....        --        --
 Common stock, $0.001 par value; 50,000,000 shares
   authorized, 22,908,688 shares issued and outstanding,
   actual; 50,000,000 shares authorized, 24,072,217 shares
   issued and outstanding, as adjusted.....        23        24
Additional paid-in capital.....    77,430   150,408
Deferred stock-based compensation.....    (1,135)   (1,135)
Notes receivable from shareholders.....      (388)     (388)
Accumulated deficit.....   (12,688)  (12,688)
 Total shareholders' equity .....    63,242   136,221
  Total capitalization.....  $ 65,833  $138,812
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The share numbers above exclude:

. 1,926,000 shares issuable upon the exercise of outstanding stock options as of September 30, 1999, at a weighted average exercise price of $6.16 per share;

. 108,599 shares issuable upon the exercise of warrants outstanding as of September 30, 1999;

. 400,000 shares available as of September 30, 1999, for sale under our employee stock purchase plan; and . 5,036,437 shares available as of September 30, 1999, for future grant under our stock plans described in this prospectus.

You should read this table together with "Management--Director Compensation," "Management--Employee Benefit Plans," "Description of Capital Stock" and notes 5, 6 and 7 of the notes to our financial statements.

Dilution

Our net tangible book value as of September 30, 1999 was $63.2 million or $2.76 per share. Net tangible book value per share is determined by dividing the number of outstanding shares of common stock into our net tangible book value, which is our total tangible assets less total liabilities. After giving effect to the receipt of the estimated net proceeds from this offering, based on an assumed public offering price of $77.00 per share, after deducting the estimated underwriting discounts and commissions and estimated offering expenses, and from the exercise of warrants to purchase 163,529 shares of our common stock prior to the completion of this offering, our net tangible book value as of September 30, 1999 would have been approximately $136.2 million, or $5.66 per share. This represents an immediate increase in net tangible book value of $2.90 per share to existing shareholders and an immediate dilution of $71.34 per share to new investors purchasing shares at the assumed public offering price. The following table illustrates the per share dilution:

Assumed public offering price per share		$77.00
Net tangible book value per share as of September 30, 1999	$2.76	
Increase per share attributable to new investors	2.90	
Net tangible book value per share after offering		5.66
Dilution per share to new investors		$71.34

Selected Financial Data

The tables that follow present portions of our financial statements and are not complete. You should read the following selected financial data together with our financial statements and related notes to our financial statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations." The selected statement of operations data for the years ended September 30, 1997, 1998 and 1999 and the balance sheet data as of September 30, 1998 and 1999 are derived from our financial statements that have been audited by KPMG LLP, independent certified public accountants, included elsewhere in this prospectus. The statement of operations data for the period from June 15, 1995 (inception) to September 30, 1995 and the year ended September 30, 1996 and the balance sheet data as of September 30, 1995, 1996 and 1997 are derived from audited financial

statements that are not included in this prospectus. The historical results presented below are not necessarily indicative of the results to be expected for any future fiscal period. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Period From June 15, 1995 (inception) to Years Ended September 30, September 30, ---------- ---------- 1995 1996 1997 1998 1999 (in thousands, except per share data)

Statement of Operations Data:					
Revenues:					
Subscription services.....	$ --	$ --	$ 81	$ 1,539	$ 7,055
Consulting services.....	28	30	--	--	217
Total revenues.....	28	30	81	1,539	7,272
Expenses:					
Cost of subscription services.....	--	--	209	580	2,314
Cost of consulting services..	--	--	--	--	444
Research and development.....	--	392	732	1,226	2,059
Sales and marketing.....	--	186	817	1,529	5,331
Operations.....	--	--	63	514	1,639
General and administrative...	16	80	278	647	1,642
Amortization of stock-based compensation.....	--	--	--	--	858
Total expenses.....	16	658	2,099	4,496	14,287
Income (loss) from operations.....	12	(628)	(2,018)	(2,957)	(7,015)
Interest income (expense), net.....	(1)	6	(31)	39	(95)
Net income (loss).....	$ 11	$ (622)	$(2,049)	$(2,918)	$(7,110)
Net income (loss) per share:					
Basic and diluted.....	$0.03	$(0.23)	$ (0.84)	$ (1.10)	$ (1.54)
Weighted average shares-- basic and diluted.....	322	2,733	2,434	2,649	4,622

As of September 30, 1995 1996 1997 1998 1999 (in thousands)

Balance Sheet Data:					
Cash and cash equivalents.....	$10	$ 545	$ 1,150	$ 2,293	$64,647
Working capital.....	22	551	1,007	2,164	62,288
Total assets.....	39	711	1,670	3,918	71,071
Notes payable, less current portion....	--	--	199	303	2,591
Redeemable convertible preferred stock.....	--	1,262	3,828	8,529	--
Total shareholders' equity (deficit)...	35	(567)	(2,588)	(5,552)	63,242

Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following Management's Discussion and Analysis of Financial Condition and Results of Operations together with the financial statements and related notes included elsewhere in this prospectus. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Risk Factors" and elsewhere in this prospectus.

Overview

Keynote was founded in June 1995 to measure Internet performance and to market and sell the information derived from our measurement results. In April 1997, we began to sell Keynote Perspective, a service that measures the performance and availability of web file downloads. In September 1997, we released and updated all existing customers to a new version of Keynote Perspective, which allowed our customers to view the performance data online without installing any software. Our next release of Keynote Perspective, in July 1998, allowed our customers to download and analyze the performance of entire web pages, including text and graphics. In April 1999, we released a new version of Keynote Perspective, which included our Transaction service, which measures the time it takes to execute an interactive transaction that involves the display of multiple web pages, such as placing an online stock trade order. In July 1999, we introduced our Keynote Lifeline service. In December 1999, we introduced our most recent version of Keynote Perspective. In December 1999, we introduced Keynote Consumer Perspective which measures web-site performance via Internet access methods typically used from the home, such as dial-up connections, cable modems and digital subscriber lines. In January 1999, we began offering consulting services, which are designed to assist our customers in evaluating, interpreting and improving their performance measurement and diagnostic results.

Our direct sales organization also provides telephone and e-mail sales support, telemarketing services and pre-sales technical support. We believe our direct sales approach enables us to focus our resources on ascertaining the needs of our customers, to devote significant attention to customer satisfaction and to quickly offer new services to our existing customers.

We also distribute our services through web-hosting and Internet service providers such as Digex and GlobalCenter, which manage e-commerce web sites for other companies. These companies sell or bundle our services to part of their customer base as a value-added service to these customers and as a management tool for themselves. We also market our services through VeriSign and Network Solutions, which are companies that sell services complementary to ours.

We derive and expect to continue to derive all of our subscription revenues from the sale of our Internet performance measurement, consulting and diagnostic services. Keynote Perspective is a subscription-based service which our customers purchase for an initial three-month term and then may renew their subscription on a month-to-month basis. Subscription fees vary based on the number of web-site addresses measured, the number of measurement locations, the frequency of the measurements and the additional features ordered. Although consulting revenues have not been significant to date, we believe that consulting revenues may become more important in the future as we pursue additional consulting opportunities. Our international revenues to date have not been significant.

We recognize revenues ratably as services are performed. We typically invoice our customers monthly in advance for our services. Any unearned revenue is recorded as deferred revenue on our balance sheet. As of September 30, 1999, we had recorded $1.1 million of deferred revenue. Revenues from our consulting services are recognized as the services are performed; a typical project lasts one month. For longer consulting projects, we anticipate recognizing revenue on a percentage-of-completion basis.

Our business has grown since inception, with total revenues of $81,000 for the fiscal year ended September 30, 1997, $1.5 million for the fiscal year ended September 30, 1998 and $7.3 million for the fiscal year ended September 30, 1999. We incurred net losses of $2.0 million for the fiscal year ended September 30, 1997, $2.9 million for the fiscal year ended September 30, 1998 and $7.1 million for the fiscal year ended September 30, 1999. We expect to incur significant losses in the future.

Results of Operations The following table sets forth our revenues, expenses, interest income (expense) and net loss as a percentage of total revenues for the years ended September 30, 1997, 1998 and 1999:

Years Ended September 30, 1997 1998 1999

Revenues:			
Subscription services	100%	100%	97%
Consulting services	--	--	3
Total revenues	100	100	100
Expenses:			
Cost of subscription services	258	38	32
Cost of consulting services	--	--	6
Research and development	904	80	28
Sales and marketing	1,009	99	73
Operations	78	33	23
General and administrative	343	42	23
Amortization of stock-based compensation expense	--	--	12
Total expenses	2,592	292	197
Loss from operations	(2,492)	(192)	(97)
Interest income (expense), net	(38)	2	(1)
Net loss	(2,5530)%	(190)%	98%

Fiscal Years Ended September 30, 1999 and 1998 Revenues Revenues were $1.5 million for fiscal 1998 and $7.3 million for fiscal 1999, representing an increase of $5.8 million, or 387%. Subscription services represented 100% of total revenues for fiscal 1998 and 97% of total revenues for fiscal 1999. The increase in total revenues was attributable to the increase in both the number of new customers and the increase in revenue from existing customers. For fiscal 1998, one customer, Digex, accounted for approximately 15% of total revenues. For fiscal 1999, no single customer accounted for more than 10% of total revenues.

Expenses

Cost of Subscription Services. Cost of subscription services consists of connection fees to Internet service providers for deployment of our measurement computers around the world and depreciation, maintenance and other equipment charges for our measurement infrastructure. Cost of subscription services was $580,000 for fiscal 1998 and $2.3 million for fiscal 1999, representing an increase of $1.7 million, or 293%. This increase was primarily due to the greater number of measurement computers deployed, resulting in higher connection fees and more depreciation and equipment charges. In addition, in the fourth quarter of fiscal 1999, we began increasing measurement capacity at our existing locations, and began expanding our measurement infrastructure. Cost of subscription services was 38% of subscription services for fiscal 1998 and 33% of subscription services for fiscal 1999. We expect to continue to increase measurement capacity in fiscal 2000, and we anticipate that cost of subscription services as a percentage of revenues will increase.

Cost of Consulting Services. Cost of consulting services consists of compensation expenses for consulting personnel and related costs. Our cost of consulting services was $0 for fiscal 1998 and $444,000 for fiscal 1999. Cost of consulting services exceeded consulting services revenue for fiscal 1999 because our consulting division was formed in January 1999 and has only generated limited revenue to date. We expect that the cost of consulting services as a percentage of consulting services revenue will continue to be greater than the cost of subscription services as a percentage of subscription services revenues.

Research and Development. Research and development expenses consist primarily of compensation and related costs for research and development personnel and outside contractors. Our research and development expenses were $1.2 million for fiscal 1998 and $2.1 million for fiscal 1999, representing an increase of $900,000, or 75%. This increase was primarily related to our increased hiring of software engineers, project management and quality assurance personnel and increased use of outside consultants. To date, all research and development expenses have been expensed as incurred. We believe that a significant increase in our research and development investment is essential for us to maintain our market position and to continue to enhance and expand our services. Accordingly, we anticipate research and development expenses will increase in the foreseeable future.

Sales and Marketing. Sales and marketing expenses consist primarily of salaries, commissions and bonuses earned by sales and marketing personnel, lead-referral fees, marketing programs and travel expenses. Our sales and marketing expenses were $1.5 million for fiscal 1998 and $5.3 million for fiscal 1999, representing an increase of $3.8 million, or 253%. This increase reflects our investment in additional personnel in our sales and marketing organization and marketing programs. It also includes salaries and referral fees to recruit and hire sales management, sales representatives and sales engineers. We believe that a significant increase in our sales and marketing efforts is essential for us to maintain our market position and to further increase acceptance of our services. Accordingly, we anticipate sales and marketing expenses will increase in the foreseeable future.

Operations. Operations expenses consist primarily of compensation and related costs for management personnel, technical support employees and consultants who manage and maintain our measurement and headquarters infrastructure and support our customers. Our operations personnel also work closely with other departments to assure the reliability of our services and to support our sales and marketing activities. Operations expenses were $514,000 for fiscal 1998 and $1.6 million for fiscal 1999, representing an increase of $1.1 million, or 214%. This increase was primarily related to the hiring of personnel to manage and support our growing customer base. We believe that continued investment is necessary to support our ability to successfully develop, deploy and operate our growing Internet measurement infrastructure, as well as to successfully support our customer base. Accordingly, we anticipate that operations costs will increase in the foreseeable future.

General and Administrative. General and administrative expenses consist primarily of salaries and related expenses, accounting, legal and administrative expenses, professional service fees and other general corporate expenses. Our general and administrative expenses were $647,000 for fiscal 1998 and $1.6 million for fiscal 1999, representing an increase of $953,000, or 147%. This increase was

primarily related to hiring additional employees to support the growth of our business, as well as increases in costs associated with becoming a public company. We believe that our general and administrative expenses will continue to increase in absolute dollars as a result of the continued expansion of our administrative staff and expenses associated with being a public company, including annual and other public reporting costs, directors' and officers' liability insurance and investor relations programs.

Amortization of Stock-Based Compensation. Some options granted during fiscal 1999 have been considered to be compensatory, as the estimated fair value for accounting purposes was greater than the stock price as determined by the board of directors on the date of grant. As a result, we have recorded $858,000 in stock-based compensation expense for fiscal 1999 relating to the amortization of deferred compensation expense and had an aggregate of $1.1 million of deferred compensation remaining to be amortized as of that date. Deferred compensation is amortized on a straight-line basis over the vesting period of the options. We expect amortization of approximately $341,000 in fiscal 2000, $341,000 in fiscal 2001, $341,000 in fiscal 2002 and $112,000 in fiscal 2003. In addition, we recorded a compensation charge of $81,000 during fiscal 1999 as a result of our granting of approximately 85,000 performance-based stock options to various employees. The $858,000 of stock-based compensation for the year ended September 30, 1999 relates to the following items in the accompanying 1999 statement of operations: $31,000 cost of consulting services; $68,000 research and development; $138,000 sales and marketing; $52,000 operations; and $569,000 general and administrative.

Interest Income (Expense), Net Net interest income (expense) was $39,000 for fiscal 1998 and $(95,000) for fiscal 1999, representing a decrease of $134,000. This decrease was primarily due to higher interest expense related to obligations under equipment loans and notes payable, partially offset by higher interest income from cash and cash equivalents.

Provision for Income Taxes No provision for federal and state income taxes has been recorded because we have experienced net losses since inception that has resulted in deferred tax assets. In light of our recent history of operating losses, we have provided a valuation allowance for all of our deferred tax assets, as we are presently unable to conclude that it is more likely than not that the deferred tax asset will be realized.

As of September 30, 1999, we had net operating loss carryforwards for federal income tax reporting purposes of approximately $10.6 million available to reduce future income subject to income taxes. As of September 30, 1999, we had net operating loss carryforwards for state income tax purposes of approximately $6.2 million available to reduce future income subject to income taxes. The federal net operating loss carryforwards expire in various periods through 2019. State net operating loss carryforwards expire in various periods through 2004. In addition, as of September 30, 1999, we had federal research and development tax credit carryforwards of approximately $154,000. The federal credit carryforwards expire in various periods through 2019. As of September 30, 1999, we had California research and development tax credit carryforwards of approximately $140,000. The California credit may be carried over indefinitely. The U.S. Tax Reform Act of 1986 contains provisions

that limit the net operating loss carryforwards and research and development credits available to be used in any given year upon the occurrence of certain events, including a significant change to ownership.

Fiscal Years Ended September 30, 1997 and 1998 Revenues Revenues were $81,000 in fiscal 1997 and $1.5 million in fiscal 1998, representing an increase of $1.4 million. One customer, MCI, accounted for 11% of total revenues for fiscal 1997, and one customer, Digex, accounted for 15% of total revenues for fiscal 1998.

Commercial release of our measurement services commenced in May 1997. The increase in revenues from fiscal 1997 to fiscal 1998 primarily reflects our increased customer base and the commercial acceptance of our Internet measurement services.

Expenses

Cost of Subscription Services. Cost of subscription services was $209,000 in fiscal 1997 and $580,000 in fiscal 1998, representing an increase of $371,000, or 178%. The increase resulted from the payment of connection fees to Internet service providers for our measurement computers around the world and depreciation, maintenance and other equipment charges for our measurement infrastructure. As a percentage of subscription services revenues, cost of subscription services was 38% in fiscal 1998.

Cost of Consulting Services. Cost of consulting services was $0 in fiscal 1997 and 1998. Our consulting division was formed in January 1999.

Research and Development. Research and development expenses were $732,000 in fiscal 1997 and $1.2 million in fiscal 1998, representing an increase of $468,000, or 64%. The increase was primarily related to our increased hiring of software engineers, project management and quality assurance personnel and increased use of outside contractors to support our development and testing activities.

Sales and Marketing. Sales and marketing expenses were $817,000 in fiscal 1997 and $1.5 million in fiscal 1998, representing an increase of $683,000, or 84%. The increase reflected the addition of personnel in our sales and marketing organizations, as well as costs associated with increased selling efforts to develop market awareness of our services.

Operations. Operations expenses were $63,000 in fiscal 1997 and $514,000 in fiscal 1998, representing an increase of $451,000, or 716%. The increase was primarily related to the increase in the number of personnel to manage and support our growing customer base.

General and Administrative. General and administrative expenses were $278,000 in fiscal 1997 and $647,000 in fiscal 1998, representing an increase of $369,000, or 133%. The increase was primarily the result of increased compensation and related employee expenses for additional finance and administrative personnel to support the growth of our business during these periods.

Interest Income (Expense), Net Net interest (expense) income was $(31,000) in fiscal 1997 and $39,000 in fiscal 1998. The interest expense in fiscal 1997 was related to obligations under equipment loans and notes payable. The interest income in fiscal 1998 reflected interest earned on cash in interest-bearing accounts during the respective periods in the fiscal year ended September 30, 1997 and 1998.

Quarterly Results of Operations The following table sets forth unaudited statement of operations data for the eight quarters ended September 30, 1999. The data have been derived from unaudited condensed financial statements not included in this prospectus that have been prepared on the same basis as the audited financial statements and, in the opinion of our management, include all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the information when read in conjunction with the audited financial statements and related notes. These operating results are not necessarily indicative of results of any future period.

	Quarter Ended							
	Dec. 31, 1997	March 31, 1998	June 30, 1998	Sept. 30, 1998	Dec. 31, 1998	March 31, 1999	June 30, 1999	Sept. 30, 1999
	(in thousands)							
Statement of Operations Data:								
Revenues:								
Subscription services..	$ 208	$ 337	$ 403	$ 591	$ 889	$ 1,275	$ 1,862	$ 3,029
Consulting services....	--	--	--	--	--	26	57	134
Total revenues.....	208	337	403	591	889	1,301	1,919	3,163
Expenses:								
Cost of subscription services.....	86	89	155	250	168	285	522	1,339
Cost of consulting services.....	--	--	--	--	--	87	167	190
Research and development.....	262	237	339	388	325	338	634	762
Sales and marketing....	292	285	354	598	627	936	1,426	2,342
Operations.....	41	80	171	222	229	320	475	616
General and administrative.....	154	154	151	188	254	189	406	791
Amortization of stock-based compensation...	--	--	--	--	23	123	88	625
Total expenses.....	835	845	1,170	1,646	1,626	2,278	3,718	6,665
Loss from operations..	(627)	(508)	(767)	(1,055)	(737)	(977)	(1,799)	(3,502)
Interest income (expense), net.....	(7)	(1)	32	15	(61)	(88)	3	51
Net loss.....	$(634)	$(509)	$(735)	$(1,040)	$ (798)	$(1,065)	$(1,796)	$(3,451)
As a Percentage of Total Revenues:								
Revenues:								
Subscription services..	100%	100%	100%	100%	100%	98%	97%	96 %
Consulting services....	--	--	--	--	--	2	3	4
Total revenues.....	100	100	100	100	100	100	100	

100							
Expenses:							
Cost of subscription services.....	41	26	38	42	19	22	27
42							
Cost of consulting services.....	--	--	--	--	--	7	9
6							
Research and development.....	126	70	84	66	37	26	33
24							
Sales and marketing....	140	85	88	101	70	72	74
74							
Operations.....	20	24	42	38	26	25	25
19							
General and administrative.....	74	46	38	32	29	15	21
25							
Amortization of stock-based compensation...	--	--	--	--	3	9	5
20							
Total expenses.....	401	251	290	279	183	176	194
210							
Loss from operations..	(301)	(151)	(190)	(179)	(83)	(75)	(94)
(110)							
Interest income (expense), net.....	(3)	(0)	8	3	(7)	(7)	(0)
(1)							
Net loss.....	(305)%	(151)%	(182)%	(176)%	(90)%	(82)%	(94)%
(111)%							

During the eight quarters ended September 30, 1999, our subscription revenues consistently grew as a result of increased demand for Internet performance measurement and diagnostic services. In addition, beginning in the first quarter of fiscal 1999, we created a new consulting services organization to help customers to maximize the value of the information they receive to improve their web-site performance.

The trends discussed in the annual comparisons of operating results from fiscal 1997 to fiscal 1999 apply generally to the comparison of results of operations for the eight quarters ended September 30, 1999. In general, expenses increased significantly as a result of:

. increased personnel;

. increased depreciation and other equipment costs for our expanding measurement computers infrastructure;

. increased spending for marketing and promotional activities;

. higher recruiting and related hiring expenses for additional senior management and other personnel;

. increased co-location fees for our measurement computers; and . increased use of independent contractors and other outside services for continued research and development activities.

Liquidity and Capital Resources Since our inception, we have funded our operations primarily through private placements of our common stock and convertible redeemable preferred stock with strategic investors, venture capital firms and private investors. Prior to our initial public offering, we had raised

approximately $25.8 million, net of offering costs, from the sale of common stock and preferred stock. In our initial public offering, we raised $56.7 million, net of issuance costs, including $7.8 million raised from the exercise of the underwriters' over-allotment option, which occurred in fiscal 2000. In addition, we financed our operations through subordinated and other debt, equipment loans and a capital lease. The principal balance outstanding at September 30, 1999 for these loans and leases was approximately $4.2 million. At September 30, 1999, we had approximately $64.6 million in cash and cash equivalents.

Net cash used in operating activities was $1.8 million in fiscal 1997, $2.7 million in fiscal 1998 and $4.7 million in fiscal 1999. For all of these periods, net cash used in operating activities was primarily the result of net operating losses and changes in accounts receivable and prepaid expenses, partially offset by changes in deferred revenues and depreciation of property and equipment.

Since inception, our investing activities have been purchases of property and equipment. Capital expenditures totaled $423,000 in fiscal 1997, $1.0 million in fiscal 1998 and $2.6 million for fiscal 1999.

Our financing activities provided $2.9 million in fiscal 1997, $4.9 million in fiscal 1998 and $69.7 million in fiscal 1999. In fiscal 1997, we sold $2.6 million of our Series B redeemable convertible preferred stock, which amount included $900,000 in principal amount of bridge loans from earlier that year. In addition, we received approximately $300,000 from our equipment loans. In fiscal 1998, we received $4.7 million in net proceeds in connection with the sale of our Series C redeemable convertible preferred stock. During fiscal 1999, we received $48.9 million, net of issuance costs, in connection with our initial public offering, excluding $7.8 million raised from the exercise of the underwriters' over-allotment option, which occurred in fiscal 2000. In addition, we received $17.5 million in net proceeds in connection with the private sale of stock in fiscal 1999. Of these proceeds, we received $14.8 million from the sale of Series D redeemable convertible preferred stock and $2.7 million from the sale of common stock and option and warrant exercises. In addition, we received $3.6 million in proceeds from equipment and other loans which was slightly offset by $440,000 in loan repayments.

As of September 30, 1999, our principal commitments consisted of $4.2 million in loans and capital leases. We have granted a security interest in substantially all of our assets to secure these loans. The interest rate on our loans in the form of equipment notes ranged from 5.60% to 10.25% per year and the interest rate on the loans in the form of a promissory note bore interest at a rate of 8.25% per year. As of September 30, 1999, we also had commitments of $726,000 in future lease payments for our headquarters facility. We had no material commitments for capital expenditures as of September 30, 1999. Because we expect to increase the number of our measurement computers and increase their measurement capacity, we expect that we will make additional capital expenditures to purchase this equipment. We anticipate that we will also experience an increase in our capital expenditures and lease commitments consistent with our anticipated growth in operations, infrastructure and personnel.

We believe the net proceeds of this offering, together with our existing cash and cash equivalents, will be sufficient to meet our anticipated cash needs for working capital and capital expenditures for at least the next 12 months. After that time, if cash generated from operations is insufficient to satisfy our liquidity requirements, we may seek to sell additional equity or debt securities or to obtain a credit facility. If additional funds are raised through the issuance of debt securities, these securities could have rights, preferences and privileges senior to holders of common stock, and the term of this debt could impose restrictions on our operations. The sale of additional equity or convertible debt securities could result in additional dilution to our shareholders, and we may not be able to obtain additional financing on acceptable terms, if at all. If we are unable to obtain this additional financing, our business may be harmed.

Year 2000 Compliance

Background of Year 2000 Issues Many currently installed computer systems and software products are unable to distinguish between twentieth-century dates and twenty-first century dates because these systems were developed using two digits rather than four to determine the applicable year. For example, computer programs that have date- sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. This error could result in system failures or miscalculations causing disruptions of operations, including, among other things, a temporary inability to process transactions, send invoices or engage in similar normal business activities. As a result, many companies' software and computer systems may need to be upgraded or replaced to comply with these year 2000 requirements. Notwithstanding the passage of January 1, 2000, our business could still face year 2000 problems.

State of Readiness

Our business depends on the operation of many systems that could potentially be affected by year 2000-related problems. Those systems include, among others:

. hardware and software systems used by us to deliver services to customers, including our proprietary software systems as well as software supplied by other companies;

. communications networks such as the Internet and private Intranets;

. the internal systems of our customers and suppliers;

. the hardware and software systems used internally by us in the management of our business; and . non-information technology systems and services, such as power, telephone systems and building systems.

Representatives of the research and development, operations and administrative departments have been charged with the responsibility of formulating and implementing our year 2000 readiness and have completed a phased approach to analyzing our operations and relationships as they relate to the year 2000 problem. The phases of our year 2000 program are as follows:

. assignment of responsibility for external issues, such as products licensed by us from third parties, internal issues, such as systems, facilities, equipment and software;

. inventory of our operations and relationships subject to the year 2000 problem;

. comprehensive analysis, including impact analysis and cost analysis, of our year 2000 readiness; and . remediation and testing.

Our services rely on a combination of our proprietary software and commercial software distributed by vendors such as Microsoft, Oracle and Sun Microsystems. We tested our service infrastructure in September 1998 and August 1999 and found no unremediated year 2000-related problems. The service infrastructure consists of software needed to provide service, measure performance, store measurement data and report results. All the dates and the date datatype used in these systems are year 2000 compliant.

Since our customers do not download any of our software on their computer systems, we believe that our services should not create additional year 2000 problems for our customers' computer systems.

We have reviewed our important internal management information, software and other systems in order to identify any products, services or systems that are not year 2000 compliant. We have received written year 2000 representations from all significant vendors and third parties. Nineteen vendors represented that their products are year 2000 compliant. We have not contacted our web hosting and backbone providers, such as Digex, UUNET and Cable & Wireless, which provide Internet connectivity to our remote measurement computers.

To date, we have not encountered any material year 2000 problems with our computer systems or any other equipment that might be subject to these problems. We have not incurred material costs in connection with our year 2000 efforts to date and do not expect to do so in the future, other than diversion of employee time from other projects.

We could also experience serious harm to our business if we fail to identify all year 2000 dependencies in our systems and in the systems of our suppliers, customers and financial institutions. We cannot assure you that the total cost of year 2000 compliance will not be material to our business. We may not identify and remediate all significant year 2000 problems on a timely basis, remediation efforts may involve significant time and expense, and unremediated problems may seriously harm our business.

Risks

Extended power outages or widespread failures across the Internet would create disruptions that would take time to repair. The amount of time required for repairs would depend on the severity of the power outages or widespread failures.

Users of our services generally rely on sophisticated hardware and complex software products used by our customers which may not be year 2000 compliant. Success of our year 2000 compliance efforts may depend on the success of our customers in dealing with their year 2000 issues. We sell our services to companies in a variety of industries, each of which may be experiencing different year 2000 compliance issues. Customer difficulties with year 2000 issues might require us to devote additional resources to resolve underlying problems.

Although we have not been a party to any litigation or arbitration proceeding to date about our services and year 2000 compliance issues, we cannot assure you that we will not in the future be required to defend our services in these proceedings, or to negotiate resolutions of claims based on year 2000 issues. The costs of defending and resolving year 2000-related disputes, regardless of the merits of these disputes, and any liability for year 2000-related damages, including consequential damages, would seriously harm our business, results of operations and financial condition. In addition, we believe that purchasing patterns of customers and potential customers may be affected by year 2000 issues as companies expend significant resources to correct or upgrade their current software systems for year 2000 compliance or defer additional software purchases until after 2000. As a result, some customers and potential customers may have more-limited budgets available to purchase services such as those offered by us, and others may choose to refrain from changes in their information technology environment until after 2000. To the extent year 2000 issues cause significant delay in, or cancellation of, decisions to purchase our services, our business would be seriously harmed.

If we experience year 2000 issues with our services or network infrastructure, we could be unable to perform measurements or analyze and deliver data to our customers. This could result in loss of customers and revenues as well as the potential for litigation. This could also require us to devote significant resources to remediating our services or network infrastructure, which would divert our personnel from other important business activities. If we experience year 2000 issues with respect to our other systems, we could be unable to process orders or bill our customers. It could also require us to devote significant resources to correct problems with these systems.

Contingency Plan

We have developed a Business Continuity and Contingency Plan to mitigate problems that could result if our automated systems are unable to recognize year 2000 dates. The plan helps to ensure the continuity of our core business processes by identifying, assessing, managing and mitigating year 2000 risks. Resources critical to operating our core business processes and key support processes have been identified so that in the event of a failure of our services, a basic level of service can be provided to our customers until the normal level of services can be restored. The plan identifies risks and threats, establishes mitigation strategies for the identified risks and threats and provides contingencies in the event risk mitigation efforts fail.

Qualitative and Quantitative Disclosures about Market Risks Interest Rate Sensitivity. Our interest income and expense could be sensitive to changes in the general level of U.S. interest rates, particularly because most of our cash equivalents are invested in short-term debt instruments. If market interest rates were to change immediately and uniformly by ten percent from levels at September 30, 1999, the fair value of our cash equivalents and the interest earned on those cash equivalents would change by an insignificant amount.

Foreign Currency Fluctuations. We have not had any significant transactions in foreign currencies, nor do we have any significant balances that are due or payable in foreign currencies at September 30, 1999.

Recently Issued Accounting Standards In March 1998, Accounting Standards Executive Committee issued Statement of Position (SOP) No. 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use. SOP No. 98-1 requires that certain costs related to the development or purchase of internal-use software be capitalized and amortized over the estimated useful life of the software. SOP No. 98-1 is effective for financial statements issued for fiscal years beginning after December 15, 1998. We adopted SOP 98-1 as of October 1, 1999.

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards, or SFAS, No. 133, Accounting for Derivative Instruments and Hedging Activities. SFAS No. 133 establishes accounting and reporting standards for derivative financial instruments and hedging activities related to those instruments, as well as other hedging activities. Because we do not currently hold any derivative instruments and do not engage in hedging activities, we expect that the adoption of SFAS No. 133 will not have a material impact on our financial position, results of operations or cash flows. We will be required to adopt SFAS No. 133 in fiscal 2001.

Business

Overview

Keynote provides Internet performance measurement and diagnostic services to companies that operate e-commerce web sites. We market Keynote Perspective, Keynote Consumer Perspective and Keynote Lifeline, global services that measure and assure the quality of service of e-commerce web sites around the world. The foundation of these services is an extensive network of strategically located measurement computers connected to the major Internet backbones in dozens of metropolitan areas worldwide, plus a sophisticated operations center for collecting, analyzing and disseminating Internet performance and availability data. We believe that companies who use our services can increase revenues, improve customer satisfaction and retention, reduce support costs and gain a competitive advantage. We have designed our services to be easy for customers to try, purchase and use on a subscription basis. Our customers include over 700 leading e-commerce companies, with our 10 largest customers based on revenues for the quarter ended December 31, 1999 consisting of Akamai, American Express, Charles Schwab, Digex, Digital Island, Flycast, Global Center, Microsoft, Sandpiper Networks and VeriSign.

Industry Background

The Internet has emerged as a global medium for communication, content delivery and electronic commerce, or e-commerce, and Internet use continues to increase rapidly. E-commerce is evolving into a mission-critical component of many companies' operations, and is dramatically changing how businesses interact with their customers, suppliers and partners. Many large companies such as FedEx, General Motors, Merrill Lynch and Pfizer now use their web sites as a fundamental, cost-effective way of communicating product and shipment information and conducting business transactions. At the same time, the Internet has spawned new businesses such as Amazon.com and Yahoo!, whose success is

tied exclusively to their online offerings. International Data Corporation forecasts that the number of Internet users will grow from approximately 142 million in 1998 to 502 million by 2003, with commensurate growth in e-commerce from $50 billion to $1.3 trillion over the same period.

The competitive e-commerce environment has created a different set of challenges than those faced by conventional "bricks and mortar" stores. These challenges include price standardization, product commoditization, constant change in the competitive landscape, decreased customer loyalty and low switching costs, plus the need for consistent high quality of service and end- user satisfaction with the online experience. As a result, a key differentiator for many businesses with online offerings can be their quality of service. In e-commerce, quality of service encompasses all aspects of a customer's interactions with a web site that affect the customer's satisfaction with the experience and the desire to repeat it. Quality of service can generally be measured, analyzed and improved along the dimensions of speed, availability and consistency across time and geography. To attract and retain customers, e-commerce web sites must offer fast page downloads, efficient transactions and high reliability all the time or customers may "click away" to a competitor who offers comparable products and services. According to a 1999 study by Zona Research, approximately $4.4 billion per year in e-commerce sales in the United States may be lost due to unacceptable download speeds and the resulting abandonment of online transactions by users.

Despite substantial investments in e-commerce, building and maintaining a high performance e-commerce site remains a significant challenge. The Internet is a complex, heterogeneous network of communications networks with multiple operators and vendors supplying and managing the underlying infrastructure. To reach customers through the Internet, a company must transmit information from its web site through an Internet service provider, which then passes the data to an Internet backbone provider. Web pages are transmitted to the customer across multiple Internet backbones and service providers along an often indirect path that is determined as the information passes between backbones. There are over 40 major backbone providers in the United States, such as Sprint and UUNET, and thousands of different Internet access providers, such as America Online and EarthLink. In addition to the inherent complexity of the Internet, many internal and external factors contribute to the e-commerce quality of service problem. These factors include inadequate networking hardware, servers and server software, poorly constructed applications, inadequate communications capacity and poor interconnections between Internet backbone providers. Compounding the quality of service problem, e-commerce companies are inherently global in nature with a geographically dispersed customer base and around-the-clock operations.

Despite improvements in many underlying Internet technologies, the quality of service problem is increasing. Due to the heterogeneous nature of the Internet, no single vendor of these Internet technologies has the perspective or the incentive to help companies identify and remedy the causes of the problem. As a result, companies have been forced to rely upon anecdotal customer complaints and limited data to respond to problems after they have already occurred and customers and revenues have already been lost. The challenge of assuring performance for e-commerce sites is only increasing as their offerings expand into additional web-site addresses, also known as uniform resource locators, or

URLs, and as they become increasingly feature- rich and complex. International Data Corporation forecasts that the number of URLs on the Internet will grow from approximately 925 million in 1998 to 13.1 billion in 2003.

Given the global, around-the-clock nature of e-commerce, there is a demand today for an independent Internet performance solution that provides companies objective information from around the world all the time to enable e-commerce sites to measure, assure and improve e-commerce quality of service from the perspective of their customers.

The Keynote Solution

We provide Internet performance measurement and diagnostic services that enable e-commerce companies to measure, assure and improve quality of service of their web sites. Key features of our solution include:

Independent Third Party. We do not sell web servers, web software, networking equipment or web hosting services. Therefore, customers can be assured that we do not have any incentive to report performance problems with respect to particular types of equipment or service providers and that we deliver unbiased Internet performance measurement and diagnostic services. Our Internet performance indices of business and consumer web sites are regularly published in leading publications such as Business Week, Computerworld, Smart Money, The Industry Standard and USA Today. We believe that having our indices appear in these national publications provides us with additional credibility as an independent provider of performance measurement and diagnostic services.

Comprehensive Global Measurement Infrastructure. Because performance problems can occur at many different locations throughout the Internet, we have deployed an extensive network of measurement computers and an operations center for collecting and disseminating performance data. Our computers are currently deployed in 79 U.S. and 40 international locations and currently execute over 16 million performance measurements per day. This extensive infrastructure enables us to provide our customers with comprehensive, up-to-the-minute performance data that can be used to assure and improve their quality of service.

Subscription Service. Our customers purchase our Internet performance measurement and diagnostic services on a subscription basis with an initial three-month term. With only a web browser, customers can try, purchase and immediately use our services without the need to develop an internal computer infrastructure or install any software. In addition, as changes occur in the Internet or our services, our customers do not need to update their systems or change the way they receive information from us.

Easy-to-Use Viewing and Analysis. Our automated service continually collects and delivers quality-of-service data around the clock to our customers and enables them to conveniently view, analyze and act on the performance measurements. Our proprietary statistical software filters, sorts, summarizes and presents the large volume of complex performance measurement data in easy-to-understand charts, graphs and tables. Customers can view performance and diagnostic reports through any web browser, and can be notified by email or pager when performance thresholds are reached.

Comprehensive Range of Service Offerings. In order to extend the reach of our services to a broad cross-section of e-commerce web sites, we offer our entry-level Keynote Lifeline service which measures a web site from one or two geographic locations. Keynote Perspective is a comprehensive offering that features measurements of benchmark pages, full pages, secure pages and multi-page transactions from multiple locations and Internet backbones. Keynote Perspective is designed to measure a user's Internet experience from connections typically used from the workplace. Keynote Consumer Perspective measures full pages and secure pages via various Internet access methods typically used from the home, such as dial-up connections cable modem and digital subscriber lines.

Focused Consulting Services. Consulting enhances our subscription services by helping our customers to evaluate and respond to their performance-measurement and diagnostic results. We provide our customers with performance audits producing a detailed report on their e-commerce web-site performance. Our customers often use these audits as formal, disinterested performance reports to their own management and customers. To help our customers to architect new web-site offerings, we also plan to provide in-depth performance consulting along with live testing of prototype designs, based on our experiences with major e-commerce sites.

Strategy

Our objective is to maintain and expand our leadership in providing Internet performance measurement and diagnostic services to e-commerce web sites. Key elements of our strategy are:

Extend Market Penetration. We plan to continue to build our internal sales and marketing capabilities by increasing the size of our direct sales force and the number of our telesales call centers. We continue to seek the most appropriate way to enter the lower-price segment of the market, and therefore, we plan to promote our entry-level service, Lifeline, as an easy-to-try, easy-to-buy Internet performance solution. If successful, we will then seek to sell additional services to these entry- level customers, such as our Keynote Perspective and Keynote Consumer Perspective services. We also plan to continue to promote, and seek to have published, our performance indices. We believe that if these indices become well-publicized in the market, potential customers will be more interested in measuring the performance of their web sites against these indices and will therefore increase demand for our services. In addition, we will continue to actively develop co-marketing relationships with Internet service providers and other suppliers of complementary products and services to our target customers.

Increase Customer Reliance on our Services. We intend to introduce new features for our services so that our customers remain focused on their web site's performance and our services in particular as their e-commerce web sites grow. We currently offer daily performance reporting via email and intend to offer additional reporting methods designed to keep our customers constantly aware of their web site's performance. We also recently introduced bi-weekly online training programs for our customers. We intend to develop and market additional service components to add value to our customers' attempts to improve the quality of service of their e- commerce web sites, similar to our recent introduction of a service to measure the efficiency and success rates in initiating and completing multi-page electronic transactions.

Expand Our Brand Awareness as "The Internet Performance Authority(TM)." We intend to expand our traditional and online marketing strategies to increase customer awareness and brand recognition, including advertisements in the trade and business press, direct email and other targeted marketing campaigns. For example, we are planning to host an annual Internet performance conference to serve as an important branding and customer-recruitment event. In addition, we intend to expand our roster of published web performance indices to include major e-commerce segments such as banking, shopping and portals, and we intend to publish these indices in relevant industry publications.

Establish Relationships with Complementary Vendors. We believe that a significant market opportunity exists to sell our services to companies with high-volume or mission-critical web sites. Therefore, we believe that we can benefit from co-marketing relationships with other companies that sell complementary products and services to our target customers. We have important contractual relationships with VeriSign and Network Solutions to co-market our services to their own customers on a co-branded basis bundled with their own services, and we will seek to increase the number of these relationships. In addition, we intend to pursue relationships with major consulting firms in order to encourage them to recommend and specify our services to their Fortune 500 customers.

Increase Our International Presence. We believe that the international expansion of e-commerce provides us with significant opportunities to offer our services globally. We plan to increase both the number of international locations where we provide services and the number of measurement computers deployed internationally. In December 1999, we established operations in Paris, France to expand our European operations. We currently sell our services directly to international customers, which include BBC, Dell (Japan), ANZ Bank and TNT Express, and we intend to pursue reseller relationships in Europe, the Pacific Rim region and Latin America in order to increase our international presence. To date, revenues from our international customers have been insignificant for each of our fiscal years. We also intend to pursue relationships with providers of complementary products and services in Europe, the Pacific Rim region and Latin America. As a result, we anticipate that we will commit significant resources as a result of our proposed international expansion.

Expand Our Service Offerings Into All Aspects of Quality of Service for E-Commerce. We have recently broadened our measurement services to include a variety of Internet access methods, such as dial-up modem, digital subscriber lines, cable modem and other broadband access technologies, from either stationary or mobile computing devices. We intend to expand our service offerings by measuring the speed with which a web site can be navigated and desired content can be located. In addition, we intend to measure the impact of new Internet technologies, such as streaming audio and video, multi-casting and Internet telephony.

Keynote Services

Our services enable customers to measure, assure and improve their e- commerce quality of service from multiple vantage points around the world. These services are summarized in the following table:

Service Offerings Features Prices Keynote Perspective. Targets . measures performance and From $295 per month per URL e-commerce web sites with a availability of web-page measured and from $995 per national or worldwide downloads through the month for transaction customer base as well as

connections commonly used measurement, with higher heavy traffic levels. in the workplace prices depending on frequency and breadth of geographic coverage of measurements . measures transaction exe- cution time . measurements taken from multiple locations around the world . measurements taken around the clock at each location at customer-specified in- tervals of 3 minutes to 4 hours Keynote Consumer . measures performance and From $495 per month per URL Perspective. Targets availability of web-page measured, with higher prices e-commerce web sites with a downloads through various depending on types of national or worldwide Internet access methods Internet access methods customer base as well as commonly used in the home, measured and frequency and heavy traffic levels. such as dial-up breadth of geographic connections, cable modems coverage of measurements and digital subscriber lines . measurements for dial-up connections and digital subscriber lines taken from 10 metropolitan areas and measurements for cable modems taken in San Francisco, California . measurements taken around the clock at customer- specified intervals of 10 minutes to 1 hour Keynote Lifeline. Targets . measures performance and $695 per year per URL regionally-oriented web availability of web page measured sites and web sites with downloads lower traffic levels. . measurements taken from one or two locations in the United States selected by the customer . measurements taken around the clock at intervals of 10 minutes or 1 hour Professional Services . Competitive Audit to From $5,000 per engagement, compare web-site depending on size and performance and complexity availability against multiple competitive web sites . Advanced Diagnostic Audit to make specific recommen- dations to improve quality of service . custom consulting engage- ments Keynote Perspective and Keynote Consumer Perspective are sold on a monthly subscription basis and Keynote Lifeline is sold only on an annual subscription basis.

We were founded in June 1995 and until we released our Keynote Perspective service in April 1997, we were engaged in market research and the design and engineering of our services. We have introduced additional versions of this service, most recently in December 1999, so that Perspective now includes the ability to measure web page download times, secure web page downloads and multi-page transactions and offers our customers a greater ability to personalize their service. In July 1999, we introduced our Keynote Lifeline service. In December 1999, we introduced our Keynote Consumer Perspective service, which is designed to measure web-site performance via various Internet access methods typically used in homes, such as dial-up connections, cable modems or digital subscriber lines. Also, in January 1999, we formed our professional services organization. In April 1997, we had deployed measurement computers in 18 locations, and the number of locations increased to 119 at December 31, 1999. Our measurement computers currently measure the performance of approximately 7,000 web sites. We intend to deploy additional measurement computers and upgrade the underlying infrastructure so that we will have the ability to measure in excess of 40,000 web-site addresses by the end of fiscal 2000.

Keynote Perspective, Keynote Consumer Perspective and Keynote Lifeline The foundation of our services is a worldwide network of measurement computers that run our proprietary measurement and data-collection software, plus an operations center for storing and disseminating performance data. Our measurement computers measure and analyze performance data around the clock from an end-user perspective, from Internet connection points in over 35 large metropolitan areas on a variety of

Internet backbones. Keynote Perspective, Keynote Consumer Perspective and Keynote Lifeline require no installation, configuration or update maintenance by customers because all software runs on our computers and produces results that can be accessed over the Internet through any web browser.

Our services measure the most common forms of end-user interaction with a web site--downloading simple, complex or secure web pages and completing multi- page transactions over the Internet. Keynote Perspective measures the user's experience at work, where Internet connections are typically over T-1 lines. Keynote Consumer Perspective measures the user's experience at home, where Internet connections are typically over cable modems, dial-up modems or digital subscriber lines.

Benchmark Page. This portion of Keynote Perspective and Keynote Lifeline measures and compares the download time of a single web object such as a text file or graphic element. With this data, web-site managers can measure and manage the effect of user geography and Internet backbones on the end user's perceived performance of their web site.

Full Page. This portion of Keynote Perspective, Keynote Consumer Perspective and Keynote Lifeline measures the time it takes to access and download all of the elements of a web page, including the text file and any graphic images and complex page structures. Full Page is targeted at fast- changing web sites, enabling them to measure the effects of web-page design on end users' experience with the web site over time and geography.

Secure Page. This portion of Keynote Perspective and Keynote Consumer Perspective measures the time it takes to access a secure, encrypted page or execute a single-page transaction through a secure page. This enables web sites to manage the effect of content and security applications on end users' experience with web pages containing sensitive information such as account balances or credit-card numbers.

Transaction. This portion of Keynote Perspective measures the time it takes to execute an interactive transaction that involves the display of multiple web pages. This enables web sites to optimize the performance of e-commerce transactions by tracking the effects of web-page content and back-end processing on end users' experience. A brokerage transaction, for example, might include a series of interactions with a login page, a balance-inquiry page, a stock-quote page, a buy-order page, a confirm-order page and a logout page.

Key features of our Keynote Perspective, Keynote Consumer Perspective and Keynote Lifeline services include:

Standard and Custom Reporting. Measurements are delivered to our customers through threshold-based alarms by email or pagers as well as online through a web-browser-based interface. Summary reports that are delivered to customers by email on a daily basis provide quick access to hourly, daily and weekly performance data. Our customers can configure performance alarms based on thresholds such as time-interval and city parameters to automatically notify them when performance problems occur.

Comprehensive Diagnostics. A "drill down" feature allows our customers to specify a time period and metropolitan area and then to search specific data to localize, analyze and diagnose problems. We also maintain automated diagnostic centers at all measurement locations which allow our customers to investigate performance bottlenecks and delays by tracing a URL request from that location, performing error analysis and pinpointing which Internet service provider, backbone provider or other source is responsible for the performance delay.

Our customers can also analyze full-page measurement data to pinpoint and address the cause of a performance delay. A full-page download consists of a hypertext markup language page along with all associated images and complex page structures. The full-page download time can be further dissected into as many as six constituent elements, such as domain name service lookup time or redirect time. This level of detail allows network engineers and web-site managers to precisely pinpoint the cause of any performance delay and quickly resolve it. As changes are made to web-site content, connectivity or architecture, the resulting effect on performance can also be precisely measured and compared.

Comparative Analysis. In addition to delivering consistent performance, e- commerce sites must ensure that they can perform more quickly and reliably than competing web sites. Our customers can compare their performance against competing sites selected by the customer and also against our performance indices--the Keynote Business 40 Index, the Keynote Consumer 40 Index and the Keynote Web Broker Trading Index.

Multiple Views of Web Site Performance. From any web browser, our customers can easily access historical web-site performance data over any time range within the previous six weeks. This data can be displayed in summary form as well as in customizable graphs that depict performance and types of error over time, metropolitan area or Internet backbone provider. This data can also be easily downloaded, archived and used in our customers' other applications.

Custom Measurement Computers. For companies that implement extranets or other private computer networks, we can deploy custom measurement computers to measure the performance of these networks from specified locations and at specified times. These measurement computers can be deployed near the company's own web site, at key Internet access points used by the company, or at the other business offices of the company or its suppliers and customers. Measurements are delivered to our operations center where they are integrated with and compared to other public web-site measurement data.

Professional Services In order to help our customers maximize the benefits of our services, we offer two audits: the Competitive Audit and the Diagnostic Audit.

Competitive Audit. Our Competitive Audit is designed to provide an unbiased, comprehensive report on a customer's web-site performance and availability as compared to their competitors, as determined by the customer, and industry benchmarks. The Competitive Audit typically requires four weeks to complete and comprises the following phases:

. Measurement. We measure the quality of service that a customer's web site provides to its users over differing geographies and times;

. Evaluation. We analyze these measurements to evaluate the performance and reliability of a customer's web site compared to both the customer's competitors and to industry benchmarks;

. Diagnosis. We identify bottlenecks and stress points in a customer's web site and in the web site's connection to the Internet. We do this by looking at download and transaction times, and by examining the types of errors encountered and their patterns over geography and time; and . Improvement. We recommend practical changes the customer can implement to improve quality of service.

Diagnostic Audit. Our Diagnostic Audit is a follow-on service that complements our Competitive Audit to more closely analyze the e-commerce quality of service problems that were highlighted by the Competitive Audit. These consulting engagements can be individually structured and may vary both in the length of the audit and in the nature of the services we provide. For example, we can work with the customer's staff to provide recommendations in the areas of Internet connectivity, multiple hosting sites and the impact of caching and other content-distribution strategies.

Technology and Architecture We designed our Internet performance measurement infrastructure to allow us to implement a flexible, scalable solution to e-commerce quality of service problems. Our architecture consists of three key components: measurement computers, our operations center and reporting and analysis tools.

[Keynote Global Infrastructure Graphic]

Keynote Global Infrastructure Graphic

[The captions in the diagram are "Performance Measurement," "Data Collection, Storage and Dissemination" and "Easy-to-Use Reporting and Analysis." The left side of the diagram under the Performance Measurement caption has the caption "Measurement Computers." Beneath this caption are two icons with the caption "Customer Web Sites." From these icons are four two-way arrows pointing at four icons representing our measurement computers. In the center of the diagram under the Data Collection, Storage and Dissemination caption is the caption "Scalable Operations Center." Below the caption is an icon representing our operations center. The caption under the icon reads "Multiple database and applications servers. In the right side of the diagram under the Easy-to-Use Reporting and Analysis" caption are four icons. One is a pager with a caption beneath it which reads "Pager and email alerts." Below that is a computer with a caption which reads "Daily email reports." Below that is a computer with a caption below it which reads "Web-based analysis." The last picture is a computer with a caption below it which reads "Data Feed (API/F'TP)."]

Measurement Computers. Our measurement computers are Windows-based computers that run our proprietary software to replicate the experience of a user accessing web sites through a standard web browser. We designed our measurement-computer software to perform thousands of download measurements concurrently without distorting or affecting the integrity of any single measurement. The measurement computers are located at the facilities of Internet service providers that are selected

to be statistically representative of Internet users in that geographic location. At some locations, we employ multiple Internet connections and install equipment racks that can accommodate multiple measurement computers, allowing for large-scale, rapid deployment of additional measurement computers. The hosting arrangements typically have terms ranging from three months to one year, although our more recent agreements have typically had a one-year term. We typically pay a small set-up fee and pay monthly fees to continue to locate the measurement computers at these locations. These fees typically are less than $1,000 per computer. We also pay additional fees for communications lines. For the fiscal year ended September 30, 1999, fees related to operating our measurement computer network infrastructure, without taking into account non-cash expenses related to the depreciation of computer hardware, represented approximately 12% of our total expenses for that period.

These computers access a web site to download web pages and execute multi- page transactions, just like end users do, while taking measurements of every component in the process. The computers take measurements continually throughout the day, at intervals as short as three minutes, depending on the customer's requirements and subscription service level.

As of December 31, 1999, we had deployed more than 300 measurement computers in 79 domestic and 40 international locations, with some locations having multiple measurement computers in order to provide different types of measurements or to accommodate higher measurement volume. Our measurement computers currently execute more than 16 million performance measurements each day.

We intend to continue to expand the number of measurement computers so that we can have the ability to measure in excess of 100,000 web site address by the end of this calendar year, as compared to the approximately 7,000 web site addresses we currently measure. We are in the process of upgrading our communications lines to our existing and new measurement computers. Therefore, we expect that our cost of subscription services will increase substantially over our next fiscal year. We intend to fund the cash portion of these expenses from our available cash, which was $64.6 million as of September 30, 1999, and from customer revenue.

Scalable Operations Center. Our operations center is designed to be scalable to support large numbers of measurement computers and to store, analyze and manage large amounts of data from these computers. Our measurement computers receive instructions from, and return collected data to, our operations center. The data are stored in a large database under a proprietary transaction-processing system that we designed to be efficient in storing and delivering measurement data with sub-second response times that are independent of increases in capacity. We also employ many proprietary, high-performance application server computers that manage the collection of measurement data, the insertion of the data into our database and the dissemination of this data to our customers in a variety of forms and delivery methods.

Easy-to-use Reporting and Analysis Tools . Pager and Email Alerts. Our customers are notified by email or pager when download times exceed a particular value in specific cities or error counts indicate that a web site is unresponsive.

. Daily Email Reports. Our customers can receive a daily or weekly email that summarizes the performance and availability of measured web sites and compares them to industry averages for the same time period.

. Web-Based Analysis. Through their web browsers, our customers can login to our operations center with a password to retrieve, view and analyze measurement data in multiple formats.

. Data Feed. Our customers may also retrieve measurement data through an application program interface, or API, or through bulk file transfers using an industry-standard file-transfer protocol called FTP. This allows our customers to embed our measurement data in their own software to create custom data-analysis applications.

We have occasionally experienced outages of our service in the past caused by a variety of factors, including operator error, the failure of a back-up computer to operate when the primary computer ceased functioning and power outages. We have addressed these problems by improving our procedures, by performing more thorough quality assurance on our internally developed software and by upgrading our power supply systems. We also have meetings subsequent to each outage to identify the cause of the outage to ensure that the same problem does not occur in the future. Other than power outages in our previous facilities, we have not experienced multiple outages caused by the same problem.

Customers

We sell our Keynote Perspective and Keynote Consumer Perspective services to our customers on a subscription basis. Our customers typically enter into an initial three-month subscription agreement to purchase our services and then may choose to renew these services on a monthly basis after the initial term. As of December 1999, we were providing our services to over 700 companies. The following is a list of each of our customers that purchased $2,500 or more of our services in December 1999:

Online Retailer	Content Sites	Financial Services
Amazon.com	America West Airlines	American Express
Barnes&Noble.com	Citysearch.com	Ameritrade
Circuit City	C|NET	Charles Schwab
E-greetings Networks	FairMarket Inc	Citibank
eToys	IQ.com	Datek Online
Finger Hut	iWon.com	Discover Brokerage
Gap Online	Listen.com	Direct
GE Appliance	LivePerson	Dun & Bradstreet
Office Depot	LookSmart	E*TRADE Group
Petsmart.com	Microsoft	Fidelity
Shopnow	National Library of	FirstUSA
Tickets.com	Medicine	Hanover Direct
	Realtor.com	Nasdaq-Amex
Internet Infrastructure	Sabre	Salomon Smith Barney
Actual IT	Snowball.com	State Street Bank
Adero	The Learning Company	Vanguard Group
Akamai Technologies	Trip Online	Washington Mutual Bank
Concentric	Viacom	
CUC International	WebGenesis	Fortune 500
Data Return	WebMD	General Motors
Digex	Whirlpool	Pfizer Inc.

Digital Island		
Exodus Communications	Computer Products	Advertising Services
Global Center	Compaq	Adforce
GTE	Dell Computer	Adknowledge
InterNAP	EMC	Avenue A Media
NetMind	Hewlett Packard	Bell South
Nortel Networks	IBM	Intelliventures
Sandpiper	Intel	DoubleClick
Sprint	Intraware	Flycast
Starwave	NECX	
US Internetworking	Newbridge Networks	Media and Information
USA.Net	Oracle	CNBC.com
Verio	Sybase	Encyclopedia Britannica
VeriSign	Symantec	Financial Times
	TechData	Prentice Hall
		USA Today

Portals eBay GO2 Technologies GoTo.com Remarq Communities Sales, Marketing and Customer Support Sales We sell our services primarily through our direct sales organization in San Mateo, California. Our direct sales organization also provides telephone and email sales support, telemarketing services and pre-sales technical support. We believe our direct sales approach enables us to focus our resources on ascertaining the needs of our customers, to devote significant attention to customer satisfaction and to quickly offer new services to our existing customers. We also market our services through our web site where customers can sign up to try, purchase and use our services.

We also distribute our services through web-hosting and Internet service providers such as Digex and GlobalCenter, which manage e-commerce web sites for other companies. These companies sell or bundle our services to part of their customer base as a value-added service to these customers and as a management tool for themselves. We also market our services through VeriSign and Network Solutions, which are companies that sell services complementary to ours.

Marketing

We maintain an active marketing program designed to create brand awareness through industry-standard benchmark indices that evaluate and rank the relative performance of various web sites. Keynote indices include:

. Keynote Business 40 Index of 40 selected business web sites, published regularly in leading newspapers and trade publications;

. Keynote/Internet World Web Performance Index of 20 leading consumer web sites, published in each edition of Internet World magazine;

. Keynote Consumer 40 Index of 40 selected consumer web sites in the categories of portal/search and on-line retailers, brokerage firms and travel services, published weekly by us;

. Boardwatch/Keynote Backbone Web Hosting Index of major U.S. Internet backbone providers, published regularly in Boardwatch magazine; and . Keynote Web Broker Trading Index of leading online stock brokers, based on performance and success rates of actual stock buy-order transactions submitted on their web sites, published weekly by us and available on the web site of Smart Money.

Our Site of the Week highlights the performance and availability results of a different e-commerce web site each week. We also publish a free weekly electronic newsletter on Internet performance that is transmitted to thousands of subscribers. Our key personnel have been featured in leading financial programs on both television and radio and have been quoted extensively in leading trade publications and newspapers.

In all of our advertising and promotional materials, we offer e-commerce web sites the opportunity to try our Perspective service on a trial basis with a Free Performance Appraisal. This no-charge trial exposes potential customers to all aspects of our service with real performance data collected for a URL of the customer's choice and typically a competitor's URL.

Customer Support

We believe that a high level of customer support is integral to our success in creating solutions that our customers will view as indispensable to their ability to provide high quality of service in all aspects of their e-commerce business. Therefore, we provide customer support around the clock by email and telephone. We have developed and expanded our customer support services based on feedback received from our existing customers. This feedback is supplemented by formal customer satisfaction surveys conducted by an independent third party. In addition, a strategic accounts team manages our relationships with our largest customers.

Research and Development We believe that our future success will depend in large part on our ability to maintain and enhance our current services and to develop new services that achieve market acceptance. For example, we have developed and are deploying automated measurement computers around the world to measure quality of service via various Internet access methods to Internet service providers in these locations.

Our research and development expenses for fiscal 1999 were $2.1 million, for fiscal 1998 were $1.2 million, for fiscal 1997 were $732,000 and for fiscal 1996 were $392,000.

The Internet is characterized by rapid technological developments, frequent new application introductions and evolving industry standards. The emerging nature of this market and its rapid evolution will require that we continually improve our services, particularly in response to competing offerings. We must also introduce new services or enhancements as quickly as possible. The success of a service introduction depends on several factors, including proper definition of new services, timely completion and introduction of new services, differentiation of new services from those of our competitors and market acceptance. We may not be successful in developing and marketing new services that respond to competitive and technological developments and changing customer needs. In addition, other technological changes could render our existing services obsolete or require us to make substantial expenditures to adapt our services.

Competition

The market for Internet performance measurement and diagnostic services is new and rapidly evolving. We expect competition in this market to intensify in the future. Our current competitors vary in size and in the scope and breadth of the products and services that they offer. In the future, new

competitors could enter our market. These competitors could include large companies with longer operating histories as well as new companies. Our principal competitors today include Freshwater Software, Inverse Network Technology, a unit of Visual Networks, and Service Metrics, a unit of Exodus Communications. We also indirectly compete with WebCriteria, Internet Resources Group, MIDS Matrix IQ Service, and INS INSoft Division, and free services such as the WebSite Garage unit of Netscape, NetMechanic and Internet Weather Report. These free services are not as comprehensive as ours because they only measure simple download time, not the speed of transactions, and they only take measurements from one location.

We expect that if we are successful in our strategy to expand the scope of our services, we may encounter many additional, market-specific competitors. These potential competitors include companies that sell network management software such as CompuWare, HP-Openview and IBM's Tivoli Unit, and companies that sell load-testing software such as Mercury Interactive and Segue Software, each of which has announced products that could potentially compete with us in the future.

We believe that the principal competitive factors affecting our market are:

. product features;

. product performance, including scalability, flexibility, availability and cost-effectiveness;

. quality of support and service; and . company reputation.

Although we believe that our services currently compete favorably with respect to these factors, our market is relatively new and is rapidly evolving. We may not be able to maintain our competitive position against current and potential competitors, especially those with significantly greater financial, marketing, service, support, technical and other resources.

Some of our competitors have, and our future competitors may have:

. longer operating histories;

. larger customer bases;

. greater brand recognition in similar businesses; and . significantly greater financial, marketing, technical and other resources.

In addition, some of our competitors may be able to:

. devote greater resources to marketing and promotional campaigns;

. adopt more aggressive pricing policies; and . devote substantially more resources to technology and systems development.

We may not be able to compete successfully against our current and future competitors. See "Risk Factors--We face growing competition which could make it difficult for us to acquire and retain customers."

Intellectual Property We are a technology company whose success depends on developing and protecting our intellectual property assets.

Our Intellectual Property Assets Our principal intellectual property assets consist of our trademarks, our patent applications and the software we developed to provide our services. Trademarks are important to our business because they represent our brand name and we use them in our marketing and promotional activities as well as with delivering our services. Our trademarks include our registered trademark Keynote(R). This trademark has not been registered as a trademark outside of the United States. We have other trademarks which have not been registered with the U.S. Patent and Trademark Office. These include Perspective(TM), Lifeline(TM), Consumer Perspective(TM), My Keynote(TM), The Internet Performance Authority(TM) and Accustat(TM).

We currently have one issued U.S. patent, we have applied for one U.S. patent and we have no pending foreign patent applications. The issued U.S. patent and the U.S. patent application relate to our technology that measures the speed of Internet transactions. It is possible that no patent will be issued from our currently pending patent application and that our current patent or potential future patents may be found invalid or unenforceable, or otherwise be successfully challenged. It is also possible that any patent issued to us may not provide us with any competitive advantages, that we may not develop future proprietary products or technologies that are patentable, and that the patents of others may seriously limit our ability to do business. In this regard, we have not performed any comprehensive analysis of patents of others that may limit our ability to do business.

Our proprietary software consists of the software we developed to store and deliver our measurement data to customers. We also have developed software that we use to process customer orders and billings.

How We Protect Our Intellectual Property To protect our proprietary technology, we rely primarily on patent, trademark, service mark, trade dress, copyright and trade secret laws and restrictions, as well as confidentiality procedures and contractual provisions. Despite our efforts to protect our proprietary rights, we may be unable to prevent others from infringing upon or misappropriating our intellectual property. Any steps we take to protect our intellectual property may be inadequate, time consuming and expensive. In addition, the laws of some countries do not protect our proprietary rights to as great an extent as do the laws of the United States.

Most of our customers' use of our services is governed by web-based license agreements, rather than by means of a formal, written contract. Each time customers use our service, they "click" on a web page to agree to certain terms and conditions that are posted on our web site, which terms and conditions impose restrictions on the customer's use of our services and our measurement data. In addition, we seek to avoid disclosure of our trade secrets by requiring each of our employees and others with access to our proprietary information to execute confidentiality agreements with us. We protect our software, documentation and other written materials under trade secret and copyright laws, which afford only limited protection.

It is Possible That We Could Become Subject to Litigation To date, we have not been notified that our technologies infringe the proprietary rights of anyone. We cannot assure you that others will not claim that we have infringed proprietary rights with respect to past, current or future technologies. We expect that we could become subject to intellectual property infringement claims as the number of our

competitors grows and our services overlap with competitive offerings. These claims, even if without merit, could be expensive and divert management's attention from operating our company. If we become liable for infringing intellectual property rights, we would be required to pay a substantial damage award and to develop non- infringing technology, obtain a license or cease selling the products that contain the infringing intellectual property. We may be unable to develop non- infringing technology or to obtain a license on commercially reasonable terms, if at all.

We License Technology Used in Providing Our Services We license certain statistical, graphical and database technologies from others. We cannot assure you that these technology licenses will not infringe the proprietary rights of others or will continue to be available to us on commercially reasonable terms, if at all. The loss of this technology could require us to obtain substitute technology of lower quality or performance standards or at greater cost. Please see "Risk Factors--The success of our business depends on our ability to protect and enforce our intellectual property rights" and "--Others may bring infringement claims against us or our suppliers that could harm our business."

Employees

As of December 31, 1999, we had a total of 121 employees. None of our employees are subject to a collective bargaining agreement, and we believe that our relations with our employees are good. Our future success depends on our ability to attract, motivate and retain our key personnel. Competition for employees in our industry is intense. Please see "Risk Factors--In order to grow our business, we must attract and retain personnel while competition in our industry is intense."

Facilities

Our principal offices are located in San Mateo, California, where we occupy approximately 25,000 square feet under a sublease that expires in June 2000. We have agreed to enter into a new sublease that will allow us to occupy approximately 40,000 square feet in our current facility. We anticipate that this sublease will expire in February 2001. We believe that our existing facilities are adequate for our current needs and that suitable additional or alternative space will be available in the future on commercially reasonable terms. Our operations center is located at our facility in San Mateo, California and we do not have a redundant center as backup. Our business could be adversely affected if we experience any outages or system disruptions at this location. Please see "Risk Factors--Our network infrastructure could be disrupted by a number of different occurrences."

Legal Proceedings

From time to time, we could become involved in litigation relating to claims arising out of our ordinary course of business. We are not presently involved in any material legal proceedings.

Management

Executive Officers and Directors The following table presents information regarding our executive officers and directors as of December 31, 1999:

Name Age Position

Umang Gupta..... 50 Chairman of the Board and Chief Executive Officer Eugene Shklar..... 49 Vice President of Public Services and Director Roger Higgins..... 56 Vice President of International Sales Donald Aoki..... 42 Vice President of Engineering Lloyd Taylor..... 41 Vice President of Operations James Salazar..... 39 Vice President of Professional Services John Flavio..... 52 Vice President of Finance, Chief Financial Officer and Secretary Marlene Williamson..... 44 Vice President of Marketing Thomas Roll..... 39 Vice President of U.S. Sales David Cowan..... 33 Director Mark Leslie..... 53 Director Stratton Sclavos..... 37 Director Umang Gupta has served as a director since September 1997 and as our chief executive officer and chairman of the board of directors since December 1997. From January 1996 to December 1997, he was a private investor and an advisor to high-technology companies. From October 1984 to January 1996, he was the founder and chairman of the board and chief executive officer of Centura Software Corporation, formerly known as Gupta Corporation, a client/server tools and database company. Prior to founding Gupta Corporation, from 1980 to 1984, he was with Oracle Corporation, a database company, where his last position held was vice president and general manager of its Microcomputer Products Division. From 1973 to 1980, he held various sales and marketing positions at IBM. Mr. Gupta holds a B.S. degree in chemical engineering from the Indian Institute of Technology, Kanpur, India, and an M.B.A. degree from Kent State University.

Eugene Shklar has served as our vice president of public services since August 1999 and as one of our directors since September 1997. From August 1996 to August 1999, Mr. Shklar served as our vice president of marketing. From May 1994 to July 1996, he was a private investor and self-employed consultant to several high-technology start-up companies in Silicon Valley. From July 1993 to April 1994, he was a founding employee and served as executive director of product marketing of Siebel Systems, Inc., a supplier of web-based front-office software systems. From April 1992 to April 1993, Mr. Shklar was vice president of marketing of Gupta Corporation. Before that, he served for five years at Oracle Corporation as director of marketing for both the PC Products Division and the Networked Products Division, for two years at 3Com Corporation, a networking company, as director of product marketing, and for seven years as vice president of marketing and sales of Software House, Inc., a supplier of relational database software. Mr. Shklar studied applied mathematics and computer science at Harvard University.

Roger Higgins has served as our vice president of international sales since December 1999 and as our vice president of worldwide sales from February 1997 to December 1999. From March 1996 to December 1996, he served as vice president of sales, marketing and services with Decisive Technology, an Internet survey software company. From September 1992 to December 1995, he held several offices at Make Systems, a network management and simulation software company, including vice president of field operations from January 1995 to December 1995, as vice president of marketing from September 1993 to December 1994 and as vice president of strategic accounts and international from September 1992 to August 1993. Before this, Mr. Higgins was a vice president at Clarity Software, a Unix software company, and Agilis Corporation, a manufacturer of hand-held computers, and was a director with Russell Reynolds Associates, an executive recruitment company. Mr. Higgins was the

founding international vice president for 3Com Corporation, a networking company, between 1985 and 1988 and for GriD Systems, a portable computer company, between 1983 and 1985. Before this, Mr. Higgins spent 10 years with Xerox in international sales and marketing roles, after an initial career with IBM UK. He holds a B.Sc. degree from London University.

Donald Aoki has served as our vice president of engineering since May 1997. From December 1994 to May 1997, he served as a business unit general manager and from March 1994 to December 1994 as a director of software development at Aspect Telecommunications, a supplier of customer relationship management solutions. From 1992 to 1994, Mr. Aoki served as director of development of TIBCO, a financial information systems company, and from 1985 to 1992 as senior director of development for Oracle Corporation. Mr. Aoki holds a B.S. degree in computer science from the University of Southern California and a S.M. degree in electrical engineering and computer science from the Massachusetts Institute of Technology.

Lloyd Taylor has served as our vice president of operations since January 1999. From January 1997 to December 1998, he served as vice president of technical operations of the Web Site Management Group of Digex, Inc., a web- site management services company. From May 1981 to January 1997, he served in various positions at the Applied Physics Laboratory at Johns Hopkins University, most recently as corporate telecommunications manager, where he designed and implemented computer systems for several NASA space shuttle missions and highly secure encryption systems for military applications. Mr. Taylor holds an M.S.E.E. degree in electrical engineering from Johns Hopkins University and a B.S.E.E. degree in electrical engineering and a B.S.C.S. degree in computer science from Washington University.

James Salazar has served as our vice president of professional services since March 1999. From October 1994 to March 1999, he served as president of the San Mateo Division of Cohesive Technology Solutions, a network consulting company recently acquired by Exodus Communications. Before this, Mr. Salazar spent two years at Tandem Computers Inc. managing network support activities. He began his career at Ungermann-Bass, Inc. in the consulting support organization. Mr. Salazar holds a B.S. degree in business administration and an M.B.A. degree, each from San Jose State University.

John Flavio has served as our vice president of finance, chief financial officer and secretary since July 1999. From July 1993 to July 1999, he served as chief financial officer, senior vice president, administration and finance, secretary and treasurer of Mosaix Inc., a provider of call management systems and customer relationship management applications, which was recently acquired by Lucent Technologies. Prior to joining Mosaix, Mr. Flavio worked for a number of high-technology companies, including serving as chief financial officer for Lumisys Inc., a manufacturer of digital cameras used for medical x-ray scanning, and Ministor Peripherals, a manufacturer of sub-miniature disk drives used in portable computers. Mr. Flavio holds a B.S. degree in finance from Santa Clara University and is a certified public accountant.

Marlene Williamson has served as our vice president of marketing since August 1999. From August 1997 to May 1999, she served as director of communications for IBM, a personal computer manufacturer. From October 1994 to August 1997, she served as vice president of marketing for Acer Inc., a personal computer manufacturer. From 1987 to 1994, she held a variety of positions at Apple Computer, Inc., a personal computer manufacturer, most recently as manager of worldwide consumer marketing. Prior to this, Ms. Williamson was the director of marketing communications and sales promotions at Zenith Data Systems, a manufacturer of personal computers, from 1984 to 1987. Ms. Williamson holds a B.S. degree in journalism from Ohio University and an M.B.A. degree from DePaul University.

Thomas Roll has served as our vice president of U.S. sales since December 1999 and as our general manager of national sales from September 1998 to November 1999. From October 1997 to September 1998, Mr. Roll served as vice president of sales and technical support for Elron Software, a provider of Internet and network management software tools. From June 1996 to October 1997, Mr. Roll served as vice president of sales and technical support, and from May 1995 to June 1996 as director of operations, of ON Technology, which was subsequently acquired by Elron Software. From March 1993 to May 1995, Mr. Roll was vice president of sales and marketing for Command Software, a developer of anti-virus and security software.

David Cowan has been one of our directors since March 1998. Since August 1996, Mr. Cowan has been a general partner of Bessemer Venture Partners, a venture capital investment firm, where he now serves as the managing general partner. Mr. Cowan was an associate at Bessemer Venture Partners from July 1992 to July 1996. From August 1996 to April 1997, he served as chief executive officer of Visto Corporation, an Internet services company. From January 1995 to June 1996, he served as chairman of the board, and from January to June 1995 as chief financial officer, of VeriSign, Inc., a provider of digital certificates and related Internet trust services. Mr. Cowan also serves as a director on the boards of VeriSign, Worldtalk Communications Corporation, which recently agreed to be acquired by Tumbleweed Communications Corp. and Flycast Communications Corporation, which recently agreed to be acquired by CMGI, Inc. as well as the boards of several private companies. Mr. Cowan holds an A.B. degree in mathematics and computer science and an M.B.A. degree from Harvard University.

Mark Leslie has been one of our directors since June 1999. He has served as chairman and chief executive officer of VERITAS Software Corporation, a storage management software company, since 1990, and as a director since 1988. He also serves on the boards of Brocade Communications Systems, Inc. and Versant Object Technology Corporation. Mr. Leslie holds a B.A. degree in physics and math from New York University, and he completed Harvard Business School's program for management development.

Stratton Sclavos has been one of our directors since April 1999. Since July 1995, Mr. Sclavos has been the president, chief executive officer and a director of VeriSign, Inc. From October 1993 to June 1995, he served as vice president of worldwide marketing and sales of Taligent, Inc., a business development

software company that was a joint venture between Apple Computer, IBM and Hewlett-Packard. Mr. Sclavos is also a director of Network Solutions, Inc., Visto Corporation and Marimba, Inc. Mr. Sclavos holds a B.S. degree in electrical and computer engineering from the University of California, Davis.

Board Composition

We currently have five directors. Mr. Cowan was appointed to our board under the provisions of a stock purchase agreement among us, Bessemer Venture Partners and investors in our Series C preferred stock. Mr. Sclavos was appointed to our board under the terms of a stock purchase agreement among us, VeriSign and investors in our Series D preferred stock. These provisions terminated upon completion of our initial public offering.

Directors are elected by the shareholders at each annual meeting of shareholders to serve until the next annual meeting of shareholders or until their successors are duly elected and qualified. There are no family relationships among any of our directors, officers or key employees.

Board Committees

Our board of directors has a compensation committee and an audit committee.

Compensation Committee. The current members of our compensation committee are Messrs. Cowan and Leslie. The compensation committee reviews and makes recommendations to our board concerning salaries and incentive compensation for our officers and employees. The compensation committee also administers our 1999 Equity Incentive Plan and 1999 Employee Stock Purchase Plan.

Audit Committee. The current members of our audit committee are Messrs. Sclavos and Leslie. Our audit committee reviews and monitors our financial statements and accounting practices, makes recommendations to our board regarding the selection of independent auditors and reviews the results and scope of audits and other services provided by our independent auditors.

Compensation Committee Interlocks and Insider Participation None of the members of the compensation committee has at any time since our formation been one of our officers or employees. None of our executive officers currently serves or in the past has served as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving on our board or compensation committee. Prior to the creation of our compensation committee, all compensation decisions were made by our full board. Neither Mr. Gupta nor Mr. Shklar participated in discussions by our board with respect to each of his own compensation.

Director Compensation Cash Compensation. Our directors do not receive cash compensation for their services as directors, but are reimbursed for their reasonable expenses in attending board and board committee meetings.

Option Grants. Each eligible director who is not our employee and who was a member of our board on September 24, 1999 or becomes a member of our board after that date, will be granted an option to purchase 50,000 shares of common stock under our 1999 Equity Incentive Plan, at an exercise price to be equal to the fair market value of our common stock on the date of grant, unless that director has previously received an option grant before that date. The options will have 10-year terms and will

terminate three months following the date the director ceases to be one of our directors or consultants or 12 months if the termination is due to death or disability. All options granted under the plan will vest over three years. One-third of the shares subject to these options will become exercisable on the earlier of one year following the director's appointment to our board of directors or the first annual meeting of our shareholders following the grant of the option. The remaining shares subject to this option will vest ratably monthly over the two years from the date on which shares first become exercisable. Any unvested shares subject to these options will become immediately exercisable upon a transaction which results in a change of our control.

Executive Compensation The following table presents compensation information for fiscal 1999 paid or accrued by our chief executive officer, each of our four other most highly compensated executive officers whose salary and bonus for fiscal 1999 was more than $100,000.

Summary Compensation Table

		Annual Compensation		Long Term Compensation Awards
Name and Principal Position	Fiscal Year	Salary	Bonus	Securities Underlying Options
Umang Gupta.....	1999	$188,288	$ --	--
Chairman and Chief Executive Officer	1998	119,704	--	1,750,000
	1997	--	--	47,989
Roger Higgins.....	1999	185,479	88,145	--
Vice President of International Sales	1998	181,466	61,034	--
	1997	145,417	3,423	207,860
Donald Aoki.....	1999	166,920	--	50,000
Vice President of Engineering	1998	144,748	--	--
	1997	53,045	--	193,514
Eugene Shklar.....	1999	122,271	--	--
Vice President of Public Services	1998	58,184	--	--
	1997	93,000	--	161,100
Lloyd Taylor.....	1999	114,001	--	200,000
Vice President of Operations	1998	--	--	--
	1997	--	--	--

John Flavio, our vice president of finance and chief financial officer, joined us in July 1999 and is compensated at an annual salary of $170,000.

Option Grants in Fiscal 1999 The following table presents stock option grants under our 1996 Stock Option Plan and 1999 Stock Option Plan during fiscal 1999 to our chief executive officer and our four other most highly compensated executive officers.

All options granted under our 1996 Stock Option Plan and 1999 Stock Option Plan are either incentive stock options or nonqualified stock options. Options granted under our 1996 Stock Option Plan are, and options granted under our 1999 Stock Option Plan may be, immediately exercisable subject to our right to repurchase these shares upon termination of the optionee's employment with us. This right generally lapses as to 25% of the shares subject to the option one year from the date of grant and as to 2.083% of the shares each succeeding month. Options granted under our 1999 Stock Option

Plan that are not immediately exercisable generally vest over four years and become exercisable as to 25% of the shares subject to the option and as to 2.083% of the shares each succeeding month. Options expire 10 years from the date of grant.

Options were granted at an exercise price equal to the fair market value of our common stock, as determined by our board on the date of grant. In fiscal 1999, we granted to our employees options to purchase a total of 2,079,900 shares of our common stock.

Potential realizable values are computed by . multiplying the number of shares of common stock subject to a given option by $25.00, the closing price per share of our common stock on the Nasdaq National Market on September 30, 1999, . assuming that the aggregate option exercise price derived from that calculation compounds at the annual 5% or 10% rates shown in the table for the entire 10 year term of the option, and . subtracting from that result the aggregate option exercise price.

The 5% and 10% assumed annual rates of stock price appreciation are required by the rules of the Securities and Exchange Commission and do not represent our estimate or projection of future common stock prices.

	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term	
Name	Number of Securities Underlying Options Granted (#)	Percent of Total Options Granted to Employees in Fiscal 1999	Exercise Price Per Share ($/share)	Expiration Date	5% ($)	10% ($)
Umang Gupta.....	--	--%	$ --	--	$ --	$ --
Roger Higgins.....	--	--	--	--	--	--
Donald Aoki.....	50,000	2.4	8.00	6/27/2009	1,636,118	2,842,178
Eugene Shklar.....	--	--	--	--	--	--
Lloyd Taylor.....	150,000	7.2	0.50	1/3/2009	6,033,355	9,651,534
	50,000	2.4	8.00	6/27/2009	1,636,118	2,842,178

Aggregated Option Exercises in Fiscal 1998 and Option Values at September 30, 1999 The following table presents the number of shares acquired and the value realized upon exercise of stock options during fiscal 1999 and the number of shares of common stock subject to "vested" and "unvested" stock options held as of September 30, 1999 by our chief executive officer and our four other most highly compensated executive officers. Also presented are values of "in-the- money" options, which represent the positive difference between the exercise price of each outstanding stock option and $25.00, the closing price per share of our common stock on the Nasdaq National Market on September 30, 1999.

Each of the options granted to the optionees listed in the table below was either immediately exercisable upon grant, subject to our right to repurchase the option shares upon termination of the optionee's employment, or generally vests over four years. In the case of immediately exercisable options, our right to repurchase the shares generally lapses over four years and as to 25% of the shares subject to the option one year from the date of grant and as to 2.083% of the shares each succeeding month. In the case of options that are not immediately exercisable, these options generally vest over four years and become exercisable as to 25% of the shares subject to the option one year from the date of grant and as to 2.083% of the shares each succeeding month. In the table below, in the case of

immediately exercisable options, the heading "vested" refers to shares as to which our right of repurchase has lapsed and the heading "unvested" refers to shares that we have the right to repurchase upon termination of the optionee's employment.

Name	Number of Shares Acquired on Exercise	Value Realized	Number of Securities Underlying Unexercised Options at September 30, 1999		Value of Unexercised In-the-Money Options at September 30, 1999	
			Vested	Unvested	Vested	Unvested
Umang Gupta.....	--	$ --	--	--	$ --	$ --
Roger Higgins.....	--	--	--	--	--	--
Donald Aoki.....	833	4,998	418	48,749	7,106	828,733
Eugene Shklar.....	85,000	12,750	--	--	--	--
Lloyd Taylor.....	150,000	--	--	50,000	--	850,000

Employee Benefit Plans 1996 Stock Option Plan As of December 31, 1999, options to purchase 275,587 shares of common stock were outstanding under the 1996 Stock Option Plan. The 1996 plan terminated upon the completion of our initial public offering and no options have been or will be granted under the plan after that time. However, termination did not affect any outstanding options, all of which will remain outstanding until exercised or until they terminate or expire by their terms. Options granted under the plan are subject to terms substantially similar to those described below with respect to options granted under the 1999 Equity Incentive Plan.

1999 Stock Option Plan As of December 31, 1999, options to purchase 1,649,726 shares of common stock were outstanding under the 1999 Stock Option Plan. The plan terminated upon the completion of our initial public offering, at which time our 1999 Equity Incentive Plan became effective. As a result, no options have been or will be granted under the plan after that time. However, termination did not affect any outstanding options, all of which will remain outstanding until exercised or until they terminate or expire by their terms. Options granted under the plan are subject to terms substantially similar to those described below with respect to options granted under the 1999 Equity Incentive Plan.

1999 Equity Incentive Plan Shares Reserved Under the Plan. The board of directors has adopted and our shareholders have approved the 1999 Equity Incentive Plan. The board has reserved 5,000,000 shares of common stock available for grant under this plan. In addition to the shares reserved by the board, upon completion of our initial public offering on September 24, 1999, a total of 36,437 additional shares previously reserved for grant under the 1996 Stock Option Plan and the 1999 Stock Option Plan became available for grant and issuance under the Equity Incentive Plan. These shares:

. had not been issued;

. were not subject to outstanding grants;

. had been issued but were subsequently forfeited or repurchased by us; or . were subject to options that expired or became unexercisable.

Shares under the Equity Incentive Plan as well as shares subject to options outstanding under our 1996 Stock Option Plan and 1999 Stock Option Plan will again be available for grant and issuance under the plan if these shares:

. are subject to issuance upon exercise of an option granted under the plan that cease to be subject to the option for any reason other than exercise of the option;

. have been issued upon the exercise of an option granted under the plan that are subsequently forfeited or repurchased by us at the original purchase price; or . are subject to an award granted pursuant to a restricted stock purchase agreement under the plan that are subsequently forfeited or repurchased by us at the original issue price.

In addition, on January 1, 2000 and on January 1 of each following year, the total number of shares reserved for issuance under the plan will increase automatically by a number of shares equal to 5% of our outstanding shares on December 31 of the preceding year.

Term of the Plan. The plan became effective on September 24, 1999.

The plan will terminate after 10 years, unless it is terminated earlier by our board. The plan authorizes the award of options, restricted stock awards and stock bonuses.

If we are dissolved, liquidated or have a "change in control" transaction, outstanding awards may be assumed or substituted by the successor corporation, if any. In the discretion of the compensation committee, the vesting of these awards may accelerate upon one of these transactions.

Administration of the Plan. The plan is administered by our compensation committee, all of the members of which are "non-employee directors" under applicable federal securities laws and "outside directors" as defined under applicable federal tax laws. The compensation committee has the authority to construe and interpret the plan, grant awards and make all other determinations necessary or advisable for the administration of the plan. Grants of options to purchase less than 15,000 shares can be authorized by Umang Gupta, our Chief Executive Officer, and ratified by the compensation committee.

Types of Awards Under the Plan. The plan provides for the grant of both incentive stock options that qualify under Section 422 of the Internal Revenue Code and nonqualified stock options. Incentive stock options may be granted only to our employees or employees of a parent or subsidiary of us. All other awards, other than incentive stock options, may be granted to our employees, officers, directors, consultants, independent contractors and advisors or those of any parent or subsidiary of us, provided the consultants, independent contractors and advisors render bona fide services not in connection with the offer and sale of securities in a capital-raising transaction. The exercise price of incentive stock options must be at least equal to the fair market value of our common stock on the date of grant. The exercise price of incentive stock options granted to 10% shareholders must be at least equal to 110% of the fair market value of our common stock on the date of grant. The exercise price of non-qualified stock options must be at least equal to 85% of the fair market value of our common stock on the date of grant.

Our nonemployee directors are entitled to receive automatic annual grants of fully vested options to purchase 50,000 shares of our common stock, as described under "Management--Director Compensation."

Options granted under the plan will either be exercisable as they vest or will be immediately exercisable subject to our right of repurchase that lapses as the shares vest. In general, options will vest over a four-year period.

The maximum term of options granted under the plan is 10 years.

Awards, other than nonqualified stock options, granted under the plan may not be transferred in any manner other than by will or by the laws of descent and distribution. The plan allows exceptions to this restriction with respect to awards that are nonqualified stock options. They may be exercised during the lifetime of the optionee only by the optionee. The compensation committee could provide for differing provisions in individual award agreements, but only with respect to awards that are not incentive stock options. Options granted under the plan generally may be exercised for a period of time after the termination of the optionee's service to us or a parent or subsidiary of us. Options will generally terminate three months after the termination of employment or twelve months if the termination is due to death or disability.

The purchase price for restricted stock will be determined by our compensation committee. Stock bonuses may be issued for past services or may be awarded upon the completion of certain services or performance goals.

1999 Employee Stock Purchase Plan The board has adopted and our shareholders have approved the 1999 Employee Stock Purchase Plan. The plan is intended to qualify as an "employee stock purchase plan" under Section 423 of the Internal Revenue Code. Rights granted under the plan will not be transferable by a participant other than by will or the laws of descent and distribution.

Shares Reserved Under the Plan. The board of directors has reserved 400,000 shares of common stock under this plan. On each January 1, the aggregate number of shares reserved for issuance under this plan will increase automatically by a number of shares equal to 1% of our outstanding shares on December 31 of the preceding year. The aggregate number of shares reserved for issuance under the plan may not exceed 4,000,000.

Administration of the Plan. The plan is administered by our compensation committee. Our compensation committee has the authority to construe and interpret the plan, and its decisions will be final and binding.

Eligibility to Participate. Employees generally will be eligible to participate in the plan if they are employed 10 days before the beginning of the applicable offering period and they are customarily employed by us, or our parent or any subsidiaries that we designate, for more than 20 hours per week and more than five months in a calendar year and are not, and would not become as a result of being granted an option under the plan, 5% shareholders of us or our designated parent or subsidiaries. Participation in the plan will end automatically upon termination of employment for any reason.

How Purchases are Made. Under the plan, eligible employees will be permitted to acquire shares of our common stock through payroll deductions. Eligible employees may select a rate of payroll deduction between 2% and 10% of their compensation and are subject to maximum purchase limitations.

Each offering period under the plan will be for two years and consist of four six-month purchase periods. The first offering period began on September 24, 1999. Offering periods and purchase periods will begin on February 1 and August 1 of each year. However, the length of the first offering period will be less than two years, and the length of the first purchase period will be more than six months.

The plan provides that, in the event of our proposed dissolution or liquidation, each offering period that commenced prior to the closing of the proposed event shall continue for the duration of the offering period, provided that the compensation committee may fix a different date for termination of the plan. The purchase price for our common stock purchased under the plan is 85% of the lesser of the fair market value of our common stock on the first or last day of the applicable offering period. The compensation committee has the power to change the duration of offering periods without shareholder approval, if the change is announced at least 15 days prior to the beginning of the affected offering period.

Term of the Plan. The plan became effective on September 24, 1999. The plan will terminate 10 years from the date the plan was adopted by our board, unless it is terminated earlier under the terms of the plan. The board has the authority to amend, terminate or extend the term of the plan, except that no action may adversely affect any outstanding options previously granted under the plan.

Amendments to the Plan. Except for the automatic annual increase of shares described above, shareholder approval is required to increase the number of shares that may be issued or to change the terms of eligibility under the plan. The board may make amendments to the plan as it determines to be advisable if the financial accounting treatment for the plan is different from the financial accounting treatment in effect on the date the plan was adopted by the board.

401(k) Plan

We sponsor a defined contribution plan intended to qualify under Section 401 of the Internal Revenue Code, or a 401(k) plan. Employees who are at least 21 years old and who have been employed with us for at least 90 days are generally eligible to participate and may enter the plan as of the first day of any calendar quarter. Participants may make pre-tax contributions to the plan of up to 15% of their eligible earnings, subject to a statutorily prescribed annual limit. Each participant is fully vested in his or her contributions and the investment earnings. We may make matching contributions on a discretionary basis to the plan, but we have not previously done so. Contributions by the participants or us to the plan, and the income earned on these contributions, are generally not taxable to the participants until withdrawn. Contributions by us, if any, are generally deductible by us when made. Participant and company contributions are held in trust as required by law. Individual participants may direct the trustee to invest their accounts in authorized investment alternatives.

Employment Contract and Termination of Employment and Change in Control Arrangements Employment Contract and Termination of Employment Arrangement In December 1997, we entered into an employment agreement with Umang Gupta, our chief executive officer. This agreement establishes Mr. Gupta's annual base salary and eligibility for benefits and bonuses.

Option. Under this agreement, Mr. Gupta was granted an option to purchase 1,750,000 shares of common stock at an exercise price of $0.20 per share. This option was immediately exercisable, subject to our right to repurchase the shares of common stock upon termination of his employment. Mr. Gupta exercised this option in April 1998. Our right of repurchase has now lapsed as to all of these shares.

Warrant. Under this agreement, Mr. Gupta was granted a warrant to purchase 265,000 shares of common stock at a purchase price of $1.30 per share. Mr. Gupta exercised this warrant and sold 125,000 shares of common stock in our initial public offering.

Termination. This agreement continues until it is terminated upon written notice by Mr. Gupta or us. If his employment is terminated by us for cause or if he voluntarily elects to terminate his employment, we must pay his salary and other benefits through the date of his termination. If his employment is terminated by us without cause or if he terminates his employment due to a material reduction in his salary or benefits, a material change in his responsibilities or a sale of us, we must pay his salary and benefits through the date of his termination and his salary for six additional months after this date.

In connection with a loan agreement, dated as of May 1999, Mr. Gupta agreed that, except in the case of a sale of us, he will not voluntarily elect to terminate his employment before the earlier of December 31, 2001 or the date on which a successor chief executive officer commences employment with us.

Change in Control Arrangements The vesting of options held by executive officers will accelerate upon:

. termination of that officer's employment with us without cause; and . any sale of all or substantially all of our assets, any merger of us with another company or any other corporate reorganization in which more than 50% of our voting power is transferred.

Our right to repurchase any unvested shares held by our executive officers will expire upon:

. termination of that officer's employment with us without cause; or . any sale of all or substantially all of our assets, any merger of us with another company or any other corporate reorganization in which more than 50% of our voting power is transferred.

Indemnification of Directors and Executive Officers and Limitation of Liability Our articles of incorporation includes a provision that eliminates the personal liability of our directors for monetary damages resulting from a breach of their fiduciary duty as one of our directors, except for liability:

. for any breach of the director's duty of loyalty to us or our stockholders;

. for acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law;

. for any transaction from which the director derived an improper personal benefit;

. for acts or omissions that a director believes to be contrary to the best interests of us or our shareholders or that involve the absence of good faith on the part of the director;

. for acts or omissions that show a reckless disregard for the director's duty to us or our shareholders in circumstances in which the director was aware, or should have been aware, in the ordinary course of performing a director's duties, of a risk of a serious injury to us or our shareholders;

. under Section 310 of the California Corporations Code regarding contracts in which a director has a material or financial interest; or . under Section 316 of the California Code regarding improper dividends, loans and guarantees.

These provisions are permitted under California law.

Our bylaws provide that we:

. must indemnify our directors, officers and employees to the fullest extent permitted by California law, subject to very limited exceptions;

. must advance expenses, as incurred, to our directors and executive officers in connection with a legal proceeding to the fullest extent permitted by California law, subject to very limited exceptions; and . may enter into agreements with any of our directors, officers, employees or agents that provide for indemnification of expenses incurred to the fullest extent permitted by our articles of incorporation and California law.

We have entered into indemnification agreements with each of our current directors and executive officers to give them additional contractual assurances regarding the scope of the indemnification provided in our articles of incorporation and bylaws and to provide additional procedural protections in the event of litigation. Presently, there is no pending litigation or proceeding involving any of our directors, executive officers or employees for which indemnification is sought. We are not aware of any threatened litigation that may result in claims for indemnification. Upon completion of our reincorporation in the State of Delaware, we intend to enter into new indemnification agreements with our directors and executive officers on terms substantially similar to the existing indemnification agreements.

We have obtained liability insurance for our directors and officers as well as a rider to extend that coverage for public securities matters.

Certain Transactions

Other than Mr. Gupta's employment agreement, described in "Management" and the transactions described below, since we were formed there has not been, nor is there currently proposed, any transaction or series of similar transactions to which we were or will be a party:

. in which the amount involved exceeds $60,000; and . in which any director, executive officer, holder of more than 5% of our common stock or any member of their immediate family had or will have a direct or indirect material interest.

Preferred Stock Financings In May and June 1996, we sold a total of 3,039,222 shares of Series A preferred stock at a purchase price of $0.42 per share. In July 1997, Eugene Shklar purchased 74,937 shares of Series A preferred stock from a purchaser of the Series A preferred stock at a purchase price of $1.10 per share. In July 1997, we sold a total of 2,333,420 shares of Series B preferred stock at a purchase price of $1.10 per share. In March 1998, we sold a total of 3,848,986 shares of Series C

preferred stock at a purchase price of $1.30 per share. In April and May 1999, we sold a total of 3,367,272 shares of Series D preferred stock at a purchase price of $4.42 per share and a total of 438,480 shares of common stock at a purchase price of $4.42 per share.

Purchasers of our preferred and common stock include, among others, the following of our executive officers, directors and holders of more than 5% of our outstanding stock:

Shareholder	Series A preferred stock	Series B preferred stock	Series C preferred stock	Series D preferred stock	Common stock	Aggregate consideration paid
VeriSign, Inc.	--	--	--	1,263,200	438,481	$7,521,427.81
GE Capital Equity Investments, Inc.	--	--	--	1,583,711	--	7,000,000.41
Entities associated with Bessemer Venture Partners	--	--	2,446,153	226,245	--	4,000,000.94
Entities and individuals associated with Wheatley Partners II, L.P..	595,238	715,532	407,692	--	--	1,537,085.86
Umang Gupta.....	--	90,909	--	--	--	100,000.45
Eugene Shklar.....	74,937	565,773	611,538	113,122	--	1,948,823.24

All of the share numbers described above reflect the conversion of each outstanding share of Series A preferred stock, Series B preferred stock and Series D preferred stock into one share of common stock and the conversion of each outstanding share of Series C preferred stock into 1.06 shares of common stock immediately prior to the closing of our initial public offering in September 1999.

Warrants

In January 1997, in connection with a bridge loan financing, we issued warrants to purchase a total of 81,092 shares of common stock at a purchase price of $0.05 per share to Wheatley Partners II, L.P. (formerly known as Applewood Associates, L.P.), a holder of more than 5% of our outstanding common stock, and entities associated with Wheatley Partners, including warrants to purchase 12,816 shares of common stock issued to each of Woodland Partners, L.P. and Irwin Lieber. In September 1999, Wheatley Partners, Woodland Partners and Mr. Lieber exercised these warrants. We also issued a warrant to purchase a total of 70,000 shares of common stock at a purchase price of $0.05 per share to Eugene Shklar. In July 1997, Mr. Shklar exercised this warrant.

In connection with the employment agreement we entered into in December 1997 with Umang Gupta, we issued Mr. Gupta a warrant to purchase a total of 265,000 shares of common stock at a purchase price of $1.30 per share, which he exercised in September 1999.

Loans to Executive Officers Umang Gupta. In April 1998, we loaned $280,000 to Umang Gupta, secured by a loan and pledge agreement, in connection with his exercise of options to purchase shares of our common stock. In May 1999, we loaned $300,000 to Mr. Gupta, evidenced by a full recourse promissory note and secured by a stock pledge agreement, in connection with the acceleration of the lapse of our repurchase right with respect to the shares of our common stock owned by him. In June 1999, these loans were consolidated into a single loan. This loan accrues interest at a rate of 6% per year and is due and payable on or before December 31, 2001.

Lloyd Taylor. In January 1999, we loaned $150,000 to Lloyd Taylor, our vice president of operations, secured by a loan and security agreement, in connection with his relocation to California. The loan accrues interest at a rate of 9% per year and is due and payable on or before January 2002.

In January 1999, we loaned an additional $75,000 to Mr. Taylor, secured by a loan and pledge agreement, in connection with his exercise of his option to purchase 150,000 shares of our common stock. The loan accrues interest at a rate of 7% per year and is payable on or before January 2004.

Marlene Williamson. In November 1999, we loaned $263,000 to Marlene Williamson, our Vice President of Marketing, secured by a loan and security agreement, in connection with her relocation to California. The loan accrues interest at a rate of 6% per year and is due and payable on or before May 2000.

John Flavio. In December 1999, we loaned $200,000 to John Flavio, our Chief Financial Officer, secured by a loan and security agreement, in connection with his relocation to California. The loan accrues interest at a rate of 6% per year and is due and payable on or before June 2000.

Option Grants to Executive Officers and Directors Umang Gupta. In September and December 1997, we granted to Umang Gupta options to purchase a total of 1,797,989 shares of common stock at an exercise price of $0.20 per share. Mr. Gupta exercised these options in April 1998.

Eugene Shklar. In August 1996 and June 1997, we granted to Eugene Shklar options to purchase a total of 431,100 shares of common stock at an exercise price of $0.05 per share. In July 1997, 25,000 of these 431,100 shares were canceled. In July 1997, we granted Mr. Shklar an option to purchase a total of 45,000 shares of common stock at an exercise price of $0.20 per share. In February 1999, a total of 2,500 of these 45,000 shares were canceled. Mr. Shklar exercised his options as to the remaining 448,600 shares in September 1996, June 1997 and January 1999.

Roger Higgins. In February and June 1997, we granted to Roger Higgins options to purchase a total of 207,859 shares of common stock at an exercise price of $0.05 per share. Mr. Higgins exercised these options in February and June 1997.

Donald Aoki. In May and June 1997, we granted to Donald Aoki options to purchase a total of 193,513 shares of common stock at an exercise price of $0.05 per share. Mr. Aoki exercised these options in June 1997 and December 1998. In June 1999, we granted Mr. Aoki options to purchase 50,000 shares of common stock at an exercise price of $8.00 per share.

Thomas Roll. In September 1998, we granted Thomas Roll options to purchase a total of 100,000 shares of common stock at an exercise price of $0.24 per share. Mr. Roll exercised these options as to 30,000 shares in April 1999. In January 1999, we granted Mr. Roll options to purchase 20,000 shares of common stock at an exercise price of $0.60 per share. In June 1999, we granted Mr. Roll options to purchase 30,000 shares of common stock at an exercise price of $8.00 per share.

Lloyd Taylor. In January 1999, we granted to Lloyd Taylor an option to purchase 150,000 shares of common stock at an exercise price of $0.50 per share. Mr. Taylor immediately exercised this option. In June 1999, Mr. Taylor was granted an option to purchase 50,000 shares of common stock at an

exercise price of $8.00 per share.

James Salazar. In March 1999, we granted James Salazar an option to purchase 112,500 shares of common stock at an exercise price of $1.60 per share.

John Flavio. In June 1999, we granted John Flavio an option to purchase 205,000 shares of common stock at an exercise price of $8.00 per share.

Marlene Williamson. In August 1999, we granted Marlene Williamson an option to purchase 150,000 shares of common stock at an exercise price of $9.00 per share.

Mark Leslie. In June 1999, we granted Mark Leslie an option to purchase 50,000 shares of common stock at an exercise price of $8.00 per share. Mr. Leslie exercised this option with respect to 30,000 shares in June 1999.

Memorandum of Understanding with Verisign, Inc.

In February 1999, we entered into a memorandum of understanding with VeriSign, Inc. Mr. Stratton Sclavos, a member of our board of directors, is the chief executive officer and a director of VeriSign. Under the agreement, Keynote granted VeriSign a non-exclusive license to sell two different customized versions of Keynote Perspective and a one-year subscription to Keynote Lifeline to VeriSign's customers as an integrated part of VeriSign's product offerings. In order to implement the product offerings subject to the agreement, Keynote agreed to construct a network of 50 measurement computers in 25 domestic and international cities. To help cover the costs of Keynote's initial expenditures, VeriSign made a $250,000 advance available to Keynote prior to the commencement of the joint marketing and distribution program. VeriSign also agreed to promote Keynote's services as part of its regular communications with customers, such as quarterly newsletters, and through a VeriSign web site that focuses on security-related issues.

The customized versions of Perspective that VeriSign may sell under the agreement are each one month in duration and offer measurements from either:

. 10 different cities of the customer's choice, including up to two international locations, or . 25 different cities of the customer's choice, including up to four international locations.

The agreement provides that if VeriSign is generating at least 500 introductory Perspective sales per month within six months from the beginning of the program, then VeriSign will make available to Keynote an additional $250,000 advance. If the program is not generating 500 of these sales per month within six months from the beginning of the program, then Keynote may reduce the number of measurement computers deployed under the agreement. If the program is not generating 100 introductory Perspective sales per month within six months from the beginning of the program, then either Keynote or VeriSign may terminate the agreement by providing 60 days' advance written notice to the other party, with VeriSign entitled to recover the balance of the money it advanced to Keynote ratably over the remainder of the term of the agreement.

The memorandum of understanding provides that VeriSign is entitled to offer the 10-city and 25-city versions of the introductory Perspective service as an integrated part of its product offerings. VeriSign will pay Keynote $50 for each 10-city version and $100 for each 25-city version of the introductory Perspective service. All of the fees that VeriSign pays to Keynote for the subscriptions VeriSign sells to its customers are deducted from the funds that it advanced to Keynote until such advance is repaid, with a maximum of $10,417 in fees per month to be deducted from the advance. Any fees per month in excess of $10,417 are retained by Keynote. In the event that Keynote converts the introductory Perspective customer into a paying Perspective customer during the life of the VeriSign-bundled introductory Perspective subscription or within 30 days after this period, Keynote will pay VeriSign a one-time conversion bounty of $1,400.

VeriSign also has the right to sell a one-year subscription to Lifeline, and VeriSign will receive a 50% discount to this service. This discount will increase to 57% if, after the agreement has been in effect for six months, VeriSign is paying Keynote more than $100,000 per month for the Lifeline service. However, if after the agreement has been in effect for six months, VeriSign is paying Keynote less than $34,750 per month for the Lifeline service, the parties can renegotiate the discount and/or volume commitments. If Keynote converts the Lifeline customer into a paying Perspective customer during the life of the VeriSign-bundled Lifeline subscription or within 30 days after this period, Keynote will pay VeriSign a one-time conversion bounty of $1,400. In addition, if a program generates leads for Perspective, Keynote will pay VeriSign $150 for each lead which turns into a paying customer within 90 days of receipt of the lead.

The agreement provides that if Keynote makes available a similar service with better terms to any customer, Keynote will provide VeriSign with the same superior terms for the remainder of the term of the agreement. Keynote also agreed not to enter into a similar agreement involving the bundling of its services with certain competitors of VeriSign.

The initial term of the memorandum of understanding is two years, unless the parties enter into a formal marketing and services agreement prior to that time which supersedes the agreement. The agreement will continue for a series of one-year extensions subsequent to the initial two-year term unless either party provides written notice to the other of its intent not to renew the agreement.

Through December 31, 1999, Keynote has received from VeriSign approximately $295,000 in revenue from this agreement. Through December 31, 1999, Keynote has paid $68,000 to VeriSign under this agreement.

Keynote believes that the terms of the memorandum of understanding, taken as a whole, were no less favorable to Keynote than Keynote could have obtained from unaffiliated third parties.

Principal and Selling Shareholders

The following table presents information as to the beneficial ownership of our common stock as of December 31, 1999 and as adjusted to reflect the sale of the common stock in this offering by:

. each shareholder known by us to be the beneficial owner of more than 5% of our common stock;

. each of our directors;

. each executive officer listed in the management table above;

. all directors and executive officers as a group, and . each selling shareholder Beneficial ownership is determined under the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Unless indicated below, to our knowledge, the persons and entities named in the table have sole voting and sole investment power with respect to all shares beneficially owned, subject to community property laws where applicable. Shares of common stock subject to options that are currently exercisable or exercisable within 60 days of December 31, 1999 are deemed to be outstanding and to be beneficially owned by the person holding the options for the purpose of computing the percentage ownership of that person but are not treated as outstanding for the purpose of computing the percentage ownership of any other person. Unless indicated below, the address for each director, officer and 5% shareholder listed below is c/o Keynote Systems, Inc., 2855 Campus Drive, San Mateo, California 94403.

The percentage of common stock beneficially owned is based on 23,608,756 shares of common stock outstanding as of December 31, 1999. Entries denoted by an asterisk represent less than 1%.

	Shares Beneficially Owned Prior to the Offering			Shares Beneficially Owned After the Offering	
Name of Beneficial Owner	Number	Percent	Number of Shares Offered	Number	Percent

Directors, Officers and 5% Shareholders: Entities and individuals associated with 2,821,237 11.9% 600,000 2,221,237 9.0% Wheatley Partners II, L.P.(1)..... 80 Cuttermill Road, Suite 311 Great Neck, New York 11021 Entities associated with Bessemer Venture 2,672,398 11.3 534,480 2,137,918 8.6 Partners(2)..... 535 Middlefield Road Menlo Park, California 94025 VeriSign, Inc..... 1,701,681 7.2 340,336 1,361,345 5.5 1350 Charleston Road Mountain View, California 94043 GE Capital Equity 1,583,711 6.7 316,742 1,266,969 5.1 Investments, Inc.(3).. 120 Long Ridge Road Stamford, Connecticut 06927 Umang Gupta(4)..... 2,542,232 10.8 125,000 2,417,232 9.8 Roger Higgins(5)..... 332,859 1.4 200,000 132,859 * Donald Aoki(6)..... 310,600 1.3 4,500 306,100 1.2 Eugene Shklar(7)..... 2,023,139 8.6 -- 2,023,139 8.2 Lloyd Taylor (8)..... 150,000 * 37,500 112,500 * John Flavio (9)..... 21,000 * 20,000 1,000 * James Salazar (10)..... 28,125 * -- 28,125 * Thomas Roll (11)..... 67,291 * 35,000 32,291 * Marlene Williamson (12)..... 5,000 * 1,500 3,500 *

	Shares Beneficially Owned Prior to the Offering			Shares Beneficially Owned After the Offering	
Name of Beneficial Owner	Number	Percent	Number of Shares Offered	Number	Percent
David Cowan (13).....	2,672,398	11.3%	534,480	2,137,918	8.6%
Mark Leslie (14).....	50,000	*	--	50,000	*
Stratton Sclavos (15)...	1,701,681	7.2	340,336	1,361,345	5.5
All 12 directors and executive officers as a group (16).....	9,904,325	41.8	1,298,316	8,606,009	34.6
Other Selling					

Shareholders					
David Bernard (17).....	22,993	*	12,000	10,993	*
Entities and individuals affiliated with Gerald S. Casilli (18).....	860,605	3.6	367,908	492,697	2.0
Comdisco, Inc. (19).....	186,754	*	186,754	--	*
Catherine Cranston Melbye.....	15,000	*	3,000	12,000	*
Jason Cranston	15,000	*	3,000	12,000	*
John T. Cranston.....	55,000	*	11,000	44,000	*
John T. Cranston, Jr. ..	50,000	*	10,000	40,000	*
Riley Cranston.....	15,000	*	3,000	12,000	*
Cranston Company.....	100,000	*	20,000	80,000	*
Dalewood Associates, L.P.....	333,140	1.4	65,000	268,140	1.1
F&W Investments 1997 and 1998.....	65,770	*	11,938	53,832	*
Guoquiang Ge (20).....	35,000	*	18,000	17,000	*
Robert Gladstone.....	79,058	*	20,000	59,058	*
Roger Gladstone.....	51,916	*	20,000	31,916	*
Eric Hamer (21).....	22,500	*	5,000	17,500	*
Theodore Horwitz (22)...	20,000	*	2,000	18,000	*
David E. Kratter.....	139,897	*	70,000	69,897	*
Mark E. Kratter.....	28,022	*	14,000	14,022	*
Matthew R. Kratter.....	28,022	*	14,000	14,022	*
Jin Liu (23).....	2,500	*	625	1,875	*
Magnuson Revocable Trust dated 1/24/94, Richard P. and Amy C. Magnuson, trustees.....	139,897	*	30,000	109,897	*
Adam R. Mckee (24).....	10,520	*	8,000	2,520	*
Frederick L. Mueller (25).....	68,907	*	20,658	48,249	*
David Nussbaum.....	79,058	*	15,000	64,058	*
Olive Hill Investment Partners, L.P.....	595,238	2.5	150,000	445,238	1.8
Glenn E. Penisten.....	139,891	*	119,048	20,843	*
Amy Pierce (26).....	2,031	*	1,875	156	*
Andrew Popell	333,334	1.4	83,334	250,000	1.0
Michael Siffin (27).....	4,166	*	3,300	866	*
William E. Steele.....					
Samuel Urcis.....	146,838	*	119,047	27,791	*
Sofia Yeung (28).....	10,416	*	2,000	8,416	*

(1) Represents 1,773,824 shares held by Wheatley Partners II, L.P., 150,000 shares held by Brookwood Partners, L.P., 362,394 shares held by Woodland Partners, 512,395 shares held by Irwin Lieber and 22,624 shares held by Barry Fingerhut. Of the shares to be sold in this offering, 300,000 will be sold by Wheatley Partners II, L.P., 150,000 will be sold by Woodland Partners and 150,000 will be sold by Irwin Lieber. (2) Represents 1,432,734 shares held by Bessemer Venture Partners IV, L.P., 995,049 shares held by Bessec Ventures IV L.P. and 244,615 shares held by Bessemer Venture Investors IV L.P. Of the shares to be sold in this offering, 286,547 shares will be sold by Bessemer Venture Partners IV, L.P., 199,010 shares will be sold by Bessec Ventures IV L.P. and 48,923 shares will be sold by Bessemer Venture Investors IV L.P. (3) GE Capital Equity Investments, Inc., a wholly-owned subsidiary of General Electric Capital Corporation, shares beneficial ownership with General Electrical Capital Corporation with respect to all of the shares held of record by GE Capital Equity Investments, Inc. (4) Includes 80,000 shares held by the Gupta Family 1999 Irrevocable Trust. Mr. Gupta disclaims

beneficial ownership of the shares held by this entity except to the extent of his pecuniary interest in it. Of the shares being sold, 115,000 will be sold by Mr. Gupta and 10,000 shares will be sold by the Gupta Family 1999 Irrevocable Trust. (5) Includes 125,000 shares held by the Roger W. Higgins and Priscilla Higgins Revocable Trust. Mr. Higgins disclaims beneficial ownership of the shares held by this entity except to the extent of his pecuniary interest in it. Of the shares held by Mr. Higgins, 57,975 remained subject to our right of repurchase as of December 31, 1999. (6) Includes 5,000 shares held by Mr. Aoki as trustee for his minor children. Includes 2,503 shares subject to an option exercisable within 60 days of December 31, 1999. Of the shares held by Mr. Aoki, 59,522 remained subject to our right of repurchase as of December 31, 1999. (7) Of the shares held by Mr. Shklar, 57,939 remained subject to our right of repurchase as of December 31, 1999. (8) Of the shares held by Mr. Taylor, 150,000 remained subject to our right of repurchase as of December 31, 1999. (9) Includes 12,500 shares subject to an option exercisable within 60 days of December 31, 1999 and 7,500 shares subject to an option exercisable upon the completion of this offering. (10) Includes 28,125 shares subject to an option exercisable within 60 days of December 31, 1999. (11) Includes 37,291 shares subject to options exercisable within 60 days of December 31, 1999. (12) Includes 5,000 shares subject to an option exercisable within 60 days of December 31, 1999. (13) Represents 1,432,734 shares held by Bessemer Venture Partners IV, L.P., 995,049 shares held by Bessec Ventures IV L.P. and 244,615 shares held by Bessemer Venture Investors IV L.P. Of the shares to be sold in this offering, 286,547 shares will be sold by Bessemer Venture Partners IV, L.P., 199,010 shares will be sold by Bessec Ventures IV L.P. and 48,923 shares will be sold by Bessemer Venture Investors IV L.P. Mr. Cowan, one of our directors, is a general partner of the general partner of these entities. Mr. Cowan disclaims beneficial ownership of the shares held by these entities except to the extent of his pecuniary interest in them. (14) Represents 30,000 shares held by Leslie Investments, LLC. Mr. Leslie disclaims beneficial ownership of the shares held by this entity except to the extent of his pecuniary interest in it. Includes 20,000 shares subject to an immediately exercisable option, none of which are subject to our right of repurchase. (15) Represents 1,701,681 shares held by VeriSign, Inc. Of the shares to be sold in this offering, all will be sold by VeriSign. Mr. Sclavos, one of our directors, is president and chief executive officer of VeriSign. Mr. Sclavos disclaims beneficial ownership of the shares held by VeriSign except to the extent of his pecuniary interest in it. (16) Includes 355,436 shares subject to our right of repurchase as of December 31, 1999, 85,419 share subject to options exercisable within 60 days of December 31, 1999, 7,500 shares subject to an option exercisable upon the closing of this offering and 20,000 shares subject to an immediately exercisable option. (17) Includes 6,771 shares subject to an option exercisable within 60 days of December 31, 1999. (18) Represents 189,517 shares held by Casilli 1995 Unitrust; 523,696 shares held by Casilli Revocable Trust; 68,196 shares held by Gerald A. Casilli Trust; 5,000 shares held by Leon J. Casilli Trust; 68,196 shares held by Michelle A. Casilli Trust; 1,000 shares held by Thomas A. Casilli Trust; and 5,000 shares held by Salvador Puglisi. Of the shares to be sold in this offering, 64,516 will be sold by Casilli 1995 Unitrust; 250,000 shares will be sold by Casilli Revocable Trust; 18,196 shares will be sold by Gerald A. Casilli Trust; 3,000 shares will be sold by Leon J. Casilli Trust; 28, 196 shares will be sold by Michelle A. Casilli Trust; 1,000 shares will be sold by Thomas A. Casilli Trust; and 3,000 shares will be sold by Salvador Puglisi. Mr. Casilli disclaims beneficial ownership of the shares held by these entities and individuals except to the extent of his pecuniary interest in them.

(19) Includes 163,529 shares subject to an immediately exercisable warrant. (20) Of the shares held by Mr. Ge, 11,641 remained subject to our right of repurchase as of December 31, 1999. (21) Of the shares held by Mr. Hamer, 11,406 remained subject to our right of repurchase as of December 31, 1999. (22) Includes 156 shares subject to an option exercisable within 60 days of December 31, 1999. Of the shares held by Mr. Horowitz, 156 remained subject to our right of repurchase as of December 31, 1999. (23) Of the shares held by Ms. Liu, 1,823 remained subject to our right of repurchase as of December 31, 1999. (24) Includes 10,520 shares subject to an option exercisable within 60 days of December 31, 1999. (25) Of the shares held by Mr. Mueller, 22,323 remained subject to our right of repurchase as of December 31, 1999. (26) Includes 2,031 shares subject to an option exercisable within 60 days of December 31, 1999. (27) Includes 833 shares subject to an option exercisable within 60 days of December 31, 1999. (28) Includes 5,416 shares subject to an option exercisable within 60 days of December 31, 1999.

Description of Capital Stock

Our authorized capital stock consists of 50,000,000 shares of common stock, $0.001 par value per share, and 5,000,000 shares of preferred stock, $0.001 par value per share. As of December 31, 1999, there were outstanding 23,608,756 shares of common stock held of record by approximately 112 shareholders and options to purchase 2,057,862 shares of common stock.

Common Stock

Dividend Rights. Subject to preferences that may apply to shares of preferred stock outstanding at the time, the holders of outstanding shares of common stock are entitled to receive dividends out of assets legally available at the times and in the amounts as our board may from time to time determine.

Voting Rights. Each common shareholder is entitled to one vote for each share of common stock held on all matters submitted to a vote of shareholders. Cumulative voting for the election of directors is not provided for in our articles of incorporation, which means that the holders of a majority of the shares voted can elect all of the directors then standing for election.

No Preemptive or Similar Rights. The common stock is not entitled to preemptive rights and is not subject to conversion or redemption.

Right to Receive Liquidation Distributions. Upon our liquidation, dissolution or winding-up, the assets legally available for distribution to our shareholders are distributable ratably among the holders of our common stock and any participating preferred stock outstanding at that time after payment of liquidation preferences, if any, on any outstanding preferred stock and payment of other claims of creditors. Each outstanding share of common stock is, and all shares of common stock to be outstanding upon completion of this offering will be, fully paid and nonassessable.

Preferred Stock

We are authorized to issue preferred stock in one or more series. We can also establish the number of shares to be included in each series, to fix the rights, preferences and privileges of the shares of each series and any of its qualifications, limitations or restrictions. Our board can also increase or decrease the number of shares of any series, but not below the number of shares of that series then outstanding, without any further vote or action by the shareholders.

The board may authorize the issuance of preferred stock with voting or conversion rights that could adversely affect the voting power or other rights of the holders of the common stock. The issuance of preferred stock, while providing flexibility in connection with possible acquisitions and other corporate purposes, could, among other things:

. have the effect of delaying, deferring or preventing a change in our control; or . may cause the market price of our common stock to decline; or . impair the voting and other rights of the holders of our common stock.

We have no current plans to issue any shares of preferred stock.

Proposed Reincorporation We intend to reincorporate in the State of Delaware after our annual meeting of shareholders to be held on February 22, 2000. Our authorized capital stock will continue to consist of 50,000,000 shares of common stock, $0.001 par value per share, and 5,000,000 shares of preferred stock, $0.001 par value per share, and the rights, preferences and privileges of the common stock and preferred stock will be substantially unchanged as a result of the reincorporation.

Warrants

As of December 31, 1999, we had outstanding warrants to purchase 7,273 shares of our common stock at an exercise price of $1.10 per share. These warrants expire on December 31, 2002 and June 30, 2003.

Registration Rights

The holders of approximately 9,708,721 shares of common stock have the right to require us to register their shares with the Securities and Exchange Commission so that those shares may be publicly resold. They also have the right to include their shares in any registration statement we file.

Demand Registration Rights At any time after March 29, 2000, shareholders with registration rights can request that we file a registration statement so that they can publicly sell their shares. The underwriters of any underwritten offering will have the right to limit the number of shares to be included in the filed registration statement.

Who May Make a Demand. At any time after March 29, 2000, GE Capital Equity Investments, Inc., VeriSign, Inc. or the holders of at least 50% of the shares having registration rights have the right to demand that we file a registration statement. The aggregate amount of securities to be sold under the registration statement must exceed $7.5 million. If we are eligible to file a registration statement on Form S-3, any holder of shares having registration rights has the right to demand that we file a registration statement on Form S-3, as long as the amount of securities to be sold under the registration statement exceed $750,000.

Number of Times Holders Can Make Demands. We will be required to file one registration statement for each of GE Capital, VeriSign and the holders of at least 50% of shares having registration rights. If we are eligible to file a registration statement on Form S-3, we are not required to file more than one registration statement during any 12 month period.

Postponement. We may postpone the filing of a registration statement for up to 90 days once in a 12-month period if we determine that the filing would be seriously detrimental to us or our shareholders.

Piggyback Registration Rights If we register any securities for public sale, shareholders with registration rights will have the right to include their shares in that registration statement. The underwriters of any underwritten offering will have the right to limit the number of shares to be included in the registration statement.

Expenses of Registration We will pay all expenses relating to any demand or piggyback registration. However, we will not pay for any expenses of any demand registration if the request is subsequently withdrawn by the holders of a majority of the shares having registration rights, subject to very limited exceptions.

Expiration of Registration Rights The registration rights described above will expire five years after this offering is completed. The registration rights will terminate earlier with respect to a particular shareholder if:

. that holder owns less than 1% of our outstanding securities;

. that holder can resell all of its securities in a three month period under Rule 144 of the Securities Act; and . we are subject to the reporting requirements of the Securities Exchange Act.

Anti-Takeover Provisions Our articles of incorporation provides that our board of directors may issue preferred stock with voting or other rights without shareholder action. Our bylaws also provide that we will indemnify officers and directors against losses that they may incur in investigations and legal proceedings resulting from their services to us, which may include services in connection with takeover defense measures. These provisions may have the effect of delaying, discouraging or preventing changes in our management.

Upon the completion of our proposed reincorporation in the State of Delaware, our certificate of incorporation and bylaws will also contain additional anti-takeover provisions. These will include:

. the elimination of the ability of stockholders to call special meetings of stockholders;

. a requirement that stockholder actions may only occur at a duly called stockholder meeting and not by a consent in writing; and . the implementation of procedures for stockholders to propose new business.

These provisions are intended to enhance the likelihood of continuity and stability in the composition of the board of directors and in the policies formulated by the board of directors and to discourage transactions that may involve an actual or threatened change of control of Keynote. These provisions are designed to reduce our vulnerability to an unsolicited acquisition proposal. The provisions also are intended to discourage tactics that may be used in proxy fights. However, these provisions also are

intended to discourage others from making tender offers for our shares and, as a consequence, they also may inhibit fluctuations in the market price of our shares that could result from actual or rumored takeover attempts. These provisions also may have the effect of preventing changes in our management.

We will also become subject to Section 203 of the Delaware General Corporation Law. Unless our stockholders adopt an amendment to the contrary, our stock is no longer listed on a national securities exchange or our stockholders consent, this section prohibits a Delaware corporation from engaging in any business combination with any interested stockholder, unless:

. prior to becoming an interested stockholder, the board of directors of the corporation approved either the business combination or the transaction that resulted in the stockholder becoming an interested stockholder;

. upon consummation of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the number of shares outstanding those shares owned (1) by persons who are directors and also officers and (2) by employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or . on or subsequent to becoming an interested stockholder, the business combination is approved by the board of directors and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least 66 2/3% of the outstanding voting stock that is not owned by the interested stockholder.

Section 203 defines a business combination to include:

. any merger or consolidation involving the corporation and the interested stockholder;

. any sale, transfer, pledge or other disposition of 10% or more of the assets of the corporation involving the interested stockholder;

. any transaction that results in the issuance or transfer by the corporation of any stock of the corporation to the interested stockholder except upon the exercise, exchange or conversion of securities exercisable for, exchangeable for or convertible into stock of such composition, upon a merger of a parent and a subsidiary, or upon an exchange offer by the corporation to purchase stock made on the same terms to all holders of said stock;

. any transaction involving the corporation that has the effect of increasing the proportionate share of the stock of any class or series of the corporation beneficially owned by the interested stockholder; or . the receipt by the interested stockholder of the benefit of any loans, advances, guarantees, pledges or other financial benefits provided by or through the corporation.

In general, Section 203 defines an interested stockholder as any entity or person beneficially owning 15% or more of the outstanding voting stock of the corporation and any entity or person affiliated with or controlling or controlled by such entity or person.

Indemnification of Directors and Executive Officers and Limitation of Liability Our articles of incorporation limit the liability of directors to the fullest extent permitted by California law. In addition, our articles of incorporation and bylaws provide that we will indemnify our directors and officers to the fullest extent permitted by California law. We have entered into separate indemnification agreements with our directors and executive officers that provide them indemnification protection in the event our articles of incorporation is subsequently amended. Upon the completion of our reincorporation in the State of Delaware, we will enter into new indemnification agreements with our directors and executive officers. For more information, please see "Management--Indemnification of Directors and Executive Officers and Limitation of Liability."

Transfer Agent and Registrar The transfer agent and registrar for our common stock is American Stock Transfer and Trust Company. The address of our transfer agent and registrar is 40 Wall Street, New York, New York 10005, and its telephone number at this location is (212) 936-5100.

Listing

Our common stock is quoted on the Nasdaq National Market under the trading symbol "KEYN."

Shares Eligible for Future Sale

Sales of substantial amounts of our common stock, including shares issued upon exercise of outstanding warrants or options, in the public market after this offering could adversely affect market prices prevailing from time to time and could impair our ability to raise capital through the sale of our equity securities. Furthermore, as described below, no shares currently outstanding will be available for sale immediately after this offering due to contractual restrictions on resale. Sales of substantial amounts of our common stock in the public market after these restrictions lapse could adversely affect the prevailing market price and our ability to raise equity capital in the future.

Upon completion of this offering, we will have outstanding 26,837,420 shares of common stock, assuming the cash exercise of outstanding warrants to purchase 170,802 shares of common stock and the exercise of options to purchase 2,057,862 shares of common stock, as of December 31, 1999, and assuming no exercise of the underwriters' over-allotment option. Of these shares, the 4,650,000 shares sold in this offering and the 4,600,000 shares sold in our initial public offering will be freely tradable without restriction under the Securities Act unless purchased by our "affiliates."

The remaining 17,587,420 shares will become eligible for public sale as follows:

Approximate Number of Additional Shares Date that May be Sold Comment Date of this prospectus 0 Freely tradable shares March 23, 2000 3,307,456 Underwriter's initial public offering lock-up released. These shares may be sold under Rule 144, 144(k) or 701 April 26, 2000 5,288 Restricted securities held for at least one year may be sold under Rule 144 April 30, 2000 23,224 Restricted securities held for at least one year may be sold under Rule 144 May 11, 2000 22,624 Restricted securities held for at least one year may be sold under Rule 144 90 days after the date of this prospectus 14,221,555 Underwriter's public offering lock-up released. These shares may be sold under Rule 144, 144(k) or 701

One year after the date of this prospectus 7,273 Restricted securities held for at least one year may be sold under Rule 144 Lock-Up Agreements All of our officers and directors and substantially all of our shareholders have signed lock-up agreements under which they agreed not to sell, dispose of, loan, pledge or grant any rights with respect to any shares of common stock or any securities convertible into or exercisable or exchangeable for shares of common stock without the prior written consent of FleetBoston Robertson Stephens Inc. until March 23, 2000. All of our officers and directors, selling shareholders have signed a similar lock-up agreement under which they have agreed to the same restrictions described above for a period of 90-days from the date of this prospectus.

FleetBoston Robertson Stephens Inc. may choose to release some of these shares from these restrictions prior to the expiration of these 90-day or 180- day periods, although it has no current intention to do so, other than with respect to releasing shares to be sold by the selling shareholders in this offering.

Rule 144

In general, under Rule 144 as currently in effect, a person who has beneficially owned shares of our common stock for at least one year would be entitled to sell within any three-month period a number of shares that does not exceed the greater of:

. 1% of the number of shares of common stock then outstanding, which will equal approximately 247,731 shares immediately after this offering; or . the average weekly trading volume of the common stock on the Nasdaq National Market during the four calendar weeks preceding the filing of a notice on Form 144 with respect to the sale.

Sales under Rule 144 are also subject to manner of sale provisions and notice requirements and to the availability of current public information about us.

Rule 144(k)

Under Rule 144(k), a person who has not been one of our affiliates at any time during the 90 days preceding a sale, and who has beneficially owned the shares proposed to be sold for at least two years, is entitled to sell those shares without complying with the manner of sale, public information, volume limitation or notice provisions of Rule 144. Therefore, unless otherwise restricted, shares that have been held by a non-affiliate for at least two years may be sold in the open market immediately after the lock-up agreements expire.

Rule 701

Any employee, officer or director of, or consultant to, us who purchased his or her shares under a written compensatory plan or contract may be entitled to sell his or her shares in reliance on Rule 701. Rule 701 permits affiliates to sell their Rule 701 shares under Rule 144 without complying with the holding period requirements of Rule 144. Rule 701 further provides that non-affiliates may sell these shares in reliance on Rule 144 without having to comply with the holding period, public information, volume limitation or notice provisions of Rule 144. All Rule 701 shares became freely tradable 90 days

after the date of the prospectus relating to our initial public offering. However, all shares issued under Rule 701 are subject to lock-up agreements and will only become eligible for sale when the 180-day lock-up agreements expire on March 23, 2000.

Registration Rights

Upon completion of this offering, the holders of 9,708,721 shares of common stock, or their transferees, will be entitled to certain rights with respect to the registration of those shares under the Securities Act. For a discussion of these rights please see "Description of Capital Stock--Registration Rights." After these shares are registered, they will be freely tradable without restriction under the Securities Act.

Warrants

As of December 31, 1999, we had outstanding warrants to purchase 7,273 shares of common stock. When these warrants are exercised and the exercise price is paid in cash, the shares must be held for one year before they can be sold under Rule 144. These warrants contain a "net exercise" provision. This provision allows a holder to exercise the warrant for a lesser number of shares of common stock instead of paying cash. The number of shares which would be issued in this case would be based upon the market price of the common stock at the time of the net exercise. If the warrant had been held for at least one year at the time of the net exercise, the shares of common stock could be publicly sold under Rule 144. After the lock-up agreements in connection with our initial public offering, described above, expire, each of the outstanding warrants will have been outstanding for at least one year.

Stock Options

We filed a registration statement on Form S-8 under the Securities Act covering shares of common stock reserved for issuance under our stock option and employee stock purchase plans. As of December 31, 1999, options to purchase 2,057,862 shares of common stock were issued and outstanding. Shares registered under this registration statement on Form S-8 will, subject to Rule 144 volume limitations applicable to our affiliates, be available for sale in the open market immediately after the lock-up agreements expire.

Underwriting

The underwriters named below, acting through their representatives, FleetBoston Robertson Stephens Inc., Hambrecht & Quist LLC, Dain Rauscher Incorporated and SoundView Technology Group, Inc. , have entered into an underwriting agreement with us and the selling shareholders to purchase the number of shares of common stock set forth opposite their names below. The underwriters are committed to purchase and pay for all of the shares listed below if any shares are purchased.

Number of Underwriter Shares FleetBoston Robertson Stephens Inc. ..... Hambrecht & Quist LLC..... Dain Rauscher Incorporated..... SoundView Technology Group, Inc. ..... Total..... 4,650,000 Generally, we and the selling shareholders have agreed to indemnify each underwriter against liability arising out of

any untrue statement contained in the registration statement, any preliminary prospectus or the final prospectus, or the omission of a material fact required to be stated in the registration statement or such prospectus necessary to make the statements in the registration statement or such prospectus not misleading. In addition, we and the selling shareholders have agreed to indemnify each underwriter against liability arising out of violations of laws or regulations of foreign jurisdictions where reserved shares have been offered. The underwriters have agreed to indemnify us and the selling shareholders against liability with respect to untrue statements or omissions, or alleged untrue statements or omissions, made in the registration statement, any preliminary prospectus or the final prospectus in reliance upon and in conformity with written information furnished to us by that underwriter through FleetBoston Robertson Stephens Inc. expressly for use in the registration statement, such preliminary prospectus or the prospectus. For more detailed information on the terms of indemnification contained in the underwriting agreement, please see Exhibit 1.01 to the registration statement.

The shares of common stock are being offered by the several underwriters, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of various legal matters by counsel for the underwriters and other conditions. The underwriters reserve the right to withdraw, cancel or modify this offer and to reject orders in whole or in part.

Over-Allotment Option. We have granted to the underwriters an option, exercisable during the 30-day period after the date of this prospectus, to purchase up to 697,500 additional shares of common stock at the same price per share as we and the selling shareholders will receive for the 4,650,000 shares that the underwriters have agreed to purchase. To the extent that the underwriters exercise this option, each of the underwriters will have a firm commitment, to purchase approximately the same percentage of these additional shares that the number of shares of common stock to be purchased by it shown in the above table represents as a percentage of the 4,650,000 shares in this offering. If purchased, these additional shares will be sold by the underwriters on the same terms as those on which the 4,650,000 shares are being sold.

Lock-Up Agreement. Each of our officers, directors and selling shareholders has agreed with the representatives or us for a period of 90 days after the effective date of this prospectus, not to dispose of or hedge any shares of common stock, or securities convertible into or exchangeable for shares of common stock, now owned or later acquired by them without the prior written consent of FleetBoston Robertson Stephens Inc. However, FleetBoston Robertson Stephens Inc. may, in its sole discretion and at any time without notice, release all or any portion of the securities subject to lock-up agreements. All of the shares of common stock subject to the lock-up agreements will be eligible for sale in the public market upon the expiration of the lock-up agreements, subject to holding period, volume limitations and other conditions of Rule 144.

Future Sales. In addition, we have agreed that during the period of 90 days following the effective date of this prospectus, we will not, without the prior written consent of FleetBoston Robertson Stephens Inc., subject to limited exceptions, including in connection with acquisitions, dispose of or hedge any shares of common stock, or any securities convertible into, exercisable for or exchangeable for shares of

common stock, other than our sales of shares in this offering, the issuance of common stock upon the exercise of outstanding options or warrants or our issuance of options or shares under existing stock option or stock purchase plans. See "Shares Eligible for Future Sales."

The underwriters do not intend to confirm sales to any accounts over which they exercise discretionary authority.

Stabilization. The representatives have advised us that, pursuant to Regulation M under the Securities Act, some persons participating in the offering may engage in transactions, including stabilizing bids, syndicate covering transactions or the imposition of penalty bids that may have the effect of stabilizing or maintaining the market price of the common stock at a level above that which might otherwise prevail in the open market. A "stabilizing bid" is a bid for or the purchase of the common stock on behalf of the underwriters for the purpose of fixing or maintaining the price of the common stock. A "syndicate covering transaction" is the bid for the purchase of the common stock on behalf of the underwriters to reduce a short position incurred by the underwriters in connection with the offering. A "penalty bid" is an arrangement permitting the representatives to reclaim the selling concession otherwise accruing to an underwriter or syndicate member in connection with the offering if the common stock originally sold by this underwriter or syndicate member is purchased by the representatives in a syndicate covering transaction and has therefore not been effectively placed by this underwriter or syndicate member. These transactions may be effected on the Nasdaq National Market or otherwise and, if commenced, may be discontinued at any time.

Commissions and Discounts. The representatives of the underwriters have advised us that the underwriters propose initially to offer the shares of common stock to the public at the public offering price set forth on the cover page of this prospectus, and to certain dealers at that price less a concession not in excess of $ per share of common stock. The underwriters may allow, and such dealers may reallow, a discount not in excess of $ per share of common stock to certain other dealers. After the public offering, the public offering price, concession and discount may change.

The following table shows the per share and total underwriting discount to be paid by us to the underwriters and the proceeds before expenses to us. This information is presented assuming either no exercise or full exercise by the underwriters of their over-allotment option.

Per Without With Share Option Option

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Public offering price.............................. $      $      $
Underwriting discount.............................. $      $      $
Proceeds, before expenses, to Keynote.............. $      $      $
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The underwriting fee will be an amount equal to the offering price per share to the public of the common stock, less the amount paid by the underwriters to Keynote per share of common stock. The underwriting fee is currently expected to be approximately % of the public offering price. The expenses of the offering, exclusive of the underwriting discount, are estimated at $650,000 and are payable entirely by us. These expenses include: filing fees of approximately $156,704; legal, accounting and other professional services fees of approximately $300,000; road show related expenses of approximately $30,000; and approximately $18,296 in miscellaneous expenses.

Internet Distribution. A prospectus in electronic format is being made available on the Internet web site maintained by Wit Capital. In addition, pursuant to an e-Dealer Agreement, all dealers purchasing shares from Wit Capital in the offering similarly have agreed to make a prospectus in electronic format available on web sites maintained by each of the e-Dealers.

Wit Capital, a member of the National Association of Securities Dealers, Inc. will participate in the offering as one of the underwriters. The National Association of Securities Dealers, Inc. approved the membership of Wit Capital on September 8, 1999. Since that time, Wit Capital has acted as an underwriter, co-manager or selected dealer in over 125 public offerings. Except for its participation as a manager in this offering, Wit Capital has no relationship with Keynote or any of its founders or significant shareholders.

E*TRADE will make the preliminary prospectus available on its web site when it becomes available. E*TRADE will not solicit conditional offers until two business days before the expected effective date of an offering. If the effective date of the offering is delayed beyond two business days, E*TRADE would allow, consistent with Wit Capital no-action letter, that any conditional offer received from a customer remain valid for five business days from the date it was submitted.

E*TRADE will provide customers a period after effectiveness and pricing during which they will continue to have the right to cancel their conditional offers. This period will be until 8 p.m. E.S.T. (but in no event less than two hours after E*TRADE notifies its customers of effectiveness and pricing) in the usual situation where the offering becomes effective and prices after the close of trading. If the offering becomes effective and prices prior to or during the trading day, the period will be one hour after E*TRADE notifies its customers of effectiveness and pricing.

If an offering prices outside the expected price range indicated in the preliminary prospectus or the price range for an offering changes, E*TRADE will either (i) cancel its existing book of conditional offers and resolicit new conditional offers or (ii) require customers to reconfirm their existing conditional offers as a condition to participating in the offering.

Legal Matters

Fenwick & West LLP, Palo Alto, California, will pass upon the validity of the issuance of the shares of common stock offered by this prospectus. Brobeck, Phleger & Harrison LLP, Palo Alto, California, will pass upon certain legal matters in connection with this offering for the underwriters. As of December 31, 1999, an investment partnership of Fenwick & West LLP beneficially owned an aggregate of 65,770 shares of our common stock.

Experts

The financial statements of Keynote as of September 30, 1999 and 1998, and for each of the years in the three-year period ended September 30, 1999 have been included in this prospectus in reliance upon the report of KPMG LLP, independent certified public accountants, appearing elsewhere in this

prospectus, and upon the authority of KPMG as experts in accounting and auditing.

Effective February 1999, our board of directors engaged KPMG as our principal accountants to audit our financial statements. Keynote did not consult with KPMG on any accounting or financial reporting matters in the periods before their appointment. The change in accountants was approved by the board. Arthur Andersen LLP served as our independent auditors from inception until the dismissal of Arthur Andersen effective February 1999, which was approved by our board. Arthur Andersen performed the first full fiscal year audit of our financial statements for the then fiscal year ended December 31, 1996, as well as the audit for the fiscal year ended December 31, 1997. The report of Arthur Andersen on our financial statements prepared in connection with the December 31, 1996 and 1997 audits was unqualified. Furthermore, in connection with the December 31, 1997 and 1996 audits and during the subsequent interim period prior to the dismissal of Arthur Andersen, there were no disagreements between Arthur Andersen and us on any matters of accounting principals or practices, financial statement disclosure or auditing scope or procedure which, if not resolved to the satisfaction of Arthur Andersen, would have caused Arthur Andersen to make reference to the subject matter of such disagreements in connection with its report.

Subsequent to KPMG's completion of the audit for the fiscal year ended December 31, 1998, we changed our fiscal year end from December 31, to September 30. As the prior year audits performed by Arthur Andersen were as of December 31, KPMG audited the prior periods ended September 30 for the purposes of inclusion in this prospectus.

Where You Can Find Additional Information

We have filed with the Securities and Exchange Commission, a registration statement on Form S-1 under the Securities Act with respect to the shares of common stock offered by this prospectus. This prospectus does not contain all of the information set forth in the registration statement and related exhibits and schedules. For further information with respect to us and our common stock being offered, see the registration statement and the related exhibits and schedules. Statements contained in this prospectus concerning the contents of any contract or any other document are not necessarily complete. If a contract or document has been filed as an exhibit to the registration statement, please see the copy of the contract or document that has been filed. Each statement in this prospectus relating to a contract or document filed as an exhibit is qualified in all respects by the filed exhibit. The registration statement and the related exhibits and schedules, may be inspected without charge at the principal office of the Securities and Exchange Commission located at Room 1024, 450 Fifth Street, Washington, D.C., 20549. Copies of all or any part of the registration statement may be obtained from that office after payment of fees prescribed by the Securities and Exchange Commission. The Securities and Exchange Commission maintains a web site that contains reports, proxy and information statements and other information regarding registrants that file electronically with the Securities and Exchange Commission at http://www.sec.gov.

We are subject to the information and periodic reporting requirements of the Exchange Act and file periodic reports, proxy statements and other information with the Securities and Exchange Commission. These periodic reports, proxy statements and other information are available for inspection at the Securities and Exchange Commission's public reference rooms and its web site, which is described above.

Keynote Systems, Inc.

Index to Financial Statements

Page

Independent Auditors' Report..... F-2 Balance Sheets as of September 30, 1999 and 1998..... F-3 Statements of Operations for the years ended September 30, 1999, 1998 and 1997..... F-4 Statements of Shareholders' Equity (Deficit) for the years ended September 30, 1999, 1998 and 1997..... F-5 Statements of Cash Flows for the years ended September 30, 1999, 1998 and 1997..... F-6 Notes to Financial Statements F-7

Independent Auditors' Report

The Board of Directors Keynote Systems, Inc.:

We have audited the accompanying balance sheets of Keynote Systems, Inc. (the Company) as of September 30, 1999 and 1998, and the related statements of operations, shareholders' equity (deficit), and cash flows for each of the years in the three-year period ended September 30, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Keynote Systems, Inc. as of September 30, 1999 and 1998, and the results of its operations and its cash flows for each of the years in the three-year period ended September 30, 1999 in conformity with generally accepted accounting principles.

/s/ KPMG LLP

Mountain View, California October 25, 1999

Keynote Systems, Inc.

BALANCE SHEETS (In thousands, except share and per share amounts) September 30, 1999 1998

ASSETS		
Current assets:		
Cash and cash equivalents	$ 64,647	$ 2,293
Accounts receivable, less allowance for doubtful accounts of $255 and $22, as of September 30, 1999 and 1998	2,295	454
Prepaids and other current assets	333	55
Total current assets	67,275	2,802
Property and equipment, net	3,277	1,105
Loans to related parties	451	--
Other assets	68	11
	$ 71,071	$ 3,918
LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK AND SHAREHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Current portion of notes payable	$ 1,189	$ 194
Current portion of capital lease obligation	133	--
Accounts payable and accrued expenses	2,578	206
Deferred revenue	1,087	238
Total current liabilities	4,987	638
Notes payable, less current portion	2,591	303
Capital lease obligation, less current portion	251	--
Total liabilities	7,829	941

Commitments

Redeemable convertible preferred stock, $0.001 par value; 50,000,000 and 39,781,478 shares authorized as of September 30, 1999 and 1998, respectively; 18,007,523 shares issued and outstanding as of September 30, 1998; aggregate liquidation preference of $8,564 as of September 30, 1998; no shares issued and outstanding as of September 30, 1999 -- 8,529 Shareholders' equity (deficit): Common stock, $0.001 par value; 50,000,000 shares authorized; 22,908,688 and 4,927,301 shares issued and outstanding as of September 30, 1999 and 1998, respectively 23 5 Additional paid-in capital 77,430 347 Deferred stock-based compensation (1,135) -- Shareholder notes receivable (388) (326) Accumulated deficit (12,688) (5,578) Total shareholders' equity (deficit) 63,242 (5,552) $ 71,071 $ 3,918 See accompanying notes to the financial statements

Keynote Systems, Inc.

STATEMENTS OF OPERATIONS (In thousands, except per share amounts) Years Ended September 30, 1999 1998 1997

Revenue:			
Subscription services	$ 7,055	$ 1,539	$ 81
Consulting services	217	--	--
Total revenues	7,272	1,539	81

Expenses			
Cost of subscription services	2,314	580	209
Cost of consulting services	444	--	--
Research and development	2,059	1,226	732
Sales and marketing	5,331	1,529	817
Operations	1,639	514	63
General and administrative	1,642	647	278
Amortization of stock-based compensation	858	--	--
Total expenses	14,287	4,496	2,099
Loss from operations	(7,015)	(2,957)	(2,018)
Interest income (expense), net	(95)	39	(31)
Net loss	$(7,110)	$(2,918)	$(2,049)
Basic and diluted net loss per share	$ (1.54)	$ (1.10)	$ (0.84)
Shares used in computing basic and diluted net loss per share	4,622	2,649	2,434

See accompanying notes to the financial statements

Keynote Systems, Inc.

STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT) (In thousands, except share amounts)

	Common Stock		Additional	Deferred	Shareholder		Total
	Shares	Amount	Paid-in Capital	Stock-Based Compensation	Notes Receivable	Accumulated Deficit	Shareholders' (Deficit) Equity

Balances as of September 30, 1996..... 2,703,333 $ 3 $ 57 $ -- $ (16) $ (611) $ (567) Issuance of common stock pursuant to exercise of stock options for cash and notes and purchase of restricted shares with notes..... 902,165 1 46 -- (32) -- 15 Repurchase of common stock..... (10,000) -- (1) -- -- -- (1) Repayment of shareholder notes receivable..... -- -- -- -- 14 -- 14 Net loss..... -- -- -- -- -- (2,049) (2,049) Balances as of September 30, 1997..... 3,595,498 4 102 -- (34) (2,660) (2,588) Issuance of common stock pursuant to exercise of stock options for cash and notes and purchase of restricted shares with notes..... 1,845,116 2 365 -- (294) -- 73 Repurchase of common stock..... (513,313) (1) (120) -- -- -- (121) Repayment of shareholder notes receivable..... -- -- -- -- 2 -- 2 Net loss..... -- -- -- -- -- (2,918) (2,918) Balances as of September 30, 1998..... 4,927,301 5 347 -- (326) (5,578) (5,552) Issuance of common stock pursuant to exercise of stock options for cash and notes and purchase of restricted shares with notes..... 1,610,084 2 2,807 -- (79) -- 2,730 Deferred compensation related to stock option grants..... -- -- 1,911 (1,911) -- -- -- Repurchase of common stock..... (92,598) -- (11) -- -- -- (11) Repayment of shareholder notes receivable..... -- -- -- -- 17 -- 17 Amortization of stock- based compensation.... -- -- -- 776 -- -- 776 Conversion of redeemable preferred stock to common stock..... 12,588,901 12 23,355 -- -- -- 23,367 Compensation related to performance based stock options..... -- -- 81 -- -- -- 81 Issuance of common stock in initial public offering, net of issuance costs of $5,306..... 3,875,000 4 48,940 -- -- -- 48,944 Net loss..... -- -- -- -- -- (7,110) (7,110) Balances as of September 30, 1999..... 22,908,688 $23 $77,430 $(1,135) $(388) $(12,688) $63,242 See accompanying notes to the financial statements

Keynote Systems, Inc.

STATEMENTS OF CASH FLOWS (In thousands) Years Ended September 30, 1999 1998 1997

Cash flows from operating activities:			
Net loss	$(7,110)	$(2,918)	$(2,049)
Adjustments to reconcile net loss to net cash used for operating activities:			
Depreciation and amortization	868	336	133
Amortization of discount on notes	43	10	2
Amortization of stock-based compensation	776	--	--
Compensation related to performance based stock options	81	--	--
Changes in operating assets and liabilities:			
Accounts receivable	(1,841)	(399)	(55)
Prepaids, other assets, and loans to related parties	(786)	(32)	(9)
Accounts payable and accrued expenses	2,372	128	61
Deferred revenue	849	169	69
Net cash used for operating activities	(4,748)	(2,706)	(1,848)
Cash flows used for investing activities:			
Purchases of property and equipment	(2,622)	(1,011)	(423)
Cash flows from financing activities:			
Repayments of notes payable and capital leases	(440)	(134)	(38)
Proceeds from issuance of notes payable	3,646	338	320
Issuance of warrants to purchase preferred stock in connection with notes	50	41	16
Net proceeds from issuance of preferred stock	14,788	4,661	1,650
Proceeds from bridge financing	--	--	900
Proceeds from issuance of common stock	2,730	73	15
Repurchase of common stock	(11)	(121)	(1)
Repayments of shareholder notes	17	2	14
Issuance of common stock in initial public offering, net of issuance costs	48,944	--	--
Net cash provided by financing activities	69,724	4,860	2,876
Net increase in cash and cash equivalents	62,354	1,143	605
Cash and cash equivalents at beginning of the year	2,293	1,150	545
Cash and cash equivalents at end of the year	$64,647	$ 2,293	$ 1,150
Noncash financing activities:			
Conversion of bridge financing to preferred stock	$ --	$ --	$ 900
Issuance of common stock for shareholder notes receivable	$ 79	$ 294	$ 32
Deferred compensation related to stock option grants	$ 1,911	$ --	$ --
Purchase of property and equipment through capital leases	$ 418	$ --	$ --
Conversion of preferred stock to common stock	$23,367	$ --	$ --

See accompanying notes to the financial statements

Keynote Systems, Inc.

Notes to Financial Statements

(1) the Company

Keynote Systems, Inc. (the Company) was incorporated on June 15, 1995. The Company provides Internet performance measurement and diagnostic services that enable e-commerce companies to measure, assure and improve the quality of service of their web sites.

(2) Summary of Significant Accounting Policies

(a) REVENUE RECOGNITION Subscription services revenue consists of fees from subscriptions to the Company's Internet measurement and diagnostic services. Subscription revenues are deferred upon the customer's invoicing and are recognized ratably over the service period, generally ranging from one to twelve months. Deferred revenue is comprised entirely of deferred subscription revenue. Revenue from consulting services is recognized as the services are performed, typically a period of one month. For longer consulting projects, the Company anticipates recognizing revenue on a percentage of completion basis.

Cost of subscription revenues consists of connection fees to Internet service providers for deployment of the Company's computer measurement agents around the world, depreciation, maintenance and other equipment charges for the Company's measurement infrastructure. Cost of consulting services consists of compensation for consulting personnel and related costs. Operations expenses consist primarily of compensation and related costs for management personnel, technical support employees and consultants who manage and maintain the Company's measurements and headquarter infrastructure and support the Company's customer base.

(b) USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(c) CASH AND CASH EQUIVALENTS The Company considers all cash and highly liquid investments with an original maturity of three months or less to be cash equivalents. The Company is exposed to credit risk in the event of default of the financial institutions to the extent of the amounts recorded on the balance sheet.

(d) PROPERTY AND EQUIPMENT Property and equipment are recorded at cost less accumulated depreciation and amortization. Depreciation is calculated using the straight-line method over the estimated useful lives of the respective assets, generally three years. Equipment under capital leases is amortized over the shorter of the useful life of the equipment or the lease term. Leasehold improvements are amortized over the shorter of the estimated useful lives of the assets or the lease term.

(e) COMPREHENSIVE INCOME (LOSS) The Company has no components of other comprehensive loss for any period presented.

Keynote Systems, Inc.

NOTES TO FINANCIAL STATEMENTS--(Continued) (f) FINANCIAL INSTRUMENTS AND CONCENTRATION OF CREDIT RISK The carrying value of the Company's financial instruments, including cash and cash equivalents, accounts receivable and equipment notes payable approximates fair market value. Cash and cash equivalents and accounts receivable approximate fair market value due to their short-term nature. Equipment notes approximate fair market value as interest rates on these notes approximate market rates. Financial instruments that subject the Company to concentrations of credit risk consists primarily of cash and cash equivalents and trade accounts receivable.

Credit risk is concentrated in North America. The Company performs ongoing credit evaluations of its customers' financial condition and, generally, requires no collateral from its customers. The Company has had immaterial write-offs of accounts receivable to date. Based on its ongoing credit evaluations, the Company has adequately reserved for doubtful accounts as of the date of each balance sheet presented herein.

(g) PREPAIDS AND OTHER ASSETS Prepaids and other assets consist principally of deposits under operating leases, advances to employees and prepayments.

(h) STOCK-BASED COMPENSATION The Company accounts for stock option grants under Statement of Financial Accounting Standards (SFAS) No. 123, Accounting For Stock-Based Compensation, which permits the use of the intrinsic-value method in accordance with Accounting Principles Board (APB) Opinion No. 25, Accounting For Stock Issued To Employees, and related interpretations. Expense associated with stock-based compensation is being amortized ratably over the vesting period of the individual award.

(i) INCOME TAXES

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences

are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is established when necessary to reduce deferred tax assets to the amounts the Company expects to realize.

(j) IMPAIRMENT OF LONG-LIVED ASSETS The Company evaluates its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

(k) SOFTWARE DEVELOPMENT COSTS Software development costs are expensed as incurred until technological feasibility has been established. To date, the Company's service offerings have been available for general release concurrent with the establishment of technological feasibility and, accordingly, no development costs have been capitalized.

Keynote Systems, Inc.

NOTES TO FINANCIAL STATEMENTS--(Continued) (l) ACCOUNTING FOR CERTAIN INVESTMENTS IN DEBT AND EQUITY SECURITIES The Company classifies its investments in debt and equity securities as available-for-sale. Available-for-sale securities are carried at fair market value, which approximates amortized cost. As of September 30, 1999 and 1998, the Company had no investments in debt or equity securities.

(m) NET LOSS PER SHARE Basic net loss per share is computed using the weighted-average number of outstanding shares of common stock excluding shares of restricted stock subject to repurchase summarized below. Diluted net loss per share is computed using the weighted-average number of shares of common stock outstanding and, when dilutive, potential common shares from options and warrants to purchase common stock using the treasury stock method and from convertible securities using the as "if-converted" basis. The following potential common shares have been excluded from the computation of diluted net loss per share because the effect would have been antidilutive (in thousands):

Years Ended September 30, 1999 1998 1997

Shares outstanding under stock options	1,926	742	297
Shares of restricted stock subject to repurchase	1,479	2,036	1,028
Shares issuable pursuant to warrants to purchase:			
Convertible preferred stock	--	390	36
Common stock	272	110	110
Shares of convertible preferred stock on an "as-if" converted basis	--	9,222	5,373

The weighted-average exercise price of outstanding stock options was $6.16, $0.21, and $0.13 for the years ended September 30, 1999, 1998 and 1997, respectively. The weighted-average purchase price of restricted stock was $0.25, $0.16, and $0.06, for the years ended September 30, 1999, 1998 and 1997, respectively. The weighted-average exercise price of the convertible preferred stock warrants was $1.26, and $1.10 for the years ended September 30, 1998 and 1997, respectively. The weighted-average exercise price of common stock warrants was $1.52, $0.05 and $0.05 for the years ended September 30, 1999, 1998 and 1997.

(n) RECENT ACCOUNTING PRONOUNCEMENTS In March 1998, AcSec issued Statement of Position (SOP) No. 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use. SOP No. 98-1 requires that certain costs related to the development or purchase of internal-use software be capitalized and amortized over the estimated useful life of the software. SOP No. 98-1 is effective for financial statements issued for fiscal years beginning after December 15, 1998. The Company does not expect the adoption of SOP No. 98-1 will have a material impact on its results of operations.

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards, or SFAS, No. 133, Accounting for Derivative Instruments and Hedging Activities. SFAS No. 133 establishes accounting and reporting standards for derivative financial instruments and hedging activities related to those instruments, as well as other hedging activities. Because the Company does not currently hold any derivative instruments and do not engage in hedging activities, we expect that the adoption of SFAS No. 133 will not have a material impact on the Company's financial position, results of operations or cash flows. The Company will be required to adopt SFAS No. 133 in fiscal 2001.

Keynote Systems, Inc.

NOTES TO FINANCIAL STATEMENTS--(Continued)

(3) Shareholder Notes Receivable and Loans to Related Parties

In April 1998, the Company issued a shareholder note to an officer for $280,000 for the purchase of common stock. In May 1998, the Company issued a shareholder note to this officer for $300,000, in connection with the acceleration of the lapse of the Company's repurchase right with respect to the shares of common stock owned by him. In June 1999, these loans were consolidated into a single loan that accrues interest at a rate of 6% per annum and is due and payable on or before December 31, 2001. The loan is with full recourse and secured by a stock pledge agreement.

In January 1999, the Company issued a full recourse shareholder note to an officer, secured by a stock pledge agreement for $75,000 related to the purchase of common stock. The note accrues interest at a rate of 7% per annum and is payable on or before January 2004. Additionally, the Company loaned the

officer $150,000 in connection with a relocation he made upon joining the Company. The loan is secured by a security agreement, accrues interest at a rate of 9% per annum and is due and payable on or before January 2002.

(4) Property and Equipment

A summary of property and equipment consisted of the following (in thousands):

September 30, 1999 1998

Computer equipment and software	$ 4,495	$1,536
Furniture and fixtures	142	52
Leasehold improvements	16	16
	4,653	1,604
Less accumulated depreciation and amortization	(1,376)	(499)
	$ 3,277	$1,105

(5) Notes Payable

Notes payable comprised the following (in thousands):

September 30, 1999 1998

Equipment notes at an annual interest rate of between 5.6% and 10.25% payable in monthly installments, aggregating approximately $123,000 monthly through April 2002	$3,089	$542
Promissory note at an annual interest rate of 8.25% payable in February 2002	750	--
Discount	(59)	(45)
	3,780	497
Less current portion	1,189	194
	$2,591	$303

As of September 30, 1999, the aggregate maturities of notes payable for the years ending September 30, 2000, 2001 and 2002 are as follows: $1,189,000, $1,661,000 and $989,000, respectively. The Company has granted a security interest in a portion of its assets to secure the equipment and promissory notes.

Keynote Systems, Inc.

NOTES TO FINANCIAL STATEMENTS--(Continued) In connection with certain of the equipment notes, the Company issued warrants for the purchase of 145,454 shares of common stock at $0.55 per share and warrants for the purchase of 376,238 shares of common stock at $0.65 and $0.90 per share. Of the 145,454 warrants issued, 72,727 expire on December 31, 2002, and 72,727 expire on June 30, 2003. The 376,238 warrants expire by June 30, 2004. As of September 30, 1999, the lender had not exercised the warrants. The fair value of the warrants on the dates of issuance determined using the Black-Scholes option-pricing model has been recorded, as a discount on the notes payable. The value of the warrants recorded in each of the years ended September 30, 1999 and 1998 were $50,000 and

$41,000, respectively. The fair value of each warrant was estimated using the following assumptions: no dividends, risk free interest rate of between 5.5% and 6.7%, volatility of 50% and a contractual life of five years. The note discount is being amortized to interest expense using the interest method over the term of the related notes payable.

(6) Redeemable Convertible Preferred Stock

Redeemable convertible preferred stock outstanding as of September 30, 1998, was as follows:

	Shares Designated	Issued and Outstanding	Carrying Value
Series:			
Series A	6,078,444	6,078,444	$1,261,790
Series A1	6,078,444	--	--
Series B	4,812,295	4,666,841	2,582,371
Series B1	4,812,295	--	--
Series C	8,138,476	7,262,238	4,735,923
Series C1	8,138,476	--	--
	38,058,430	18,007,523	$8,580,084

The issuance costs associated with the issuance of Series A, B, and C redeemable convertible preferred stock was approximately $15,000, $16,000, and $60,000, respectively.

In fiscal 1999, the Company raised $14.8 million by issuing 6,734,545 shares of Series D redeemable convertible preferred stock. The issuance costs associated with issuing Series D redeemable convertible preferred stock was approximately $82,000. In September of 1999, the Company completed its initial public offering of common stock. Each share of preferred stock was converted into 0.50 shares of common stock at the option of the shareholder, except for Series C that converted into 0.53 shares of common stock.

(7) Shareholders' Equity (Deficit)

(a) 1999 EQUITY INCENTIVE PLAN In September 1999, the Company adopted the 1999 Equity Incentive Plan (Incentive Plan). The Incentive Plan provides for the award of incentive stock options, nonqualified stock options, restricted stock awards and stock bonuses. Options may be exercisable only as they vest or may be immediately exercisable with the shares issued subject to the Company's right of repurchase that lapses as the shares vest. In general, options will vest over a four-year period. As of September 30, 1999, the Company was authorized to issue up to 5.1 million shares of common stock in connection with its 1999 Equity Incentive Plan (the Plan) to employees, directors, and consultants, which includes options reserved for issuance under the Company's 1996 and 1997 stock option plans, which plans terminated upon the completion of the Company's initial public offering. The number of shares reserved under the Incentive Plan will increase automatically on January 1 of each calendar year by a number of shares equal to 5% of the Company's outstanding shares on the preceding December 31.

NOTES TO FINANCIAL STATEMENTS--(Continued) Stock options granted prior to April 1999 were generally immediately exercisable subject to a restricted stock purchase agreement whereby the Company has the right to repurchase the unvested portion of the shares upon the voluntary or involuntary termination of the purchaser's employment with the Company at the original issuance cost. The Company's right of repurchase lapses with respect to 25% of the shares after one year and ratably on a monthly basis over the following three years. Through September 30, 1999, 1.5 million shares of common stock issued upon exercise of stock options are subject to repurchase at a weighted-average price of $0.25 per share. Certain of these restricted shares were issued to officers and employees of the Company for full recourse promissory notes with interest rates ranging from 6% to 7% and terms of 5 years.

Under the Plan, the exercise price for incentive stock options is at least 100% of the stock's fair market value on the date of the grant for employees owning less than 10% of the voting power of all classes of stock, and at least 110% of the fair market value on the date of grant for employees owning more than 10% of the voting power of all classes of stock. For nonqualified stock options, the exercise price is also at least 110% of the fair market value on the date of grant for employees owning more than 10% of the voting power of all classes of stock and no less than 85% for employees owning less than 10% of the voting power of all classes of stock. Options expire 10 years after the date of grant.

(b) 1999 EMPLOYEE STOCK PURCHASE PLAN In September 1999, the Company adopted the 1999 Employee Stock Purchase Plan (Purchase Plan) and reserved 400,000 shares of common stock for issuance under this plan. The number of shares reserved under the Purchase Plan will increase automatically on January 1 of each calendar year by a number of shares equal to 1% of the Company's outstanding shares on the preceding December 31. Under the Purchase Plan, eligible employees may defer an amount not to exceed 10% of the employee's compensation, as defined in the Purchase Plan, to purchase common stock of the Company. The purchase price per share will be 85% of the lesser of the fair market value of the common stock on the first day of the applicable offering period or the last day of each purchase period. The Purchase Plan will be intended to qualify as an "employee stock purchase plan" under Section 423 of the Internal Revenue Code. Through September 30, 1999, no shares had been issued under this plan, and 400,000 shares had been reserved for future issuance.

(c) STOCK SPLIT

On September 20, 1999, the Company effected a 1-for-2 reverse stock split of its common stock. The accompanying financial statements give effect to the 1-for-2 reverse stock split.

Keynote Systems, Inc.

NOTES TO FINANCIAL STATEMENTS--(Continued) (d) STOCK-BASED COMPENSATION The Company uses the intrinsic-value method in accounting for its employee stock-based compensation plans. Accordingly, no compensation cost has been recognized for any of its stock options granted

because the exercise price of each option equaled or exceeded the fair value of the underlying common stock as of the grant date for each stock option, except for certain stock options granted in fiscal 1999. For those option grants, the Company recorded deferred stock compensation of $1.9 million for the difference at the grant date between the exercise price of each stock option granted and the fair value of the underlying common stock. This amount is being amortized on a straight line basis over the vesting period, generally four years. The $858,000 of stock- based compensation for the year ended September 30, 1999 relates to the following items in the accompanying 1999 statement of operations: $31,000 cost of consulting services; $68,000 research and development; $138,000 sales and marketing; $52,000 operations; and $569,000 general and administrative. Had the Company determined compensation costs based on the fair value at the grant date for its stock options under SFAS No. 123 for all of the Company's stock-based compensation plans, net loss and basic and diluted net loss per share would have been as follows:

Years Ended September 30, 1999 1998 1997 Net loss (in thousands): As reported..... $(7,110) $(2,918) $(2,049) Pro forma..... $(7,297) $(2,934) $(2,051) Basic and diluted net loss per share: As reported..... $ (1.54) $ (1.10) $ (0.84) Pro forma..... $ (1.58) $ (1.11) $ (0.84) The fair value of each option was estimated on the date of grant using Black-Scholes option pricing model. The calculation includes the following weighted-average assumptions: no dividends, expected volatility of 70% risk free interest rate of 5.45%, 5.55%, and 6.22% for fiscal 1999, 1998 and 1997, respectively, and expected life of 2.50, 2.84, and 3.17 years for fiscal 1999, 1998 and 1997, respectively.

The fair value of purchase rights granted under the Purchase Plan is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions for the grants in fiscal 1999: no expected dividends, expected volatility of 70%, risk-free rate of 5.45% and expected life of 1.33 years. The weighted-average fair value of the purchase rights granted under the Purchase Plan during fiscal 1999 was $9.90 per share.

Keynote Systems, Inc.

NOTES TO FINANCIAL STATEMENTS--(Continued) A summary of activity under the Company's option plans is as follows (in thousands, except per share data):

	Years Ended September 30,				
	1999		1998		1997
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at the beginning of the year.....	742	$0.21	297	$0.14	75	$0.05
Granted.....	2,080	5.92	2,346	0.21	1,106	0.07
Exercised.....	(798)	0.66	(1,845)	0.20	(832)	0.05
Canceled.....	(98)	0.78	(56)	0.13	(52)	0.05
Outstanding at the end of the year.....	1,926	6.16	742	0.21	297	0.14
Options exercisable at end of the year.....	567	1.47	642	0.21	185	0.13

Weighted-average fair value of options granted during the year with exercise prices equal to fair

value at date of grant..... 2.90 0.03 0.01 Weighted-average fair value of options granted during the year with exercise prices less than fair value at date of grant..... 2.61 -- -- The following table summarizes information about stock options outstanding as of September 30, 1999 (in thousands, except per share data):

	Options Outstanding			Options Exercisable	
Exercise Prices	Number Outstanding At 9/30/99	Weighted-Average Remaining Contractual Life	Weighted-Ave. Exercise Price	Number Outstanding At 9/30/99	Weighted-Average Exercise Price
$0.05	12	7.51	$0.05	12	$0.05
From $0.20 to $0.24	137	8.67	0.23	133	0.23
From $0.50 to $0.60	133	9.24	0.52	113	0.50
From $1.60 to $3.20	326	10.00	1.88	246	1.61
$4.42	97	10.00	4.42	43	4.42
From $8.00 to $9.00	1010	10.00	8.30	20	8.00
$11.00	211	10.00	11.00	--	--
	1,926	9.84	$6.16	567	$1.47

The Company has granted approximately 85,000 performance-based stock options to various employees. The Company has accounted for the options in accordance with APB 25. As a result, the Company recorded a compensation charge of $81,000 during the year ended September 30, 1999.

Keynote Systems, Inc.

NOTES TO FINANCIAL STATEMENTS--(Continued)

(8) Income Taxes

The differences between the income tax benefit computed at the federal statutory rate of 34% and the Company's tax provision for the years ended September 30, 1999 and 1998 are a result of the following (in thousands):

1999 1998

Computed "Expected" tax expense.....	$(2,417,543)	$(991,914)
Non-deductible expenses.....	197,170	2,022
Net operating losses not utilized.....	2,220,373	989,892
Total.....	$ --	$ --

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities as of September 30, 1999 and 1998 are presented in the following table (in thousands):

September 30, 1999 1998

Deferred start-up costs	$ 169	$ 235
Net operating loss carryforwards.....	3,957	1,832
Tax credit carryforwards.....	247	141
Other.....	414	21
Total deferred tax assets.....	4,787	2,229
Valuation allowance.....	(4,769)	(2,229)

Net deferred tax assets	18	--
Deferred tax liabilities:		
Plant and equipment	(18)	--
Total deferred tax liabilities	(18)	--
Net deferred tax asset (liability)	$ --	$ --

In light of the Company's recent history of operating losses, the Company has provided a valuation allowance for all of its deferred tax assets as it is presently unable to conclude that it is more likely than not that the deferred tax assets will be realized. The net change in the valuation allowance for fiscal 1999 and 1998 was $1.2 million and $2.5 million, respectively.

As of September 30, 1999, the Company had net operating loss carryforwards for federal income tax reporting purposes of approximately $10.6 available to reduce future income subject to income taxes. As of September 30, 1999, the Company had net operating loss carryforwards for state income tax purposes of approximately $6.2 million available to reduce future income subject to income taxes. The federal net operating loss carryforwards expire in various periods through 2019. State net operating loss carryforwards expire in various periods through 2004. In addition, as of September 30, 1999, the Company had federal research and development tax credit carryforwards of approximately $154,000. The federal credit carryforwards expire in various periods through 2019. As of September 30, 1999, the Company had California research and development tax credit carryforwards of approximately $140,000. The California credit may be carried over indefinitely. The U.S. Tax Reform Act of 1986 contains provisions that limit the net operating loss carryforwards and research and development credits available to be used in any given year upon the occurrence of certain events, including a significant change to ownership. The Company has not determined whether an ownership change has occurred which could limit the availability of net operating losses.

(9) Leases

The Company leases its facilities and certain equipment under noncancelable operating leases, which expire on various dates through December 2000. Additionally, the Company has recorded equipment under capital lease. At September 30, 1999, future minimum payments under the leases are as follows (in thousands):

Years Ending September 30,	Operating	Capital
2000	$726	$154
2001	--	154
2002	--	116
	$726	424
Less amount representing interest		(40)
Present value of minimum lease payments		384
Current portion of capital lease obligation		133
Capital lease obligation, less current portion		$251

Rent expense for the years ended September 30, 1999, 1998 and 1997 was approximately $551,000, $115,000 and $84,000, respectively.

(11) Geographic, Segment, and Significant Customer Information

In fiscal 1999, the Company adopted SFAS No. 131, Disclosures About Segments of an Enterprise and Related Information. SFAS No. 131 establishes standards for the manner in which public companies report information about operating segments in annual and interim financial statements. It also establishes standards for related disclosures about products and services, geographic areas, and major customers. The method for determining what information to report is based on the way management organizes the operating segments within the Company for making operating decisions and assessing financial performance. The Company's chief operating decision-maker is considered to be the chief executive officer (CEO). The financial information the CEO reviews is identical to the information presented in the accompanying statements of operations. Therefore, the Company has determined that it operates in a single operating segment: developing and selling services to measure, assure and improve the quality of service of web sites.

The Company markets its products from its operations in the United States. International sales are primarily to customers in Europe. These sales and foreign-owned assets are not significant.

Significant customer information is as follows:

	Percent of Total Revenue Years Ended September 30,			Percent of Total Accounts Receivable At September 30,	
	1999	1998	1997	1999	1998
Customer A	--	1%	11%	--	--
Customer B	4%	15%	1%	--	10%

[Keynote Logo]

Part Ii

Information Not Required in Prospectus

Item 13. Other Expenses Of Issuance And Distribution The following table sets forth the costs and expenses to be paid by the Registrant in connection with the sale of the shares of common stock being registered hereby. All amounts are estimates except for the Securities and Exchange Commission registration fee, the NASD filing fee and the Nasdaq National Market filing fee.

Securities and Exchange Commission registration fee	$108,704
NASD filing fee	30,500
Nasdaq National Market filing fee	17,500
Accounting fees and expenses	150,000
Legal fees and expenses	150,000
Road show expenses	30,000
Printing and engraving expenses	125,000
Blue sky fees and expenses	5,000
Transfer agent and registrar fees and expenses	15,000
Miscellaneous	18,296
Total	$650,000

Item 14. Indemnification Of Directors And Officers Section 317 of the California Corporations Code authorizes a court to award, or a corporation's board of directors to grant, indemnity to directors and officers in terms sufficiently broad to permit such indemnification under certain circumstances for liabilities (including reimbursement for expenses incurred) arising under the Securities Act of 1933, as amended (the "Securities Act").

As permitted by the California Corporations Code, the Registrant's Articles of Incorporation includes a provision that eliminates the personal liability of its directors for monetary damages for breach of fiduciary duty as a director, except for liability:

.for any breach of the director's duty of loyalty to the Registrant or its shareholders;

. for acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law;

. for any transaction from which the director derived an improper personal benefit;

. for acts or omissions that a director believes to be contrary to the best interests of the Registrant or its shareholders or that involve the absence of good faith on the part of the director;

. for acts or omissions that show a reckless disregard for the director's duty to the Registrant or its shareholders in circumstances in which the director was aware, or should have been aware, in the ordinary course of performing a director's duties, of a risk of a serious injury to the Registrant or its shareholders;

. under Section 310 of the California Corporations Code regarding contracts in which a director has a material financial interest; or . under Section 316 of the California Code regarding improper dividends, loans and guarantees.

As permitted by the California Corporations Code, the Registrant's Bylaws provide that:

. the Registrant is required to indemnify its directors, officers and employees to the fullest extent permitted by the California Corporations Code, subject to certain very limited exceptions;

. the Registrant is required to advance expenses, as incurred, to its directors, officers and employees in connection with a legal proceeding to the fullest extent permitted by the California Corporations Code, subject to certain very limited exceptions;

. the Registrant may enter into agreements with any of its directors, officers, employees or agents that provides for indemnification of expenses incurred to the fullest extent permitted by the Registrant's Articles of Incorporation and California law; and . the rights conferred in the Bylaws are not exclusive.

The Registrant has entered into Indemnification Agreements with each of its current directors and officers to give such directors and officers additional contractual assurances regarding the scope of the indemnification set forth in the Registrant's Articles of Incorporation and to provide additional procedural protections in the event of litigation. At present, there is no pending litigation or proceeding involving a director, officer or employee of the Registrant regarding which indemnification is sought, nor is the Registrant aware of any threatened litigation that may result in claims for indemnification.

Reference is also made to Section 7 of the Underwriting Agreement, which provides for the indemnification of officers, directors and controlling persons of the Registrant against certain liabilities. The indemnification provision in the Registrant's Articles of Incorporation, Bylaws and the Indemnity Agreements entered into between the Registrant and each of its directors and officers may be sufficiently broad to permit indemnification of the Registrant's directors and officers for liabilities arising under the Securities Act.

The Registrant maintains directors' and officers' liability insurance and has obtained a rider to such coverage for securities matters.

See also the undertakings set out in response to Item 17.

Reference is made to the following documents filed as exhibits to this Registration Statement regarding relevant indemnification provisions described above and elsewhere herein:

Exhibit Document Number Underwriting Agreement (dated January , 2000)..... 1.01 Registrant's Articles of Incorporation..... 3.02 Registrant's Bylaws..... 3.03 Third Amended and Restated Investors' Rights Agreement dated April 26, 1999..... 4.02 Form of Indemnity Agreement..... 10.01 Item 15. Recent Sales Of Unregistered Securities Since inception we have issued and sold the following securities:

1. Through September 30, 1999, we granted direct issuances or stock options to purchase 11,803,930 shares of our common stock at exercise prices ranging from $0.025 to $11.00 per share to our employees, consultants, directors and other service providers under our 1996 Stock Option Plan and our 1999 Stock Option Plan.

2. Through June 30, 1999, we issued and sold an aggregate of 12,119,539 shares of our common stock to employees, consultants, directors, other service providers and VeriSign, Inc. at prices ranging from $0.025 to $4.00 per share under direct issuances or exercises of options granted under our 1996 Stock Option Plan and our 1999 Stock Option Plan. All sales of common stock made pursuant to the exercise of stock options were made in reliance on Rule 701 under the Securities Act and/or on Section 4(2) of the Securities Act.

3. In May and June 1996, we issued and sold an aggregate of 6,078,444 shares of our Series A preferred stock to private investors for an aggregate purchase price of approximately $1,276,473. This sale of common stock was made in reliance on Section 4(2) and/or Rule 506 of Regulation D under the Securities Act.

4. On January 21, 1997, in connection with a bridge loan that converted into Series B preferred stock, we issued warrants to purchase shares of our common stock at an exercise price of $0.025 per share as follows:

Number of Shares Name Subject to Warrant

Applewood Partners	110,920
Gerald S. Casilli	15,379
Gerald S. Casilli Trust	1,538
Michelle A. Casilli Trust	1,538
Casilli '95 Unitrust	7,177
David E. Kratter	7,308
Matthew R. Kratter	1,476
Mark E. Kratter	1,476
Irwin Lieber	25,632
Magnuson Revocable Trust Dated January 14, 1994	7,308
Glenn E. Penisten	7,308
Eugene Shklar	140,000
Samuel Urcis	7,308
Woodland Partners	25,632

On July 3, 1997, Eugene Shklar exercised the warrant held by him, described above. On May 18, 1999 the Magnuson Revocable Trust dated January 14, 1994, exercised the warrant held by it, described above. In September 1999, each of the other holders of warrants exercised the warrant held by it, described above.

5. On April 11, 1997, in connection with an equipment lease, we issued a warrant to Western Technology Investment, Inc., an equipment lessor, to purchase 65,454 shares of our Series B preferred stock and a warrant to Robert A. Kingsbrook to purchase 7,273 shares of our Series B preferred stock, each at an exercise price of $0.55 per share. In November 1999, Western Technology Investment exercised the warrants held by it.

6. In July 1997, we issued and sold an aggregate of 4,666,841 shares of our Series B preferred stock to private investors for an aggregate purchase price of approximately $2,566,763. This sale of common stock was made in reliance on Section 4(2) and/or Rule 506 of Regulation D under the Securities Act.

7. On December 9, 1997, we issued a warrant to Umang Gupta to purchase 500,000 shares of Series C preferred stock at an exercise price of $0.65 per share. In September 1999, this warrant was exercised.

8. On December 23, 1997, in connection with an equipment lease, we issued two warrants to Western Technology Investment, Inc., an equipment lessor, to purchase an aggregate of 65,454 shares of our Series B preferred stock, and a warrant to Robert A. Kingsbrook to purchase 7,273 shares of our Series B preferred stock, each at an exercise price of $0.55 per share. In November 1999, Western Technology Investment exercised the warrants held by it.

9. In March 1998, we issued and sold an aggregate of 7,262,238 shares of our Series C preferred stock to private investors for an aggregate purchase price of $4,720,455. This sale of common stock was made in reliance on Section 4(2) and/or Rule 506 of Regulation D under the Securities Act.

10. On June 24, 1998, in connection with an equipment lease, we issued two warrants to Western Technology Investment, Inc., an equipment lessor, to purchase an aggregate of 67,692 shares of our Series C preferred stock at an exercise price of $0.65 per share. In November 1999, these warrants were exercised.

11. On August 21, 1998, in connection with an equipment lease, we issued a warrant to Comdisco, Inc., an equipment lessor, to purchase 30,769 shares of our Series C preferred stock at an exercise price of $0.65 per share.

. On September 30, 1998, in connection with an equipment lease, we issued a warrant to Comdisco, Inc., an equipment lessor, to purchase 277,777 shares of our Series C preferred stock at an exercise price of $0.90 per share.

13. In April and May 1999, we issued and sold an aggregate of 6,734,545 shares of Series D preferred stock to private investors for an aggregate purchase price of $14,883,334. This sale of common stock was made in reliance on Section 4(2) and/or Rule 506 of Regulation D under the Securities Act.

Immediately prior to the closing of Registrant's initial public offering, it effected a one for two reverse split of its common stock. Upon the completion of that offering, each outstanding share of Series A preferred stock, Series B preferred stock and Series D preferred stock was converted into 0.50 shares of common stock and each outstanding share of Series C preferred stock was converted into 0.53 shares of common stock.

Item 16. Exhibits and Financial Statement Schedules (a) The following exhibits are filed herewith:

Number Exhibit Title

1.01* Underwriting Agreement (dated as of January , 2000).

3.02(/1/) Registrant's Amended and Restated Articles of Incorporation.

3.03(/1/) Registrant's Amended and Restated Bylaws.

3.04 Amended and Restated Certificate of Incorporation of Keynote Systems, Inc., a Delaware corporation.

3.05(/3/) Bylaws of Keynote Systems, Inc., a Delaware corporation.

4.01(/1/) Form of Specimen Certificate for Registrant's common stock.

4.02(/1/) Third Amended and Restated Investors' Rights Agreement, dated as of April 26, 1999.

5.01 Opinion of Fenwick & West LLP regarding legality of the securities being registered.

10.01(/1/) Form of Indemnity Agreement between Registrant and each of its directors and executive officers.

10.01A Form of Indemnity Agreement between Keynote Systems, Inc., a Delaware corporation, and each of its directors and executive officers.

10.02(/1/) 1996 Stock Option Plan.

10.03(/1/) 1999 Stock Option Plan.

10.04(/1/) 1999 Equity Incentive Plan and related forms of stock option agreement and stock option exercise agreement.

10.05(/1/) 1999 Employee Stock Purchase Plan and related forms of enrollment form, subscription agreement, notice of withdrawal and notice of suspension.

10.06(/1/) 401(k) Plan.

10.07(/1/) Memorandum of Understanding between Registrant and VeriSign, Inc. dated as of February 17, 1999.

10.08(/1/) Employment Agreement dated as of December 9, 1997 between Registrant and Umang Gupta.

10.09(/1/) Form of Loan Agreement between the Registrant and Umang Gupta, dated as of June 28, 1999.

10.10(/1/) Loan and Security Agreement between the Registrant and Lloyd Taylor, dated as of January , 1999.

10.11(/1/) Loan and Pledge Agreement between the Registrant and Lloyd Taylor, dated as of January 15, 1999.

10.12(/1/) Warrant to purchase 500,000 shares of Series C preferred stock of Registrant issued to Umang Gupta.

10.13(/1/) Warrant to purchase 110,000 shares of common stock of Registrant held by Applewood Associates, L.P.

10.14(/1/) Warrant to purchase 25,632 shares of common stock of Registrant held by Irwin Lieber.

Number Exhibit Title

10.15(/1/) Warrant to purchase 25,632 shares of common stock of Registrant held by Woodland Partners, L.P.

10.16(/1/) Office sublease between Registrant and Electronics for Imaging, Inc., dated as of February 23, 1999.

10.17(/1/) Warrant to purchase 15,379 shares of common stock of Registrant held by Gerald S. Casilli.

10.18(/1/) Warrant to purchase 1,538 shares of common stock of Registrant held by Gerald S. Casilli Trust.

10.19(/1/) Warrant to purchase 1,538 shares of common stock of Registrant held by Michelle A. Casilli Trust.

10.20(/1/) Warrant to purchase 7,177 shares of common stock of Registrant held by Casilli '95 Unitrust.

10.21(/1/) Warrant to purchase 7,308 shares of common stock of Registrant held by David E. Kratter.

10.22(/1/) Warrant to purchase 1,476 shares of common stock of Registrant held by Matthew R. Kratter.

10.23(/1/) Warrant to purchase 1,476 shares of common stock of Registrant held by Mark E. Kratter.

10.24(/1/) Warrant to purchase 7,308 shares of common stock of Registrant held by Glenn E. Penisten.

10.25(/1/) Warrant to purchase 7,308 shares of common stock of Registrant held by Samuel Urcis.

10.26(/1/) Warrant to purchase 65,454 shares of Series B preferred stock of Registrant held by Western Technologies Investments, Inc. (formerly known as Venture Lending and Leasing, Inc.).

10.27(/1/) Warrant to purchase 7,273 shares of Series B preferred stock of Registrant held by Robert A. Kingsbrook.

10.28(/1/) Warrant to purchase 19,636 shares of Series B preferred stock held by Western Technology Investment, Inc. (formerly known as Venture Lending and Leasing, Inc.)

10.29(/1/) Warrant to purchase 45,818 shares of Series B preferred stock of Registrant held by Western Technology Investment, Inc. (formerly known as Venture Lending and Leasing II, Inc.).

10.30(/1/) Warrant to purchase 7,273 shares of Series B preferred stock of Registrant held by Robert A. Kingsbrook.

10.31(/1/) Warrant to purchase 20,308 shares of Series C preferred stock held by Western Technology Investment, Inc. (formerly known as Venture Lending and Leasing, Inc.).

10.32(/1/) Warrant to purchase 47,384 shares of Series C preferred stock of Registrant held by Western Technology Investment, Inc. (formerly known as Venture Lending and Leasing II, Inc.).

10.33(/1/) Warrant to purchase 30,769 shares of Series C preferred stock of Registrant held by Comdisco, Inc.

10.34(/1/) Warrant to purchase 277,777 shares of Series C preferred stock of Registrant held by Comdisco, Inc.

16.01(/1/) Letters from Arthur Andersen LLP, dated as of July 9, 1999 and September 9, 1999, regarding change in certifying accountant.

21.01 Subsidiaries of Registrant.

23.01 Consent of Fenwick & West LLP (included in Exhibit 5.01).

23.02 Consent of KPMG LLP, independent accountants.

27.01(/2/) Financial Data Schedule. 99.01(/3/) Registrant's Preliminary Proxy Statement on Schedule 14A.

*To be filed by amendment. (1) Incorporated by reference to exhibits of the same number to Registrant's registration statement on Form S-1, declared effective by the Securities and Exchange Commission on September 24, 1999 (File No. 333-82781). (2) Incorporated by reference to exhibits of the same number to Registrant's annual report on Form 10-K, filed with the Securities and Exchange Commission on December 21, 1999.

(3) Incorporated by reference to Registrant's Preliminary Proxy Statement on Schedule 14A, filed with the Securities and Exchange Commission on January 6, 2000.

(b) Financial statement schedules:

The following financial statement schedule is filed as part of this registration statement and should be read together with our financial statements:

Schedule II--Valuation and Qualifying Accounts Item 17. Undertakings Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Registrant pursuant to the provisions described under Item 14 above, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned Registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this Registration Statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this Registration Statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

Signatures

Pursuant to the requirements of the Securities Act, the Registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of San Mateo, State of California, on this 14th day of January, 2000.

Keynote Systems, Inc.

/s/ Umang Gupta By: _____ Umang Gupta Chairman of the Board and Chief Executive Officer KNOW ALL PERSONS BY THESE PRESENTS that each individual whose signature appears below constitutes and appoints Umang Gupta and John Flavio, and each of them, his true and lawful attorneys-in-fact and agents with full power of substitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) to this Registration Statement, and to sign any registration statement for the same offering covered by the Registration Statement that is to be effective upon filing pursuant to Rule 462(b) promulgated under the Securities Act, and all post-effective amendments thereto, and to file the same, with all exhibits thereto and all documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or his or their substitute or substitutes, may lawfully do or cause to be done or by virtue hereof.

Pursuant to the requirements of the Securities Act, this Registration Statement has been signed by the following persons in the capacities and on the date indicated.

Signature Title Date

Principal Executive Officer:		
/s/ Umang Gupta Umang Gupta	Chairman of the Board, Chief Executive Officer and Director	January 14, 2000

Principal Financial Officer and Principal Accounting Officer:

/s/ John Flavio John Flavio	Vice President of Finance, Chief Financial Officer and Secretary	January 14, 2000

Additional Directors:

/s/ Eugene Shklar Director January 14, 2000 Eugene Shklar /s/ David Cowan Director January 14, 2000 David Cowan Signature Title Date /s/ Mark Leslie Director January 14, 2000 Mark Leslie /s/ Stratton Sclavos Director January 14, 2000 Stratton Sclavos KEYNOTE SYSTEMS, INC. SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS

	Balance at	Additions	Balance at End

Classification	Beginning of Period	Charged to Operations	Write-offs	of Period
Allowance for doubtful accounts year ended:				
September 30, 1997.....	$ --	$ 12,000	$ (2,000)	$ 10,000
September 30, 1998.....	$10,000	$164,000	$(152,000)	$ 22,000
September 30, 1999.....	$22,000	$301,000	$ (68,000)	$255,000

Exhibit Index

Number Exhibit Title

3.04 Amended and Restated Certificate of Incorporation of Keynote Systems, Inc., a Delaware corporation.

5.01 Opinion of Fenwick & West LLP regarding legality of the securities being registered.

10.01A Form of Indemnity Agreement between Keynote Systems, Inc., a Delaware corporation, and each of its directors and executive officers.

21.01 Subsidiaries of Registrant.

23.01 Consent of Fenwick & West LLP (included in Exhibit 5.01).

23.02 Consent of KPMG LLP, independent accountants.

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