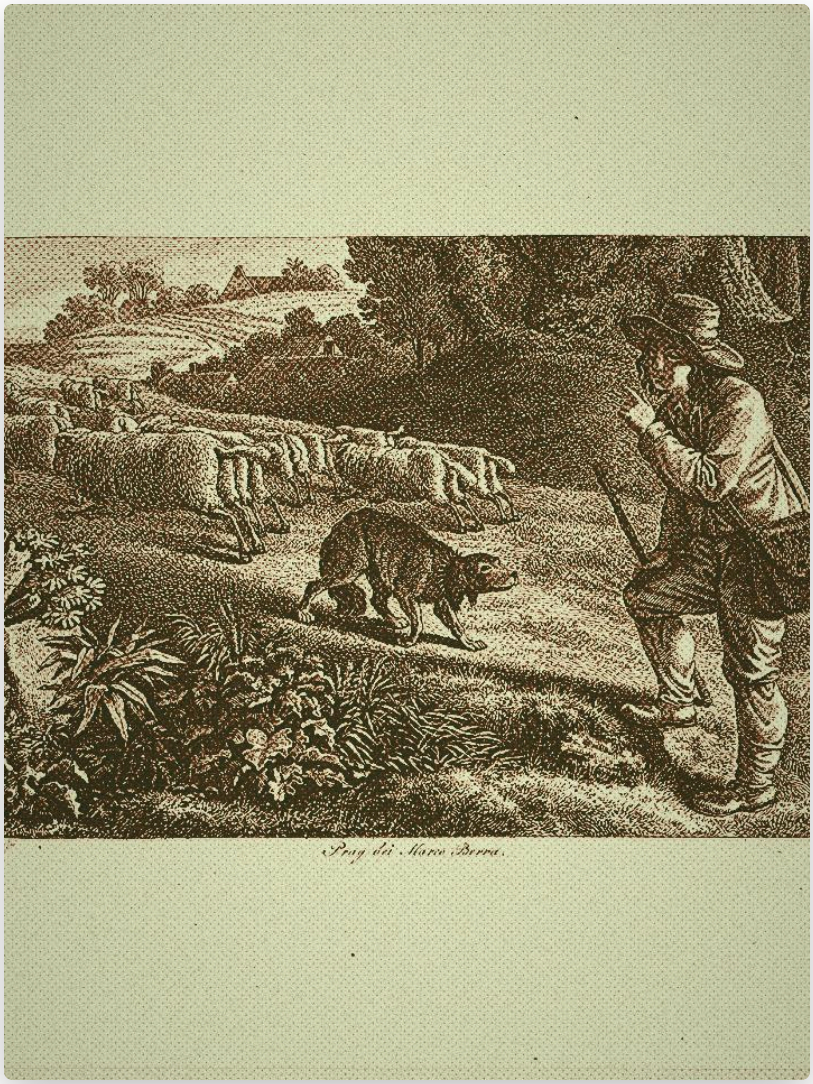
FORM S-1 · REGISTRATION STATEMENT

Packeteer Inc

IPO priced 1999-07-28 · $15.00 a share · PKTR



From S1 Directory · www.s1directory.com/s1/packeteer-inc/ · Source: https://www.sec.gov/Archives/edgar/data/1011344/000089161899002402/0000891618-99-002402.txt

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON MAY 21, 1999

REGISTRATION NO. 333-

SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549

FORM S-1 REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

PACKETEER, INC. (EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE	7373	77-0420107
(STATE OF INCORPORATION)	(PRIMARY STANDARD INDUSTRIAL CLASSIFICATION CODE NUMBER)	(INTERNAL REVENUE SERVICE EMPLOYER IDENTIFICATION NUMBER)

10495 N. DE ANZA BOULEVARD CUPERTINO, CALIFORNIA 95014 (408) 873-4400 (ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF THE REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES) CRAIG W. ELLIOTT PRESIDENT AND CHIEF EXECUTIVE OFFICER PACKETEER, INC. 10495 N. DE ANZA BOULEVARD CUPERTINO, CALIFORNIA 95014 (408) 873-4400 (NAME AND ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF AGENT FOR SERVICE)

COPIES TO:

WARREN T. LAZAROW
ARMANDO CASTRO
VAHE H. SARRAFIAN
ELIZABETH A. R. YEE
BROBECK, PHLEGER & HARRISON LLP
TWO EMBARCADERO PLACE
2200 GENG ROAD
PALO ALTO, CALIFORNIA 94303
(650) 424-0160

NEIL WOLFF
YOICHIRO TAKU
JOHN SASAKI
WILSON SONSINI GOODRICH & ROSATI
PROFESSIONAL CORPORATION
650 PAGE MILL ROAD
PALO ALTO, CALIFORNIA 94304
(650) 493-9300

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: AS SOON AS PRACTICABLE AFTER THIS REGISTRATION STATEMENT BECOMES EFFECTIVE.

IF 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, AS AMENDED (THE "SECURITIES ACT"), OTHER THAN SECURITIES OFFERED ONLY IN CONNECTION WITH DIVIDEND OR INTEREST REINVESTMENT PLANS, PLEASE 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, PLEASE 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, 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 SHARES TO BE REGISTERED	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE(1)	AMOUNT OF REGISTRATION FEE
Common Stock, $0.001 par value per share.....	$55,200,000	$15,346

(1) ESTIMATED SOLELY FOR THE PURPOSE OF COMPUTING THE AMOUNT OF THE REGISTRATION FEE PURSUANT TO RULE 457(O) UNDER THE SECURITIES ACT OF 1933, AS AMENDED.

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 THE REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THIS REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE SECURITIES AND EXCHANGE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

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.

SUBJECT TO COMPLETION, DATED MAY , 1999

[PACKETEER LOGO]

SHARES

COMMON STOCK PACKETEER, INC. IS OFFERING SHARES OF ITS COMMON STOCK. THIS IS OUR INITIAL PUBLIC OFFERING AND NO PUBLIC MARKET CURRENTLY EXISTS FOR OUR SHARES. WE HAVE APPLIED FOR APPROVAL FOR QUOTATION ON THE NASDAQ NATIONAL MARKET UNDER THE SYMBOL "PKTR." WE ANTICIPATE THAT THE INITIAL PUBLIC OFFERING PRICE WILL BE BETWEEN $ AND $ PER SHARE.

Investing in Our Common Stock Involves Risks. See "Risk Factors" Beginning on Page 4.

Per Share Total

Public Offering Price	$	$
Underwriting Discounts and Commissions	$	$
Total Proceeds to Packeteer	$	$

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.

Packeteer has granted the underwriters a 30-day option to purchase up to additional shares of our common stock. BancBoston Robertson Stephens Inc. expects to deliver the shares of common stock to purchasers on , 1999.

Bancboston Robertson Stephens Bear, Stearns & Co. Inc.

DAIN RAUSCHER WESSELS A DIVISION OF DAIN RAUSCHER INCORPORATED The date of this prospectus is , 1999.

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.

UNTIL , 1999, ALL DEALERS THAT BUY, SELL OR TRADE OUR COMMON STOCK, WHETHER OR NOT PARTICIPATING IN THIS OFFERING, MAY BE REQUIRED TO DELIVER A PROSPECTUS. THIS REQUIREMENT IS IN ADDITION TO THE DEALERS' OBLIGATION TO DELIVER A PROSPECTUS WHEN ACTING AS UNDERWRITERS AND WITH RESPECT TO THEIR UNSOLD ALLOTMENTS OR SUBSCRIPTIONS.

Table of Contents

Page

Prospectus Summary..... 1
Risk Factors..... 4
Use of Proceeds..... 17
Dividend Policy..... 17
Capitalization..... 18
Dilution..... 19
Selected Consolidated Financial Data..... 20
Management's Discussion and Analysis of Financial Condition and Results of Operations..... 21
Business..... 31
Management..... 48
Certain Transactions..... 58
Principal Stockholders..... 59
Description of Capital Stock..... 61
Shares Eligible for Future Sale..... 65
Underwriting..... 67
Legal Matters..... 69
Experts..... 69
Where You Can Find More Information..... 70
Index to Consolidated Financial Statements..... F-1

Packeteer, PacketShaper, PacketWise and our spiral design logo are trademarks of Packeteer. This prospectus also contains other trade names, trademarks of Packeteer and of other companies.

Prospectus Summary

You should read this summary together with the more detailed information regarding our company and the common stock being sold in this offering and our consolidated financial statements and related notes thereto appearing elsewhere in this prospectus. Because this is only a summary, you should read the rest of the prospectus before you invest in our common stock. Read this entire prospectus carefully, especially the risks described under "Risk Factors."

Unless otherwise indicated, the information in this prospectus assumes the automatic conversion of each outstanding share of preferred stock into one share of common stock and no exercise of the underwriter's option to purchase additional shares.

The Company

Packeteer is a leading provider of application-adaptive bandwidth management solutions that enhance mission-critical application performance over enterprise wide area networks, or WANs, and the Internet. Our solutions enable businesses and service providers to manage proactively bandwidth contention at congested WAN access links, protect important application traffic and increase network efficiency. We deliver comprehensive application-adaptive bandwidth management by discovering and classifying network traffic, analyzing application and network performance, controlling traffic flows and monitoring and reporting on performance. Our PacketWise software is at the core of our bandwidth management solutions and is embedded in our PacketShaper family of products or in the networking products of our OEM partners. Our PacketShaper product family consists of an Intel architecture-based hardware platform that runs various configurations of our PacketWise software, providing customers with a plug-and-play solution.

Today, both the Internet and its underlying protocols have grown to positions of prominence in enterprise networking. From its origins as a network connecting academic and government institutions, the Internet has evolved into an interactive communications and commerce platform supporting businesses' daily operations. The rapid emergence of Internet computing has created new challenges for information technology managers. E-commerce and e-business applications extend the confines of the enterprise network across the Internet, making application performance difficult to ensure. Enterprise users are accessing web sites, large files, streaming multimedia content, news and other non-critical information over the Internet. In enterprise networks that are overwhelmed by increasing amounts of both non-critical and mission-critical traffic, unmanaged congestion at the WAN access link undermines application performance and can result in impaired productivity and lost revenues. Businesses and service providers require bandwidth management solutions to enhance mission-critical application performance, increase network efficiency and enable the convergence of data, voice and video traffic.

Our application-adaptive bandwidth management solutions enable businesses and service providers to realize the following key benefits:

- Gain Network Performance Visibility and Insight. We provide valuable historical and real-time information about application performance and network utilization.

- Ensure Bandwidth to Mission-Critical Applications. Our policy-based bandwidth allocation protects bandwidth for mission-critical applications from less critical traffic.

- Simplify Deployment. Our solutions require no changes to the existing network infrastructure, install easily and automatically start to discover, classify and analyze network traffic. 1 - Enable Interactive Services. We deliver smooth and predictable performance of delay-sensitive multimedia services that

require guaranteed bandwidth, such as Voice over IP and real-time video.

- Increase Network Efficiency. We improve network efficiency and help delay expensive capacity upgrades by managing non-critical traffic and smoothing the variability in bandwidth utilization.

- Facilitate E-Commerce. Our solutions optimize response time for critical e-commerce sites such as sales and home pages and can redirect users with slower connections to less data-intensive web pages.

Our objective is to be the leading provider of application-adaptive bandwidth management solutions to businesses and service providers. We believe we have established a differentiated market position in terms of our technology expertise, early market leadership and brand awareness. We intend to continue to direct our development and sales and marketing efforts toward addressing the bandwidth management needs of the Internet computing market. We plan to expand our presence in the service provider market by providing solutions that enable service providers to offer higher value-added application-based services. We intend to continue to build our indirect channel and develop additional original equipment manufacturer, or OEM, relationships to enable the worldwide deployment of our technology. Finally, we plan to extend our bandwidth management technology leadership to increase the performance, functionality and modularity of our existing bandwidth management solutions and to develop new leading-edge technologies for emerging markets.

We have shipped over 2,500 PacketShapers to date and have established a network of over 100 value-added resellers, or VARs, distributors and systems integrators that sell our solutions in over 50 countries. In addition, we have OEM relationships with partners who license our PacketWise software to incorporate in their networking products or resell our products under their own label.

We were incorporated in Delaware on January 25, 1996. Our principal executive offices are located at 10495 North De Anza Boulevard, Cupertino, California 95014, and our telephone number at that address is (408) 873-4400. Information contained on our web site at www.packeteer.com does not constitute part of this prospectus. 2

The Offering

Common stock offered by Packeteer..... shares Common stock to be outstanding after this offering..... shares Use of proceeds..... General corporate purposes including working capital, repayment of $2.5 million of indebtedness and potential acquisitions. See "Use of Proceeds." Proposed Nasdaq National Market Symbol... PKTR The number of shares of common stock to be outstanding after this offering is based upon shares outstanding as of March 31, 1999. This number excludes, as of March 31, 1999, 2,026,083 shares of common stock reserved for issuance under our equity plans and 2,465,878 shares of common stock issuable upon exercise of outstanding stock options and warrants.

Summary Consolidated Financial Data

The as adjusted consolidated balance sheets data summarized below reflects the conversion of our preferred stock into 12,391,001 shares of common stock upon the completion of this offering and the application of the net proceeds from the sale of shares of common stock offered hereby at an assumed offering price of $ per share and after deducting the underwriting discounts and commissions and our estimated offering expenses. Please see Note 1 of Notes to Consolidated Financial Statements for an explanation of the number of shares used in computing per share data.

		YEARS ENDED		THREE MONTHS	
	JAN. 25, 1996 (INCEPTION) TO DEC. 31, 1996	DECEMBER 31, 1997	1998	ENDED MARCH 31, 1998	1999
	(IN THOUSANDS, EXCEPT PER SHARE DATA)				
CONSOLIDATED STATEMENTS OF OPERATIONS DATA:					
Total net revenues	$ --	$ 1,413	$ 7,230	$ 1,246	$ 3,099
Gross profit	--	956	4,844	770	2,245
Total operating expenses	1,312	7,076	13,932	2,409	4,782
Net loss from operations	(1,312)	(6,120)	(9,088)	(1,639)	(2,537)
Net loss	$(1,237)	$(5,909)	$(8,799)	$(1,605)	$(2,523)
Basic and diluted net loss per share	$ (1.28)	$ (1.82)	$ (1.54)	$ (0.34)	$ (0.35)
Shares used in computing basic and diluted net loss per share	965	3,253	5,709	4,734	7,271
Pro forma basic and diluted net loss per share			$ (0.49)		$ (0.13)
Shares used in computing pro forma basic and diluted net loss per share			18,100		19,662

March 31, 1999 Actual as Adjusted

CONSOLIDATED BALANCE SHEETS DATA:		
Cash, cash equivalents and short-term investments	$ 7,084	$
Working capital	4,065	
Total assets	10,250	
Long-term obligations	2,658	
Total stockholders' equity	2,377	

Risk Factors

You should carefully consider the risks described below before making an investment decision. The risks and uncertainties described below are not the only ones we face. If any of the following risks actually occur, our business, financial condition or results of operations could be materially and

adversely affected. In such case, the trading price of our common stock could decline, and you may lose all or part of your investment.

This prospectus also 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 certain factors, including the risks faced by us described below and elsewhere in this prospectus.

We Have a Limited Operating History and May Not Be Able to Implement Our Growth Strategy

We were incorporated in January 1996 and began shipping our products commercially in February 1997. Because of our limited operating history and the uncertain nature of the rapidly changing market that we serve, we believe the prediction of future results of operations is difficult. Furthermore, our prospects must be evaluated in light of the risks, uncertainties and challenges frequently encountered by companies in the early stage of their development. Successful implementation of our growth strategy depends upon our ability to:

- execute our sales and marketing strategy;

- develop and maintain strong relationships with key VARs, distributors, systems integrators and OEMs;

- expand our domestic and international sales efforts;

- provide superior customer support;

- build brand awareness;

- continue to develop new products equal or superior to those of our competitors;

- maintain our gross margins;

- expand our presence in the telecommunications service provider market;

- respond to competitive pressures;

- manage our manufacturing operations; and - continue to attract, retain and motivate qualified personnel, particularly in the areas of sales, marketing and engineering.

WE HAVE A HISTORY OF LOSSES, WE EXPECT FUTURE LOSSES AND WE CANNOT ASSURE YOU THAT WE WILL ACHIEVE OR MAINTAIN PROFITABILITY We have incurred losses since we commenced operations in 1996. We incurred net losses of $1.2 million in 1996, $5.9 million in 1997, $8.8 million in 1998 and $2.5 million for the three months ended March 31, 1999. As of March 31, 1999, we had an accumulated deficit of $18.5 million. We have not achieved profitability and although our revenues have grown in recent quarters, we cannot be certain that we will realize sufficient revenues to achieve profitability. Even if we achieve profitability, we cannot assure you that we can

sustain or increase profitability on a quarterly or annual basis in the future. Furthermore, we currently expect that our operating expenditures will continue to increase significantly and we may not generate a sufficient level of revenues to offset these expenditures or be able to adjust spending in a timely manner to respond to any unanticipated decline in revenues. If revenues grow slower than we anticipate or if operating expenditures exceed our expectations or cannot be adjusted accordingly, we may continue to experience significant losses on a quarterly and annual basis.

OUR OPERATING RESULTS MAY FLUCTUATE SIGNIFICANTLY WHICH COULD ADVERSELY AFFECT OUR STOCK PRICE Our operating results are likely to fluctuate significantly in the future on a quarterly and an annual basis due to a number of factors, many of which are outside our control. Factors that could cause our operating results to fluctuate include the following:

- the mix of products we sell;

- the mix of channels through which those products are sold;

- the average selling prices of our products;

- variations in the timing and size of orders and shipments of our products;

- the amount and timing of revenues from OEMs;

- the extent of competition;

- the market acceptance of new and enhanced versions of products offered by us or our competitors;

- seasonality of international and government sales;

- general economic conditions and economic conditions specific to the information technology industry;

- the level of capital expenditures and other costs relating to the expansion of operations;

- manufacturing costs, including prices or availability of limited or sole-sourced components;

- the level of research and development expenditures related to development of new products or redesign of our existing products;

- the level of sales and marketing expenditures; and - the level of inventory maintained by our indirect channel partners.

Because of all of these foregoing factors, we believe that period-to-period comparisons of our operating results cannot be relied upon as an indicator of our future performance. Our operating results may be below the expectations of public market analysts or investors in some future quarter. If this occurs, the price of our common stock would likely decrease.

The amount and timing of our operating expenses generally will vary from quarter to quarter depending on the level of actual and anticipated business activities. In the past, we have experienced fluctuations in operating results. For example, gross margin decreased from 69.6% for the three months ended December 31, 1997 to 61.8% for the three months ended March 31, 1998, primarily due to

variations in the mix of products sold and variations in channel mix. Research and development expenses have fluctuated due to increased prototype expenses and consulting fees related to the launch of new products, increased personnel expenses and costs associated with a facilities move. Sales and marketing expenses have fluctuated due to increased personnel expenses, expenditures related to trade shows and the launch of new products.

THE TIMING OF OUR REVENUES IS DIFFICULT TO PREDICT BECAUSE OF OUR INDIRECT SALES CHANNEL AND THE VARIABILITY OF OUR SALES CYCLES The timing of our revenues is difficult to predict because of our reliance on indirect sales channels and the variability of our sales cycle. The length of our sales cycle for sales from our indirect channel partners to our end users may vary substantially depending upon the size of the order and the distribution channel through which our products are sold. Sales from our VARs and systems integrators to end users typically take three to four months to complete. We expect to have difficulties in predicting revenues from OEMs because we are unable to forecast unit sales of their products which incorporate our technology. If orders for our products forecasted in a particular quarter do not occur in that quarter, our operating results for that quarter could be adversely affected. We are dependent on timely and accurate inventory information from our indirect channel partners because we may establish channel inventory reserves for certain indirect channel partners if we determine that their inventory exceeds normal stocking levels. If such information is not timely or accurate, we could experience increased levels of sales returns or unforecasted fluctuations in future revenue. Because our expense levels are based on our expectations as to future revenue and to a large extent are fixed in the short term, a substantial reduction or delay in sales of our products or the loss of any significant indirect channel partner could harm our business.

SUCCESS OF OUR BUSINESS DEPENDS ON COMMERCIAL ACCEPTANCE OF OUR PRODUCTS, AND THE CONTINUED GROWTH OF THE BANDWIDTH MANAGEMENT SOLUTIONS MARKET Widespread commercial acceptance of our products is critical to our future success. Factors that may affect the commercial acceptance of our products, many of which are beyond our control, include the following:

- market acceptance of bandwidth management solutions;

- the success and development of our VARs, distributors, systems integrators and OEMs;

- availability of inexpensive bandwidth, especially in international markets;

- growth of wide area networks;

- product performance and features;

- the price and total cost of ownership of our products;

- the actions of our competitors;

- compliance with industry standards; and - the availability, price and capabilities of competing products and technologies.

The market for bandwidth management solutions is in an early stage of development. Therefore, we cannot accurately assess the size of the market and products to address the market, the optimal distribution strategy and the competitive environment that will develop. In order for us to be successful, our potential customers must recognize the value of more sophisticated bandwidth management solutions, decide to invest in the management of their networks and the performance of important business software applications and, in particular, adopt our application-adaptive bandwidth management solutions. Our future performance will also depend on the successful development, introduction and market acceptance of new and enhanced products that address customer requirements in a cost-effective manner. The introduction of new and enhanced products may cause certain customers to defer or cancel orders for existing products. We have in the past experienced delays in product development and such delays may occur in the future.

WE NEED TO EXPAND OUR SALES AND SUPPORT ORGANIZATIONS TO INCREASE MARKET ACCEPTANCE OF OUR PRODUCTS We have recently expanded our sales force and plan to hire additional sales personnel. Competition for qualified sales personnel is intense, and we may not be able to hire enough qualified sales personnel. We currently have a small indirect channel partner and end-user service and support organization and will need to increase our staff to support new indirect channel partners and end users and the expanding needs of existing indirect channel partners and end users. Additionally, we rely on qualified systems engineers and service and support personnel to provide pre- and post-sales technical support for our products. Hiring systems engineers and service and support personnel is very competitive in our industry due to the limited number of people available with the necessary technical skills and understanding of our products. Our inability to hire qualified sales and support personnel may harm our business.

WE MUST DEVELOP AND EXPAND OUR INDIRECT DISTRIBUTION CHANNELS TO INCREASE REVENUE AND IMPROVE OUR OPERATING RESULTS We rely on an indirect distribution channel consisting of VARs, distributors, systems integrators and OEMs for all of our revenues. Our success will depend on our ability to develop and maintain relationships with significant indirect channel partners, as well as on the sales efforts and success of those indirect channel partners. Many of our indirect channel partners also sell competitive products.

In addition, our operating results will likely fluctuate significantly depending on the timing and size of orders from our indirect channel partners. We cannot assure you that our indirect channel partners will market our products effectively or continue to devote the resources necessary to provide us with effective sales, marketing and technical support. In order to support and develop leads for our indirect distribution channels, we plan to expand our field sales and support staff significantly. We cannot assure you that this internal expansion will be successfully completed, that the cost of this expansion will not exceed the revenues generated or that our expanded sales and support staff will be able to compete successfully against the significantly more extensive and well-funded sales and marketing operations of many of our current or potential competitors. In addition, our indirect channel agreements are generally not exclusive and one or more of our channel partners may compete directly with another channel partner for the sale of our products in a particular region or market. This may

cause such channel partners to stop or reduce their efforts in marketing our products. Our inability to effectively establish or manage our distribution channels or manage the expansion of our sales and support staff would harm our business.

We Intend to Rely Increasingly on Oems for the Deployment of Our Technology and Products

One aspect of our sales strategy is to develop relationships with OEM partners that will license our PacketWise software and incorporate it into their networking products. We recently entered into an OEM relationship with ADC Telecommunications, Inc., and expect to enter into additional OEM relationships in the future. Our agreement with ADC is not exclusive and is for an initial term of five years, with no obligation of ADC to renew its agreement with us. There are a number of risks involved with our strategy of developing our OEM channel. The development of OEM relationships generally involves a considerable amount of management time and company resources as potential OEM partners evaluate the viability of integrating our technology. We cannot assure you that the potential OEM partners will enter into a relationship with us after we have expended such effort and cost. In addition, even if we are successful in entering into an OEM relationship, we cannot assure you that our current or future OEM partners will be able to integrate our technology into commercially viable products on a timely basis. Furthermore, we cannot assure you that our OEM partners will give a high priority to the marketing of products which incorporate our technology or that our OEM partners will not develop competitive products and decide to terminate or minimize their relationship with us.

We are also developing relationships with OEMs that sell our PacketShaper products under their own label. Currently, Memorex-Telex, Inc. and NEC Corporation sell our products under their own labels. The level and timing of orders placed by OEM partners who purchase hardware from us may vary due to many factors including OEM partners' attempts to balance their inventories, changes in the OEM partners' manufacturing strategies and variation in demand for their products. Due to product life cycles, competitive and economic conditions, these OEM partners generally do not commit to firm production schedules in advance. Our inability to forecast the level of orders from OEM partners may make it difficult to schedule production and manage our contract manufacturers. Anticipated orders from our current or future OEM partners may not materialize or delivery schedules may be deferred as a result of changes in customer's business needs. Such OEM partner order fluctuations and deferrals will harm our business. Furthermore, our current or future OEM partners may have pre-existing relationships with our current or potential competitors which may reduce their efforts in marketing products that incorporate our technology.

We may also be unable to retain our current or future OEM partners. Generally, OEM relationships can be terminated with little or no notice. If our relationship with any current or future OEM partner is terminated by either party, we may not be successful in replacing such partner on a timely basis or at all with another suitable OEM partner. Any such change could harm our business.

THE PACKETSHAPER FAMILY OF PRODUCTS AND PACKETWISE SOFTWARE ARE CURRENTLY OUR ONLY PRODUCTS, AND ALL OF OUR CURRENT REVENUES AND A SIGNIFICANT PORTION OF OUR FUTURE GROWTH DEPENDS ON THEIR COMMERCIAL SUCCESS All of our current revenues and a significant portion of our future growth depends on the commercial success of our PacketShaper family of products and PacketWise software, which are the only products that we currently offer. If our target customers do not widely adopt, purchase and successfully deploy the PacketShaper family of products or PacketWise software, our revenues will not grow significantly and our business will be harmed.

We Are Dependent on the Success of Our International Sales Efforts

Sales to customers outside of North America accounted for 54.7% of our total net revenues in 1998 and 55.3% of our total net revenues for the three months ended March 31, 1999. In particular, sales to customers in our Asia Pacific region accounted for 31.0% of our total net revenues in 1998 and 33.3% of our total net revenues for the three months ended March 31, 1999. Our ability to grow will depend in part on the expansion of international sales, which depends on the success of our VARs, distributors, systems integrators and OEMs in marketing our products. The failure of our indirect channel partners to sell our products internationally would harm our business. In addition, our international business is subject to certain customary risks, including:

- difficulties in managing sales and support channels across disparate geographic areas;

- difficulties in staffing and managing foreign operations;

- reduced or limited protection of our intellectual property rights in some countries;

- unexpected changes in regulatory requirements;

- longer accounts receivable collection cycles;

- difficulties associated with enforcing agreements through foreign legal systems;

- difficulties in obtaining governmental approvals for products;

- trade protection measures; and - the burden of complying with a wide variety of complex foreign laws and treaties.

Our international sales currently are U.S. dollar-denominated. As a result, an increase in the value of the U.S. dollar relative to foreign currencies could make our products less competitive in international markets. In the future, we may elect to invoice some of our international customers in local currency. Doing so will subject us to fluctuations in exchange rates between the U.S. dollar and the particular local currency.

We intend to expand operations in our existing international markets and to enter new international markets, which will demand management attention and financial commitment. We may not be able to successfully expand our international operations. In addition, a successful expansion of our international operations and sales in certain markets will require us to develop relationships with suitable indirect channel partners that operate abroad. We may not be able to identify, attract or retain such indirect channel partners.

Furthermore, to increase revenues in international markets, we will need to continue to establish foreign operations, to hire additional personnel to run such operations and to maintain good relations with our foreign indirect channel partners. To the extent that we are unable to successfully do so, our growth in international sales will be limited.

WE RELY UPON A LIMITED NUMBER OF CUSTOMERS AND ANY DECREASE IN REVENUES FROM THESE CUSTOMERS COULD HARM OUR BUSINESS A limited number of indirect channel partners have accounted for a large part of our revenues to date and we expect that this trend will continue. Sales to Macnica, Inc. accounted for 11.9% of our total net revenues in 1998. For the three months ended March 31, 1999, sales to ADC Telecommunications accounted for 12.1% of total net revenues, sales to Nissho Electronics Corporation accounted for 11.2% of total net revenues and sales to Macnica accounted for 10.7% of total net revenues. We expect that our largest customers in the future could be different from our largest customers today due to a variety of factors, including the availability of new comparable competing products. End users can stop purchasing and our indirect channel partners can stop marketing our products at any time. Because our expense levels are based on our expectations as to future revenue and to a large extent are fixed in the short term, any significant reduction or delay in sales of our products to any significant indirect channel partner or unexpected returns from such indirect channel partners could harm our business. We cannot assure you that we will retain these indirect channel partners or that we will be able to obtain additional or replacement partners. The loss of one or more of our key indirect channel partners or the failure to obtain and ship a number of large orders each quarter could harm our business.

WE DEPEND ON EXPERIENCED PERSONNEL AND MUST HIRE ADDITIONAL PERSONNEL TO MANAGE OUR BUSINESS EFFECTIVELY Our future success will depend, to a significant extent, on the ability of our management to operate effectively, both individually and as a group. Given our early stage of development, we are dependent on our ability to retain and motivate high caliber personnel, in addition to attracting new personnel. Competition for qualified personnel in the networking industry is intense, and we may not be successful in attracting and retaining such personnel. There may be only a limited number of persons with the requisite skills to serve in those positions and it may become increasingly difficult to hire such persons. We are actively searching for systems engineers, research and development engineers and sales and marketing personnel, who are in short supply. Our business will suffer if we encounter delays in hiring these additional personnel.

Competitors and others have in the past and may in the future attempt to recruit our employees. We do not have employment contracts with any of our personnel. We currently maintain "key person" life insurance on Craig W. Elliott, our chief executive officer, Robert L. Packer, our chief technology officer,

and Brett D. Galloway, our vice president of engineering and chief operating officer. The loss of the services of any of our senior management, the inability to attract or retain qualified personnel in the future or delays in hiring required personnel, particularly engineers, could negatively impact our business.

We Face Intense Competition That Could Adversely Affect Our Business

We compete in a new, rapidly evolving and highly competitive sector of the networking technology market. We expect competition to persist and intensify in the future from a number of different sources. We compete with Cisco Systems, Inc. and CheckPoint Software Technologies Ltd., which sell products incorporating competing technologies. We also compete with several small private companies which utilize competing technologies to provide bandwidth management. In addition, our products and technology compete for information technology budget allocations with products that offer monitoring capabilities, such as probes and related software. Lastly, we face indirect competition from companies that offer enterprises and service providers increased bandwidth and infrastructure upgrade that increase the capacity of their networks, and thereby may lessen or delay the need for bandwidth management solutions.

Many of our competitors are substantially larger than we are and have significantly greater financial, sales and marketing, technical, manufacturing and other resources and more established distribution channels. These competitors may be able to respond more rapidly to new or emerging technologies and changes in customer requirements or devote greater resources to the development, promotion and sale of their products than we can. We have encountered, and expect to encounter, customers who are extremely confident in and committed to the product offerings of our competitors. Furthermore, some of our competitors may make strategic acquisitions or establish cooperative relationships among themselves or with third parties to increase their ability to rapidly gain market share by addressing the needs of our prospective customers. These competitors may enter our existing or future markets with solutions that may be less expensive, provide higher performance or additional features or be introduced earlier than our solutions. Given the market opportunity in the bandwidth management solutions market, we also expect that other companies may enter our market with better products and technologies. If any technology that is competing with ours is or becomes more reliable, higher performing, less expensive or has other advantages over our technology, then the demand for our products and services would decrease, which would harm our business.

Successful new product introductions or enhancements by our competitors could reduce the sales or market acceptance of our products and services, perpetuate intense price competition or make our products obsolete. To be competitive, we must continue to invest significant resources in research and development, sales and marketing and customer support. We cannot be sure that we will have sufficient resources to make such investments or that we will be able to make the technological advances necessary to be competitive. As a result, we may not be able to compete effectively against our

competitors. Our failure to maintain and enhance our competitive position within the market may seriously harm our business. Increased competition is likely to result in price reductions, reduced gross margins, longer sales cycles and loss of market share, any of which would harm our business.

OUR MARKET IS SUBJECT TO RAPID TECHNOLOGICAL CHANGE, AND WE NEED TO INTRODUCE NEW PRODUCTS THAT ACHIEVE BROAD MARKET ACCEPTANCE IN ORDER TO MAINTAIN GROWTH The bandwidth management solutions market is characterized by rapid technological change, frequent new product introductions, changes in customer requirements and evolving industry standards. The introduction of new products, market acceptance of products based on new or alternative technologies, or the emergence of new industry standards, could render our existing products obsolete or make it easier for other products to compete with our products. Developments in router-based queuing schemes could also significantly reduce demand for our product. Alternative technologies, including packet-queuing technology, could achieve widespread market acceptance. We cannot assure you that our technological approach will achieve broad market acceptance or that other technologies or solutions will not supplant our approach. Our future success will depend in large part upon our ability to:

- develop and maintain competitive products;

- enhance our products by adding innovative features that differentiate our products from those of our competitors;

- bring products to market on a timely basis at competitive prices;

- identify and respond to emerging technological trends in the market; and - respond effectively to new technological changes or new product announcements by others.

When we announce new products or product enhancements that have the potential to replace or shorten the life cycle of our existing products, customers may defer purchasing our existing products. These actions could harm our operating results by unexpectedly decreasing sales, increasing our inventory levels of older products and exposing us to greater risk of product obsolescence.

Our Failure to Manage Growth Could Adversely Affect Us

We have rapidly and significantly expanded our operations and anticipate that further significant expansion will be required to address potential growth in our customer base and market opportunities. To manage the anticipated growth of our operations, we will be required to:

- effectively manage multiple relationships with our VARs, distributors, systems integrators, OEMs, contract manufacturers and other third parties;

- hire, train and manage additional qualified personnel;

- expand and upgrade our core technologies; and - improve existing and implement new operational, financial and management information controls, reporting systems and procedures.

In the future, we may experience difficulties meeting the demand for our products and services. The installation and use of our products require training. If we are unable to provide training and support for our products, the implementation process will be longer and customer satisfaction may be lower. In addition, our management team may not be able to achieve the rapid execution necessary to fully exploit the market for our products and services. We cannot assure you that our systems, procedures or controls will be adequate to support the anticipated growth in our operations.

We may not be able to install management information and control systems in an efficient and timely manner, and our current or planned personnel, systems, procedures and controls may not be adequate to support our future operations.

THE AVERAGE SELLING PRICES OF OUR PRODUCTS COULD DECREASE RAPIDLY WHICH MAY NEGATIVELY IMPACT GROSS MARGINS AND REVENUES We may experience substantial period-to-period fluctuations in future operating results due to the erosion of our average selling prices. The average selling prices of our products could decrease in the future in response to competitive pricing pressures, increased sales discounts, new product introductions by us or our competitors or other factors. Therefore, to maintain our gross margins, we must develop and introduce on a timely basis new products and product enhancements and continually reduce our product costs. Our failure to do so would cause our revenue and gross margins to decline.

WE DEPEND ON THIRD-PARTY MANUFACTURERS FOR SUBSTANTIALLY ALL OF OUR MANUFACTURING REQUIREMENTS, AND WE MAY BE UNABLE TO SUCCESSFULLY EXPAND OUR MANUFACTURING OPERATIONS AS WE GROW We currently contract with Quadrus Manufacturing and Altron, Inc., which has been acquired by Sanmina Corporation, for the manufacture of all of our current products. Our future success will depend, in significant part, on our ability to have others manufacture our products cost-effectively and in sufficient volumes. We face a number of risks associated with our dependence on third-party manufacturers including:

- reduced control over delivery schedules;

- the potential lack of adequate capacity during periods of excess demand;

- manufacturing yields and costs;

- quality assurance; and - increases in prices and the potential misappropriation of our intellectual property.

Any manufacturing disruption could impair our ability to fulfill orders. We have no long-term contracts or arrangements with any of our vendors that guarantee product availability, the continuation of particular payment terms or the extension of credit limits. We have experienced in the past, and may experience in the future, problems with our contract manufacturers, such as inferior quality, insufficient quantities and late delivery of product. We are dependent on our manufacturers to secure components at favorable prices, but we may not be able to obtain additional volume purchase or manufacturing arrangements on terms that we consider acceptable, if at all. If we enter into a high-volume or long-term supply arrangement and subsequently decide that we cannot use the products or services provided for in the agreement, our business will be harmed. We cannot assure you that we will

effectively manage our contract manufacturers or that these manufacturers will meet our future requirements for timely delivery of products of sufficient quality or quantity. Any such difficulties could harm our relationships with customers and cause us to lose orders.

In the future, we may seek to use additional contract manufacturers. We may experience difficulty in locating and qualifying suitable manufacturing candidates capable of satisfying our product specifications or quantity requirements. Further, new third-party manufacturers may encounter difficulties in the manufacture of our products resulting in the delay of delivery of our products.

MOST OF THE COMPONENTS FOR OUR PRODUCTS COME FROM SINGLE OR LIMITED SOURCES, AND WE COULD LOSE SALES IF THESE SOURCES FAIL TO SATISFY OUR SUPPLY REQUIREMENTS Almost all of the components used in our products are obtained from single or limited sources. Our products have been designed to incorporate a particular set of components. As a result, our desire to change the components of our products or our inability to obtain suitable components on a timely basis would require engineering changes to our products before we could incorporate substitute components.

We do not have any long-term supply contracts to ensure sources of supply. If our contract manufacturers fail to obtain components in sufficient quantities when required, our business could be harmed. Our suppliers also sell products to our competitors. Our suppliers may enter into exclusive arrangements with our competitors, stop selling their products or components to us at commercially reasonable prices or refuse to sell their products or components to us at any price. Our inability to obtain sufficient quantities of sole-sourced or limited-sourced components, or to develop alternative sources for components or products would harm our business.

Our Products May Have Errors or Defects That We Find After the Products Have Been Sold

Our products are complex and may contain undetected defects, errors or failures in either the hardware or software. In addition, because our products plug into our end users' existing networks between the WAN access router and the enterprise local area network, or LAN, they can directly affect the functionality of the network. We have in the past encountered errors in our products, which in a few instances resulted in complete network failures. Additional errors may occur in our products in the future. The occurrence of defects, errors or failures could result in the failure of our customer's network or mission-critical applications, delays in installation, product returns and other losses to us or to our customers or end users. These occurrences could also result in the loss of or delay in market acceptance of our products, which could harm our business. We would have limited experience with the problems that could arise with any new products that we introduce.

We may also be subject to liability claims for damages related to product errors. While we carry insurance policies covering this type of liability, these policies may not provide sufficient protection should a claim be asserted. A material product liability claim may harm our business.

We May Be Subject to Risks Associated with Acquisitions

We continually evaluate strategic acquisitions of other businesses. If we were to consummate an acquisition, we would be subject to a number of risks, including the following:

- difficulty in assimilating the acquired operations and retaining acquired personnel;

- limits on our ability to retain acquired distribution channels and customers;

- disruption of our ongoing business; and - limits on our ability to successfully incorporate acquired technology and rights into our service offerings and maintain uniform standards, controls, procedures, and policies.

We may not successfully overcome problems encountered in connection with potential acquisitions. In addition, an acquisition could harm our operating results by diluting our stockholders' equity, causing us to incur additional debt, or requiring us to amortize acquisition expenses and acquired assets.

In addition, recent and proposed changes by the Financial Accounting Standards Board (FASB) and the SEC in the rules for merger accounting may affect our ability to make acquisitions or be acquired. For example, elimination of the "pooling" method of accounting for mergers increases the amount of goodwill that we would be required to recognize if we acquire another company, which would have an adverse financial impact on our future net loss or net income. The requirement to capitalize in-process research and development costs in connection with an acquisition could result in goodwill which must be amortized over several years, increasing our losses or reducing our net income.

Our Failure to Adequately Protect Our Proprietary Rights May Adversely Affect Us

We rely on a combination of patent, copyright and trademark laws, and on trade secrets and confidentiality provisions and other contractual provisions to protect our proprietary rights. These measures afford only limited protection. We currently have one issued U.S. patent and 10 pending patent applications including one for which we have received a notice of allowance. Our means of protecting our proprietary rights in the U.S. or abroad may not be adequate and competitors may independently develop similar technologies. Our future success will depend in part on our ability to protect our proprietary rights and the technologies used in our principal products. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our products or to obtain and use trade secrets or other information that we regard as proprietary. Legal proceedings to enforce our intellectual property rights could be burdensome and expensive and could involve a high degree of uncertainty. Such legal proceedings may also divert management's attention from growing our business. In addition, the laws of some foreign countries do not protect our proprietary rights as fully as do the laws of the U.S. Issued patents may not preserve our proprietary position. Even if they do, competitors or others may develop technologies similar to or superior to our own. If we do not enforce and protect our intellectual property, our business will be harmed.

Others May Claim That We Infringe on Their Intellectual Property Rights

We may be subject to claims by others that our products infringe on their intellectual property rights. These claims, whether or not valid, could require us to spend significant sums in litigation, pay damages, delay product shipments, reengineer our products or acquire licenses to such third-party intellectual property. We may not be able to secure any required licenses on commercially reasonable terms, or at all. We expect that we will increasingly be subject to infringement claims as the number of products and competitors in the bandwidth management solutions market grows and the functionality of products overlaps. Any of these claims or resulting events could harm our business.

IF OUR PRODUCTS DO NOT COMPLY WITH EVOLVING INDUSTRY STANDARDS AND GOVERNMENT REGULATIONS, OUR BUSINESS COULD BE HARMED The market for bandwidth management solutions is characterized by the need to support industry standards as different standards emerge, evolve and achieve acceptance. To remain competitive we must continue to introduce new products and product enhancements that meet these emerging standards. In the future we may not be able to effectively address the compatibility and interoperability issues that arise as a result of technological changes and evolving industry standards. In addition, in the United States, our products must comply with various regulations and standards defined by the Federal Communications Commission and Underwriters Laboratories. Internationally, products that we develop may be required to comply with standards established by telecommunications authorities in various countries as well as with recommendations of the International Telecommunication Union. Failure to comply with existing or evolving industry standards or to obtain timely domestic or foreign regulatory approvals or certificates could harm our business.

We May Need Additional Capital in the Future in Order to Grow

We currently anticipate that the proceeds of this offering, together with our existing cash balances and available line of credit will be sufficient to meet our liquidity needs for at least the next 12 months. However, we may need to raise additional funds if our estimates of revenues, working capital or capital expenditure requirements change or prove inaccurate or in order for us to respond to unforeseen technological or marketing hurdles or to take advantage of unanticipated opportunities.

In addition, we expect to review potential acquisitions that would complement our existing product offerings or enhance our technical capabilities. While we have no current agreements or negotiations underway with respect to any such acquisition, any future transaction of this nature could require potentially significant amounts of capital. Such funds may not be available at the time or times needed, or available on terms acceptable to us. If adequate funds are not available, or are not available on acceptable terms, we may not be able to take advantage of market opportunities to develop new products or to otherwise respond to competitive pressures.

Future Sales of Our Common Stock May Cause Our Stock Price to Decline

Sales of a substantial number of shares of common stock after this offering could adversely affect the market price of our common stock and could impair our ability to raise capital through the sale of additional equity securities. After completion of this offering, we will have outstanding shares of common stock, assuming no exercise of outstanding options or warrants after March 31, 1999 and no exercise of the underwriters' over-allotment option. The shares of common stock sold in this offering, which would be shares if the underwriters' over-allotment option to purchase additional shares is exercised in full, will be freely tradable without restriction or further registration under the federal securities laws unless purchased by our "affiliates" as that term is defined in Rule 144. The remaining shares of common stock outstanding upon completion of this offering will be "restricted securities" as that term is defined in Rule 144.

All of our stockholders, option holders and warrant holders are subject to agreements that limit their ability so sell their shares of common stock. These securityholders cannot sell or otherwise dispose of any shares of common stock for a period of at least 180 days after the date of this prospectus without the prior written approval of BancBoston Robertson Stephens or us in certain cases. When these agreements expire, these shares and the shares underlying the options will become eligible for sale, in some cases only pursuant to the volume, manner of sale and notice requirements of Rule 144. See "Management -- Employee Benefit Plans," "Shares Eligible for Future Sale" and "Underwriting."

OUR EXECUTIVE OFFICERS AND DIRECTORS WILL BE ABLE TO CONTROL ALL MATTERS REQUIRING STOCKHOLDER APPROVAL After this offering, our executive officers and directors and their affiliates will together control approximately % of the outstanding common stock. As a result, these stockholders, if they act together, will be able to control all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions. This concentration of ownership may have the effect of delaying, preventing or deterring a change in control of Packeteer, could deprive our stockholders of an opportunity to receive a premium for their common stock as part of a sale of Packeteer and might affect the market price of our common stock.

CERTAIN PROVISIONS OF OUR CHARTER AND OF DELAWARE LAW MAKE A TAKEOVER OF PACKETEER MORE DIFFICULT Our corporate documents and Section 203 of the Delaware General Corporation Law could discourage, delay or prevent a third party or a significant stockholder from acquiring control of Packeteer. In addition, provisions of our certificate of incorporation may have the effect of discouraging, delaying or preventing a merger, tender offer or proxy contest involving Packeteer. Any of these anti-takeover provisions could lower the market price of the common stock and could deprive our stockholders of the opportunity to receive a premium for their common stock that they might otherwise receive from the sale of Packeteer.

You Will Incur Substantial and Immediate Dilution

You will incur substantial and immediate dilution in the net tangible book value of $0.24 per share. To the extent that currently outstanding options and warrants are exercised or converted, there will be further dilution in your shares. See "Dilution."

We Face a Number of Unknown Risks Associated with Year 2000 Problems

Some computers, software, and other equipment include computer code in which calendar year data is abbreviated to only two digits. As a result of this design decision, some of these systems could fail to operate or fail to produce correct results if "00" is interpreted to mean 1900, rather than 2000. As a result, computer systems and software used by many companies and governmental agencies may need to be upgraded to comply with year 2000 requirements or risk system failure or miscalculations causing disruptions of normal business activities. These problems are widely expected to increase in frequency and severity as the year 2000 approaches, and are commonly referred to as the "year 2000 problem." We have begun to identify measures to address the issues arising from the year 2000 problem and therefore the risks associated with being year 2000 compliant are unknown. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Year 2000 readiness disclosure."

The Adoption of the Euro Presents Uncertainties for Our Company

In January 1999, the new euro currency was introduced in certain European countries that are part of the European Monetary Union (EMU). During 2002, all EMU countries are expected to be operating with the euro as their single currency. A significant amount of uncertainty exists as to the effect the euro will have on the marketplace generally and, additionally, all of the final rules and regulations have not yet been defined and finalized by the European Commission with regard to the euro currency. We are currently assessing the effect the introduction of the euro will have on our internal accounting systems and the sales of our products. We are not aware of any material operational issues or costs associated with preparing our internal systems for the euro. However, we do utilize third-party vendor equipment and software products that may or may not be EMU compliant. Although we are currently taking steps to address the impact, if any, of EMU compliance for such third-party products, the failure of any critical components to operate properly post-euro may have an adverse effect on our business or results of operations or may require us to incur expenses to remedy such problems.

Use of Proceeds

Our net proceeds from the sale and issuance of shares of common stock are estimated to be approximately $ million (approximately $ million if the underwriters' over-allotment option is exercised in full), at an assumed offering price of $ per share and after deducting the estimated underwriting discounts and commissions and the estimated offering expenses payable by Packeteer.

We will use $2.5 million of the net proceeds to repay a subordinated loan which bears interest at a rate of 12.25% per annum. We intend to use a portion of the net proceeds for general corporate purposes including working capital. We may also use a portion of the net proceeds to acquire complementary businesses, products or technologies. From time to time, we evaluate such potential acquisitions and we anticipate continuing to make such evaluations. We have no current plans, agreements or commitments with respect to any such acquisitions. Pending such uses, we intend to invest the net proceeds of this offering in short-term, interest-bearing, investment grade securities.

Dividend Policy

We have never declared or paid any cash dividends on our capital stock and we do not anticipate paying any cash dividends on our capital stock in the foreseeable future. We currently intend to retain future earnings, if any, for use in our business. Our line of credit arrangement prohibits us to pay dividends without the lender's prior consent.

Capitalization

The following table sets forth our capitalization as of March 31, 1999:

- on an actual basis;

- on a pro forma basis giving effect to the conversion of all outstanding shares of preferred stock into common stock upon completion of the offering; and

```
    - as adjusted to reflect the receipt by Packeteer of the estimated net
      proceeds from the sale of the                shares of common stock
      offered by Packeteer at an assumed offering price of $     per share and
      after deducting the estimated underwriting discounts and commissions and
      the estimated offering expenses.
```

AS OF MARCH 31, 1999 ACTUAL PRO FORMA AS ADJUSTED (IN THOUSANDS)

```
Current portion of long-term obligations.............  $    774    $    774
Long-term obligations................................     2,658       2,658
Stockholders' equity:
Preferred stock, $0.001 par value per share;
  13,703,287 shares authorized, actual; 5,000,000
  shares authorized, pro forma and as adjusted;
  12,391,001 shares issued and outstanding, actual;
  no shares issued and outstanding, pro forma and as
  adjusted.....................................          13          --
Common stock, $0.001 par value per share; 40,000,000
  shares authorized, actual and pro forma; 85,000,000
```

```
  shares authorized, as adjusted; 9,766,467 shares
  issued and outstanding, actual; 22,157,468 shares
  issued and outstanding, pro forma; and
  shares issued and outstanding, as adjusted.........        10          23
Additional paid-in capital...........................    25,293      25,293
Deferred stock-based compensation....................    (3,668)     (3,668)
Notes receivable from stockholders...................      (803)       (803)
Accumulated deficit..................................   (18,468)    (18,468)
     Total stockholders' equity......................     2,377       2,377
          Total capitalization.......................  $  5,035    $  5,035
```

The outstanding shares shown above exclude, as of March 31, 1999:

- 2,310,250 shares of common stock issuable upon exercise of stock options outstanding under our 1996 Equity Incentive Plan at a weighted average exercise price of $2.76 per share;

- 155,628 shares of common stock issuable upon the exercise of outstanding warrants at a weighted average exercise price of $2.92 per share;

- 1,526,083 shares of common stock reserved for future issuance under our 1999 Stock Incentive Plan; and - 500,000 shares of common stock reserved for future issuance under our 1999 Employee Stock Purchase Plan.

See "Management -- Employee Benefit Plans" and Note 5 of Notes to Consolidated Financial Statements.

Dilution

As of March 31, 1999 our net tangible book value was $2.4 million, or $0.24 per share of common stock. Net tangible book value per share represents the amount of total tangible assets less total liabilities, divided by the number of shares of common stock then outstanding.

```
     After giving effect to the sale of           shares of common stock offered
by Packeteer, at an assumed offering price of $     per share and after
deducting the estimated underwriting discounts and commissions and the estimated
expenses related to this offering, our net tangible book value on March 31, 1999
would have been $          , or approximately $     per share. This represents
an immediate increase in net tangible book value of $     per share to existing
stockholders and an immediate dilution of $     per share to new investors. The
following table illustrates this per share dilution:

Assumed offering price per share.............................             $
Net tangible book value per share as of March 31, 1999......  $   0.24
Increase per share attributable to the offering.............
Net tangible book value per share after the offering........
Dilution per share to new investors.........................             $
```

The following table summarizes, as of March 31, 1999, on the pro forma basis described above, the difference between the number of shares of common stock purchased from Packeteer, the total consideration paid and the average price per share paid by the existing stockholders and by new public investors purchasing shares from us before deducting underwriting discounts and commissions and estimated offering expenses:

	SHARES PURCHASED	TOTAL CONSIDERATION	
			AVERAGE PRICE

	NUMBER	PERCENT	AMOUNT	PERCENT	PER SHARE
Existing stockholders.....	22,157,468	%	$21,007,000	%	$ 0.95
New investors.....					
Total.....		100.0%	$	$100.0%	

The foregoing computations are based on the number of shares of common stock outstanding as of March 31, 1999 and exclude:

- 2,310,250 shares of common stock issuable upon exercise of stock options outstanding under Packeteer's 1996 Equity Incentive Plan at a weighted average exercise price of $2.76 per share;

- 155,628 shares of common stock issuable upon the exercise of outstanding warrants at a weighted average exercise price of $2.92 per share.

- 1,526,083 shares of common stock reserved for future issuance under Packeteer's 1999 Stock Incentive Plan; and - 500,000 shares of common stock reserved for future issuance under our 1999 Employee Stock Purchase Plan.

The issuance of common stock in connection with the exercise of these options and warrants will result in further dilution to new investors. See "Capitalization," "Management -- Employee Benefit Plans," "Description of Capital Stock" and Note 5 of Notes to Consolidated Financial Statements.

Selected Consolidated Financial Data

The following selected consolidated financial data should be read in conjunction with our consolidated financial statements and related notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this prospectus. The consolidated statements of operations data for the period from January 25, 1996 (inception) to December 31, 1996 and for each of the years in the two-year period ended December 31, 1998, and the consolidated balance sheets data at December 31, 1997 and 1998, are derived from the consolidated financial statements of Packeteer which have been audited by KPMG LLP, independent auditors, and are included in this prospectus. The consolidated balance sheet data at December 31, 1996 is derived from audited consolidated financial statements not included in this prospectus. The selected historical consolidated financial data as of March 31, 1999 and for the three months ended March 31, 1998 and 1999 have been derived from unaudited consolidated financial statements included elsewhere in this prospectus, that include, in the opinion of management, all adjustments, consisting only of normal recurring adjustments, that we consider necessary for fair presentation of our financial position and results of operations for those periods. The historical results are not necessarily indicative of the operating results to be expected in the future.

	PERIOD FROM JAN. 25, 1996 (INCEPTION) TO DEC. 31, 1996	YEARS ENDED DECEMBER 31,		THREE MONTHS ENDED MARCH 31,	
		1997	1998	1998	1999
	(IN THOUSANDS, EXCEPT PER SHARE DATA)				
CONSOLIDATED STATEMENTS OF OPERATIONS DATA:					
Net revenues:					
Product revenues.....	$ --	$ 1,413	$ 7,105	$ 1,246	$ 2,724

Licensing revenues	--	--	125	--	375
Total net revenues	--	1,413	7,230	1,246	3,099
Cost of revenues	--	457	2,386	476	854
Gross profit	--	956	4,844	770	2,245
Operating expenses:					
Research and development	725	2,932	2,779	566	955
Sales and marketing	349	3,210	8,866	1,551	2,429
General and administrative	238	934	1,750	292	533
Amortization of stock-based compensation	--	--	537	--	865
Total operating expenses	1,312	7,076	13,932	2,409	4,782
Net loss from operations	(1,312)	(6,120)	(9,088)	(1,639)	(2,537)
Other income, net	75	211	289	34	14
Net loss	$(1,237)	$(5,909)	$(8,799)	$(1,605)	$(2,523)
Basic and diluted net loss per share	$ (1.28)	$ (1.82)	$ (1.54)	$ (0.34)	$ (0.35)
Shares used in computing basic and diluted net loss per share	965	3,253	5,709	4,734	7,271
Pro forma basic net loss per share			$ (0.49)		$ (0.13)
Shares used in computing pro forma basic net loss per share			18,100		19,662

	DECEMBER 31,			MARCH 31,
	1996	1997	1998	1999
	(IN THOUSANDS)			
CONSOLIDATED BALANCE SHEETS DATA:				
Cash, cash equivalents and short-term investments	$4,255	$2,416	$4,477	$7,084
Working capital	4,077	2,612	3,501	4,065
Total assets	4,453	4,935	8,570	10,250
Long-term obligations	--	356	739	2,658
Total stockholders' equity	4,251	2,804	3,759	2,377

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

The following discussion should be read in conjunction with our consolidated financial statements and the related notes included elsewhere in this prospectus.

Overview

Packeteer is a leading provider of application-adaptive bandwidth management solutions that ensure mission-critical application performance and improve network efficiency. We market and distribute our products via a worldwide network of VARs, distributors, systems integrators and OEM partners. We have subsidiaries in Hong Kong, Japan and The Netherlands.

We were incorporated in January 1996. From our inception through January 1997, our operating activities related primarily to establishing a research and development organization, developing and testing prototype designs, establishing a sales and marketing organization and developing customer, vendor and manufacturing relationships. We shipped our first product, the PacketShaper 2000 in February 1997. Since then, we have focused on developing additional products and product enhancements, building our worldwide indirect sales channel and establishing our sales, marketing and

customer support organizations. We began shipments of the PacketShaper 1000 and 4000 in October 1997. Since inception, we have incurred significant losses and as of March 31, 1999, had an accumulated deficit of $18.5 million.

Our revenues consist primarily of product sales and to a lesser extent, licensing fees from an OEM partner. Our product revenues consist of sales of our PacketShaper family of products. We recognize product revenues once the customer issues a noncancelable purchase order and the product has been shipped to the customer. Maintenance revenue is deferred and amortized over the period of the contract. We routinely analyze and provide, as necessary, reserves at the time of shipment for product returns and allowances. We have estimated these reserves based on our experience since we began shipping. Such amounts have not been significant to date. Our ability to estimate these reserves is limited to the short history we have of shipping products. Our licensing revenues currently consist of licensing fees and may in the future may include royalty payments from unit sales of OEM products that incorporate our technology. We recognize OEM license fees, which include post-contract customer support, when the software has been shipped to the customer, the fees are fixed and determinable and there is evidence of the fair value of the post-contract customer support. When evidence of fair value of post-contract customer support does not exist, revenues are recognized ratably over the support period.

We sell our products worldwide exclusively through VARs, distributors, systems integrators and OEMs. We use indirect channels to leverage the reach of our sales force to obtain worldwide coverage. Our sales force and marketing efforts are used to develop brand awareness and support our indirect channels.

Our cost of revenues consists primarily of the cost of finished products purchased from our two turnkey manufacturers, documentation and other overhead costs. We outsource the manufacturing of the PacketShaper 1000 and PacketShaper 2000 to Quadrus and the PacketShaper 4000 to Sanmina.

Research and development expenses consist primarily of salaries and related personnel expenses, consultant fees and prototype expenses related to the design, development, testing and enhancement of the PacketShaper family of products and PacketWise software. As of March 31, 1999, all research and development costs had been expensed as incurred. We believe that continued investment in research and development is critical to attaining our strategic product and cost reduction objectives.

We expect these expenses to increase significantly in the future as we continue to develop new products and enhance existing products.

Sales and marketing expenses consist primarily of salaries, commissions and related personnel expenses for those engaged in the sales, marketing and support of the product as well as related trade show, promotional and public relations expenses. We intend to pursue sales and marketing campaigns aggressively and therefore expect these expenses to increase in the future.

General and administrative expenses consist primarily of salaries and related personnel expenses for executive, accounting and administrative personnel, professional fees and other general corporate expenses. As we add personnel and incur additional costs related to the growth of our business, we

expect that general and administrative expenses will also increase.

Amortization of stock-based compensation resulted from the granting of stock options to employees and consultants with exercise prices per share determined to be below the deemed fair value per share of our common stock on the dates of grant for financial reporting purposes. The stock-based compensation is being amortized to expense in accordance with FASB Interpretation No. 28 over the vesting period of the individual options, generally four years. We recorded stock-based compensation expense of $537,000 and $865,000 in 1998 and for the three months ended March 31, 1999, respectively, leaving $3.7 million to be amortized in future periods.

There was no provision for federal or California state income taxes for any period since we have incurred operating losses since inception. As of December 31, 1998, we had $13.8 million of net loss carryforwards for federal income tax purposes and $12.1 million of net loss carryforwards for California state income tax purposes. Utilization of the net operating loss carryforwards may be subject to annual limitations due to the ownership change limitations contained in the Internal Revenue Code of 1986 and similar state provisions. Annual limitations may result in the expiration of the net operating losses before we can utilize them. The federal net operating loss carryforwards will expire at various dates beginning in 2010 through 2018 if we do not use them. See Note 6 of Notes to Consolidated Financial Statements.

Results of Operations

The following table sets forth certain financial data for the periods indicated as a percentage of total net revenues.

	YEARS ENDED DECEMBER 31,		THREE MONTHS ENDED MARCH 31,	
	1997	1998	1998	1999
Net revenues:				
Product revenues	100.0%	98.3%	100.0%	87.9%
Licensing revenues	--	1.7	--	12.1
Total net revenues	100.0	100.0	100.0	100.0
Cost of revenues	32.3	33.0	38.2	27.6
Gross margin	67.7	67.0	61.8	72.4
Operating expenses:				
Research and development	207.5	38.4	45.4	30.8
Sales and marketing	227.2	122.6	124.5	78.4
General and administrative	66.1	24.2	23.4	17.2
Amortization of stock-based compensation	--	7.5	--	27.9
Total operating expenses	500.8	192.7	193.3	154.3
Net loss from operations	(433.1)	(125.7)	(131.5)	(81.9)
Other income, net	14.9	4.0	2.7	0.5
Net loss	(418.2)%	(121.7)%	(128.8)%	(81.4)%

Three months ended March 31, 1998 and 1999 Total net revenues. Our total net revenues increased by $1.9 million from $1.2 million for the three months ended March 31, 1998 to $3.1 million for the three months ended March 31, 1999, an increase of 148.7%. This increase was primarily due to channel development, increased product acceptance and the additional revenue from the ADC Telecommunications agreement. Product revenues increased by $1.5 million from $1.2 million for the

three months ended March 31, 1998, to $2.7 million for the three months ended March 31, 1999, an increase of 118.6%. Product revenues comprised all of total net revenues for the three months ended March 31, 1998, and 87.9% of total net revenues for the three months ended March 31, 1999. Licensing revenues were $375,000, or 12.1%, of total net revenues for the three months ended March 31, 1999, which consisted of revenues from the ADC agreement. We recorded no licensing revenues for the three months ended March 31, 1998.

Cost of revenues. Our cost of revenues increased by $378,000 from $476,000 for the three months ended March 31, 1998 to $854,000 for the three months ended March 31, 1999, an increase of 79.4%. The cost of revenues was 38.2% of total net revenues for the three months ended March 31, 1998 as compared to 27.6% of total net revenues for the three months ended March 31, 1999. The decrease in cost of revenues as a percentage of total net revenues was primarily due to reductions in manufacturing costs and increased economies of scale.

Research and development. Research and development expenses increased by $389,000 from $566,000 for the three months ended March 31, 1998 to $955,000 for the three months ended March 31, 1999, an increase of 68.7%. The absolute dollar increase was due primarily to increases in staffing and related personnel costs. Research and development expenses represented 45.4% of total net revenues for the three months ended March 31, 1998 as compared to 30.8% of total net revenues for the three months ended March 31, 1999. The decrease in research and development expenses as a percentage of total net revenues was primarily due to increased sales.

Sales and marketing. Sales and marketing expenses increased by $878,000 from $1.6 million for the three months ended March 31, 1998 to $2.4 million for the three months ended March 31, 1999, an increase of 56.6%. The absolute dollar increase was primarily due to increases in staffing, related personnel costs and increased marketing activities. Sales and marketing expenses were 124.5% of total net revenues for the three months ended March 31, 1998 as compared to 78.4% of total net revenues for the three months ended March 31, 1999. The decrease in sales and marketing expenses as a percentage of total net revenues was primarily due to increased sales.

General and administrative. General and administrative expenses increased by $241,000 from $292,000 for the three months ended March 31, 1998 to $533,000 for the three months March 31, 1999, an increase of 82.5%. The absolute dollar increase was primarily due to increases in staffing and related personnel costs to support our growth. General and administrative expenses were 23.4% of total net revenues for the three months ended March 31, 1998 as compared to 17.2% of total net revenues for the three months ended March 31, 1999. The decrease in general and administrative expenses as a percentage of total net revenues was primarily due to increased sales.

Other income, net. Other income, net consisted primarily of interest income and interest expense. Other income, net decreased by $20,000 from $34,000 for the three months ended March 31, 1998 to $14,000 for the three months ended March 31, 1999, a decrease of 58.8%. Interest income earned increased by $53,000 from $41,000 for the three months ended March 31, 1998 to $94,000 for the three months ended March 31, 1999, an increase of 129.3%. This increase was primarily due to

increased interest earned on higher average levels of cash. Interest expense increased by $68,000 from $7,000 for the three months ended March 31, 1998 to $75,000 for the three months ended March 31, 1999. This increase was due primarily to increased interest expense related to our financing activities.

Years ended December 31, 1997 and 1998 Total net revenues. Our total net revenues increased by $5.8 million from $1.4 million in 1997 to $7.2 million in 1998, an increase of 411.7%. Product revenues increased by $5.7 million from $1.4 million in 1997 to $7.1 million in 1998. This increase was primarily due to the addition of indirect channel partners and the sales of the PacketShaper 1000 and 4000 for the full year in 1998, as compared to 1997, in which those models were not introduced until the fourth quarter. Licensing revenues were $125,000 in 1998, which consisted of revenues from the OEM licensing agreement with ADC Telecommunications that we signed in December 1998. We recorded no licensing revenues in 1997.

Cost of revenues. Our cost of revenues increased by $1.9 million from $457,000 in 1997 to $2.4 million in 1998, an increase of 422.1%. The increase in cost of revenues in absolute dollars was primarily due to increased sales. The cost of revenues was 32.3% of total net revenues in 1997 and 33.0% of total net revenues in 1998.

Research and development. Research and development expenses decreased by $153,000 from $3.0 million for 1997 to $2.8 million for 1998, a decrease of 5.2%. Research and development expenses represented 207.5% of total net revenues in 1997 as compared to 38.4% of total net revenues in 1998. The decrease in research and development expenses as a percentage of total net revenues was primarily due to relatively unchanged expenses coupled with increased sales.

Sales and marketing. Sales and marketing expenses increased by $5.7 million from $3.2 million in 1997 to $8.9 million in 1998, an increase of 176.2%. This increase was primarily due to increases in staffing, related personnel costs and marketing activities. Sales and marketing expenses represented 227.2% of total net revenues in 1997 as compared to 122.6% of total net revenues in 1998. This decrease in sales and marketing expenses as a percentage of total net revenues was primarily due to increased sales.

General and administrative. General and administrative expenses increased by $816,000 from $934,000 for 1997 to $1.8 million in 1998, an increase of 87.4%. This absolute dollar increase was primarily due to increases in staffing and related personnel costs. General and administrative expenses represented 66.1% of total net revenues in 1997 as compared to 24.2% of total net revenues in 1998. This decrease in general and administrative expenses as a percentage of total net revenues was primarily due to increased sales.

Other income, net. Other income, net increased by $78,000 from $211,000 in 1997 to $289,000 in 1998, an increase of 37.0%. This absolute dollar increase was primarily due to increased interest earned on higher average levels of cash. Interest income increased by $129,000 from $238,000 in 1997 to $367,000 in 1998, an increase of 54.2%. This increase was primarily due to increased interest earned on higher average levels of cash. Interest expense increased by $51,000 in 1997 to $78,000 in 1998, an increase of 188.9%. This increase was primarily due to increased financing costs.

Period from inception through December 31, 1996 During the period from January 25, 1996 (inception) through December 31, 1996, our operating activities related primarily to development of the PacketShaper product, recruitment and training of personnel, raising capital and development of sales channels. We recognized no revenue and incurred operating expenses of $1.3 million during the period. Accordingly, we believe a comparison of operating results for that period with the operating results in 1997 is not meaningful and have therefore omitted that discussion.

Quarterly Results of Operations

The following table sets forth certain unaudited consolidated statements of operations data in dollars and as a percentage of total net revenues for our nine most recent quarters. In management's opinion, this unaudited information has been prepared on the same basis as the annual consolidated financial statements and includes all adjustments necessary (consisting only of normal recurring adjustments) to present fairly the unaudited quarterly results. This information should be read in conjunction with the consolidated financial statements and related notes thereto included elsewhere in this prospectus. The operating results for any quarter are not necessarily indicative of results for any future period.

	THREE MONTHS ENDED								
CONSOLIDATED STATEMENTS OF OPERATIONS DATA:	MARCH 31, 1997	JUNE 30, 1997	SEPT. 30, 1997	DEC. 31, 1997	MARCH 31, 1998	JUNE 30, 1998	SEPT. 30, 1998	DEC. 31, 1998	MARCH 31, 1999
	(IN THOUSANDS)								
Net revenues:									
Product revenues	$ 43	$ 153	$ 424	$ 793	$ 1,246	$ 1,671	$ 1,895	$ 2,293	$ 2,724
Licensing revenues	--	--	--	--	--	--	--	125	375
Total net revenues	43	153	424	793	1,246	1,671	1,895	2,418	3,099
Cost of revenues	10	60	146	241	476	594	605	711	854
Gross profit	33	93	278	552	770	1,077	1,290	1,707	2,245
Operating expenses:									
Research and development	489	755	827	861	566	602	676	935	955
Sales and marketing	339	622	614	1,635	1,551	1,918	2,306	3,091	2,429
General and administrative	174	202	219	339	292	454	453	551	533
Amortization of stock-based compensation	--	--	--	--	--	228	172	137	865
Total operating expenses	1,002	1,579	1,660	2,835	2,409	3,202	3,607	4,714	4,782
Net loss from									

operations.....	(969)	(1,486)	(1,382)	(2,283)	(1,639)	(2,125)	(2,317)	(3,007)	(2,537)			
Other income, net.....	58	27	74	52	34	101	101	53	14			
Net loss.....	$ (911)	$(1,459)	$(1,308)	$(2,231)	$(1,605)	$(2,024)	$(2,216)	$ (2,954)	$(2,523)			

	THREE MONTHS ENDED								
AS A PERCENTAGE OF NET REVENUES:	MARCH 31, 1997	JUNE 30, 1997	SEPT. 30, 1997	DEC. 31, 1997	MARCH 31, 1998	JUNE 30, 1998	SEPT. 30, 1998		
Net revenues:									
Product revenues...	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%		
Licensing revenues...	--	--	--	--	--	--	--		
Total net revenues...	100.0	100.0	100.0	100.0	100.0	100.0	100.0		
Cost of revenues...	23.3	39.2	34.4	30.4	38.2	35.5	31.9		
Gross margin...	76.7	60.8	65.6	69.6	61.8	64.5	68.1		
Operating expenses:									
Research and development...	1,137.2	493.5	195.0	108.6	45.4	36.0	35.7		
Sales and marketing...	788.4	406.5	144.8	206.2	124.5	114.8	121.7		
General and administrative...	404.6	132.0	51.7	42.7	23.4	27.2	23.9		
Amortization of stock-based compensation...	--	--	--	--	--	13.6	9.0		
Total operating expenses...	2,330.2	1,032.0	391.5	357.5	193.3	191.6	190.3		
Net loss from operations...	(2,253.5)	(971.2)	(325.9)	(287.9)	(131.5)	(127.1)	(122.2)		
Other income, net...	134.9	17.6	17.4	6.6	2.7	6.0	5.3		
Net loss.....	(2,118.6)%	(953.6)%	(308.5)%	(281.3)%	(128.8)%	(121.1)%	(116.9)%		

	THREE MONTHS ENDED	
AS A PERCENTAGE OF NET REVENUES:	DEC. 31, 1998	MARCH 31, 1999
Net revenues:		
Product revenues...	94.8%	87.9%
Licensing revenues...	5.2	12.1
Total net revenues...	100.0	100.0
Cost of revenues...	29.4	27.6
Gross margin...	70.6	72.4
Operating expenses:		
Research and development...	38.7	30.8
Sales and marketing...	127.8	78.4
General and administrative...	22.8	17.2
Amortization of stock-based compensation...	5.7	27.9
Total operating expenses...	195.0	154.3

Net loss from operations...	(124.4)	(81.9)
Other income, net...	2.2	0.5
Net loss.....	(122.2)%	(81.4)%

Total net revenues. Total net revenues have increased each quarter since the three months ended March 31, 1997, primarily due to the development of indirect sales channels, marketing the PacketShaper and PacketWise brands and development of new products and feature enhancements to existing products. Our sales strategy is to continue to develop indirect sales channels, to increase marketing of the PacketShaper and PacketWise brands and to develop new products and feature enhancements to existing products.

Cost of revenues. Our cost of revenues has increased in absolute dollars each quarter since the three months ended March 31, 1997, primarily due to increased sales. Fluctuations in the cost of revenues as a percentage of total net revenues have resulted from variations in the mix of products sold and variations in the channel mix. Gross margin increased from 68.1% for the three months ended September 30, 1998 to 70.6% for the three months ended December 31, 1998 to 72.4% for the three months ended March 31, 1999. These increases were partially due to the recognition of licensing revenues from our OEM relationship with ADC Telecommunications.

Research and development. Our research and development expenses have fluctuated in absolute dollars since the three months ended March 31, 1997. Research and development expenses increased in the three months ended June 30, 1997 and September 30, 1997 primarily due to increased prototype expenses and consulting fees related to the launch of the PacketShaper 1000 and 4000 models. Research and development expenses increased in the three months ended December 31, 1997 primarily due to increased personnel expenses and costs associated with a facilities move. Research and development expenses increased in the three months ended December 31, 1998 primarily due to the hiring of additional engineers and increasing consulting fees related to new product development initiatives. Research and development expenses have generally decreased as a percentage of total net revenues, primarily due to increased sales.

Sales and marketing. Our sales and marketing expenses have generally increased in absolute dollars since the three months ended March 31, 1997, primarily due to increased salaries, commissions and related personnel expenses. Marketing expenses generally increased in the second and fourth quarters of 1997 and 1998 primarily due to increased expenditures related to trade shows. Sales and marketing expenses increased for the three months ended December 31, 1997, primarily due to increased expenditures related to the launch of the PacketShaper 1000 and 4000 models. Sales and marketing expenses have generally decreased as a percentage of total net revenues, primarily due to increased sales.

General and administrative. General and administrative expenses have generally increased in absolute dollars since the three months ended March 31, 1997, primarily due to the addition of finance, information technology and administrative personnel. General and administrative expenses increased for the three months ended December 31, 1997, primarily due to the costs associated with a facilities move. General and administrative expenses have generally decreased as a percentage of total net revenues, primarily due to increased sales.

Liquidity and Capital Resources

We have financed our operations primarily from the sale of preferred stock and other financing activities such as bank credit against accounts receivable, subordinated debt offerings and capital equipment leasing. As of March 31, 1999, we had cash and cash equivalents of $7.1 million which included amounts borrowed under our credit facilities.

We have a lease to finance the acquisition of computer software and hardware, and furniture. The lease expires on June 30, 1999. We entered into a revolving credit facility against accounts receivable on January 19, 1999 which provides borrowings of up to $3.0 million. Borrowings under this credit facility bear interest at the prime rate, which was 7.75% as of March 31, 1999, are due upon demand and are secured by substantially all of our assets. As of March 31, 1999, we had an outstanding balance of $980,000. The agreement expires on January 10, 2000. We also entered in a $2.5 million subordinated loan and security agreement in January 1999. Borrowings under this loan bear interest at a rate of 12.25% per annum and are secured by all of our tangible assets.

Net cash used by operating activities was $748,000 for the three months ended March 31, 1999. Net cash used by operating activities during the three months ended March 31, 1999 was primarily due to net losses and decreases in deferred revenues and accounts payable, partially offset by a decrease in accounts receivable. Net cash used by operating activities was $7.0 million in 1998 and $6.1 million in 1997. During 1997 and 1998, net cash used by operating activities was primarily due to net losses and increases in accounts receivable, partially offset by increases in deferred revenue and accrued expenses.

Net cash provided by investing activities was $1.8 million for the three months ended March 31, 1999. Cash was used during this period to purchase computer equipment and software for internal use. Net cash used by investing activities was $605,000 in 1997 and $2.6 million in 1998. Cash was used during this period to acquire property and equipment and purchase investments. We currently do not have significant capital spending or purchase commitments, but expect to continue to engage in capital spending in the ordinary course of business. During 1998, we expensed as incurred all software development costs.

Net cash provided by financing activities was $3.5 million for the three months ended March 31, 1999. The net increase was primarily due to a subordinated debt offering that resulted in proceeds of $2.5 million and a revolving credit facility against accounts receivables that netted $980,000. Net cash provided by financing activities in 1997 was $4.9 million and $9.7 million in 1998. Net cash used by financing activities in 1997 and 1998 primarily represented repayment of indebtedness. Net cash provided by financing activities during 1997 and 1998 was primarily due to the issuance of preferred stock.

We expect to experience growth in our working capital needs for the foreseeable future in order to execute our business plan. We anticipate that operating activities, as well as planned capital expenditures, will constitute a material use of our cash resources. In addition, we may utilize cash resources to fund acquisitions or investments in complementary businesses, technologies or products. We believe that the net proceeds from this offering, together with our current cash and cash

equivalents, cash generated from operations and available borrowings under our line of credit, will be sufficient to meet our anticipated cash requirements for working capital and capital expenditures for at least the next 12 months.

Disclosures About Market Risk

Our exposure to market risk for changes in interest rates relates primarily to our cash equivalents and short-term investments. The short-term investments are available for sale. We do not use derivative financial instruments in our investment portfolio. As stated in our investment policy, we are averse to principal loss and ensure the safety and preservation of our invested funds by limiting default and market risks. We mitigate default risk by investing in only high credit quality securities. The portfolio includes marketable securities with active secondary or resale markets to ensure portfolio liquidity. All short-term investments have a fixed interest rate and are carried at market value, which approximates cost.

As of December 31, 1998, we had cash equivalents and short-term investments of $4.3 million with a weighted average interest rate of 5.7%. These investments mature in 1999.

A hypothetical increase or decrease in market interest rates of 10% from the December 31, 1998 rates would cause the fair value of these investments to decline by an insignificant amount.

Substantially all of our revenues are currently realized in U.S. dollars. Additionally, amounts of foreign currency in our foreign operations is insignificant. Therefore, we do not believe that we currently have any significant direct foreign currency exchange risk.

Year 2000 Readiness Disclosure

Some computers, software, and other equipment include computer code in which calendar year data is abbreviated to only two digits. As a result of this design decision, some of these systems could fail to operate or fail to produce correct results if "00" is interpreted to mean 1900, rather than 2000. These problems are widely expected to increase in frequency and severity as the year 2000 approaches, and are commonly referred to as the "year 2000 problem."

Assessment. The year 2000 problem affects the computers, software and other equipment that we use, operate or maintain for our operations. Accordingly, we have organized a project team responsible for monitoring the assessment and remediation status of our year 2000 projects. This project team is currently assessing the potential effects and costs of remediating the year 2000 problem for our internal systems. To date, we have not obtained verification or validation from any independent third parties of our processes to assess and correct any of our year 2000 problems or the costs associated with these activities.

Internal infrastructure. We believe that we have identified mission-critical computers, servers and applications, and our business systems and related equipment used in connection with our internal operations that will need to be evaluated to determine if they must be modified, upgraded or replaced to minimize the possibility of a material disruption to our business. Upon completion of such evaluation, which we expect to occur by July 1999, we expect to commence the process of modifying, upgrading and replacing major systems that have been assessed as adversely affected, and expect to complete this process before the occurrence of any material disruption of our business.

Systems other than information technology systems. In addition to computers and related systems, the operation of office and facilities equipment, such as fax machines, telephone switches, security systems and other common devices may be affected by the year 2000 problem. We are currently assessing the potential effects and costs of remediating the year 2000 problem on our office equipment and our facilities.

Products. We have tested and intend to continue to test all of our products for year 2000 problems. To date, we have been able to correct any problems with our products relating to the year 2000 problem. We currently do not expect any significant year 2000 problems to arise with our products. We have generally represented to our indirect channel partners and end users that our products are year 2000 compliant, and if that turns out to be untrue, these parties may make claims against us which may result in litigation or contract terminations.

We estimate the total cost to us of completing any required modifications, upgrades or replacements of our internal systems will not exceed $100,000, almost all of which we believe will be incurred in 1999. Based on the activities described above, we do not believe that the year 2000 problem will have a material adverse effect on our business or operating results. In addition, we have not deferred any material information technology projects as a result of our year 2000 problem activities.

Suppliers. We are in the process of assessing the readiness of our sole-sourced component suppliers. We expect that we will be able to resolve any significant year 2000 problems with sole-sourced component suppliers; however, we cannot assure you that these suppliers will resolve any or all year 2000 problems before the occurrence of a material disruption to the operation of our business.

Any failure of these third parties to timely resolve year 2000 problems with their systems could harm our business.

Most likely consequences of year 2000 problems. We expect to identify and resolve all year 2000 problems that could adversely affect our business operations. However, we believe that it is not possible to determine with complete certainty that all year 2000 problems affecting us have been identified or corrected. The number of devices that could be affected and the interactions among these devices are simply too numerous. In addition, no one can accurately predict how many year 2000 problem-related failures will occur or the severity, duration or financial consequences of these perhaps inevitable failures. As a result, we believe that the following consequences are possible:

- a significant number of operational inconveniences and inefficiencies for us, our contract manufacturers and our indirect channel partners and end users that will divert management's time and attention and financial and human resources from ordinary business activities;

- business disputes and claims for pricing adjustments or penalties due to year 2000 problems by our indirect channel partners and end users; and - a number of serious business disputes alleging that we failed to comply with the terms of contracts or industry standards of performance, some of which could result in litigation or contract termination.

Contingency plans. We are currently developing contingency plans to be implemented if our efforts to identify and correct year 2000 problems affecting our internal systems are not effective. We expect to complete our contingency plans by the end of September 1999. Depending on the systems affected, these plans could include:

- accelerated replacement of affected equipment or software;

- short to medium-term use of backup equipment and software;

- increased work hours for our personnel; and - use of contract personnel to correct on an accelerated schedule any year 2000 problems that arise or to provide manual workarounds for information systems.

Our implementation of any of these contingency plans could harm our business.

The discussion of our efforts and expectations relating to year 2000 compliance are forward-looking statements. Our ability to achieve year 2000 compliance and the level of incremental costs associated therewith, could be adversely affected by, among other things, availability and cost of programming and testing resources, third-party suppliers' ability to modify proprietary software, and unanticipated problems identified in the ongoing compliance review.

Disclaimer. The discussion of our efforts and expectations relating to year 2000 compliance are forward-looking statements. Our ability to achieve year 2000 compliance and the level of incremental associated cost, could be adversely affected by, among other things, availability and cost of programming and testing resources, third-party suppliers' ability to modify proprietary software and unanticipated problems identified in the ongoing compliance review.

Recently Issued Accounting Standard

In June 1998, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement requires companies to record derivatives on the balance sheet as assets or liabilities, measured at fair value. Gains or losses resulting from changes in the values of those derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. We will adopt SFAS No. 133 for 2000. We believe that this statement will not have a significant impact on our business.

Business

Overview

Packeteer is a leading provider of application-adaptive bandwidth management solutions that enhance mission-critical application performance over enterprise WANs and the Internet. Our solutions enable businesses and service providers to proactively manage bandwidth contention at congested WAN access links, protect important application traffic and increase network efficiency. We deliver comprehensive application-adaptive bandwidth management by discovering and classifying network traffic, analyzing application and network performance, controlling traffic flows and monitoring and reporting on performance. Our PacketWise software is at the core of our bandwidth management solutions and is embedded in our PacketShaper family of products or in the networking products of OEM partners. Our PacketShaper product family consists of an Intel architecture-based hardware platform that runs various configurations of our PacketWise software, providing customers with a plug-and-play solution.

We have shipped over 2,500 PacketShapers and have established a network of over 100 VARs, distributors and systems integrators that sell our solutions in over 50 countries. In addition, we have OEM relationships with partners who license our PacketWise software to incorporate in their networking products or resell our products under their own label.

Industry Background

The Emergence of Internet Computing Today, both the Internet and its underlying protocol infrastructure, TCP/IP, have grown to positions of prominence in enterprise networking. From its origins as a network connecting academic and government institutions, the Internet has evolved into an interactive communications and commerce platform supporting businesses' daily operations. Originally intended to accommodate non- interactive traffic such as file transfers and e-mail, the Internet and TCP/IP were designed with the basic goals of connectivity, versatility and bandwidth exploitation. With the evolution towards distributed computing, TCP/IP has become the communications fabric of mission-critical enterprise networks. The Internet has enabled a new generation of interactive applications to deliver core business functions, including e-commerce, data access and information exchange, to a broad range of users. Leveraging the fundamental attributes of the Internet and TCP/IP, businesses, consumers and suppliers have become better connected. This rapid development of a vast connected economy has given rise to a new innovative business model, the Internet computing model.

The rapid emergence of Internet computing has had a significant effect on today's enterprise networks and has created new challenges for information technology managers. As more interactive business applications are developed using web-enabled platforms, such as SAP/R3, Oracle, PeopleSoft and Baan, the amount of network data is increasing dramatically. E-commerce and e-business applications extend

the confines of the enterprise network across the Internet, making application performance difficult to ensure. Enterprise users are accessing web sites, large files, streaming multimedia content, news and other non-critical information over the Internet. The resulting traffic deluge impacts network resources that serve point-of-sale, order processing, enterprise resource planning, supply-chain management and other vital business functions.

Internet computing relies on TCP/IP as the underlying protocol to support distributed enterprise applications and the delivery of electronic services. Unlike early non-interactive applications that did not require real-time responsiveness, today's enterprise and e-commerce applications depend on timely access to data and real-time transaction responses to ensure productivity and a high quality of experience for end users. The shift toward real-time, delay-sensitive data is accelerating as corporations begin to converge database transactions and multimedia traffic onto their enterprise networks. TCP/IP is unable to differentiate between traffic types and is designed so that each transmission attempts to consume all available bandwidth. These characteristics, which make TCP/IP suitable for non-interactive traffic, threaten the performance of today's mission-critical applications.

The Traffic Bottleneck at the WAN Access Link In recent years, the adoption of Fast Ethernet and Gigabit Ethernet technologies has reduced network congestion on the LAN. Simultaneously, the deployment of fiber infrastructure in the service provider backbone has also reduced bandwidth contention in that portion of the network. However, the bridge between the two, the WAN access link, has remained the slow, weak link in the chain, forming a bandwidth bottleneck. WAN access link capacity is often constrained, expensive and difficult to upgrade. When faced with bandwidth contention at the bottleneck, TCP/IP provides neither a means to give preferential treatment to select applications nor a good mechanism to effectively control data flows. TCP/IP reacts to network congestion by discarding data packets and sporadically reducing packet transmissions from the host computer. In enterprise networks that are overwhelmed by increasing amounts of both non-critical and mission-critical traffic, unmanaged congestion at the WAN access link undermines application performance and can result in impaired productivity and lost revenues.

[Insert Bottleneck Figure]

Today's enterprise networks require solutions that ensure mission-critical application performance, increase network efficiency, and enable the convergence of data, voice and video traffic. Enterprises are seeking to align their networks with their business priorities by making them adaptive to the unique requirements of the growing mix of mission-critical applications. At the same time, they seek to leverage investments in application software and proactively control recurring network costs by optimizing bandwidth utilization.

Many existing and newly emerging telecommunications service providers are also seeking to address the needs of enterprises that are adopting Internet computing. Service providers have traditionally functioned as WAN bandwidth suppliers, leasing data lines and selling Internet access to businesses and consumers. In the face of heightened competition, service providers are seeking to differentiate themselves by offering tiered services in order to attract and retain customers and increase

profitability. These offerings include web hosting, application outsourcing and managed network services. To deliver these services, service providers must be able to ensure network and application performance and better manage and allocate network resources.

Limitations of Existing Approaches Businesses and service providers currently employ several approaches in an attempt to alleviate network congestion at the WAN access link. These approaches include the following:

Adding bandwidth and infrastructure to over-provision the network. This approach requires expensive upgrades to WAN access links and associated network equipment. Moreover, incremental increases in bandwidth only temporarily alleviate network congestion, leaving the following problems unresolved:

- Over-provisioning results in under-utilization of the network during non-peak periods;

- Increases in bandwidth tend to be consumed quickly by latent demand within LAN and backbone infrastructure;

- Deployment costs and increases in recurring service charges can be prohibitively expensive, especially for networks with many remote sites and for international networks; and - There is no application performance visibility to enable effective capacity planning.

Implementing queuing-based features. Today's queuing technologies provide some degree of prioritization and are frequently router-based. These implementations engage only after queues form, and attempt to provide quality of service, or QoS, by reordering packets and then discarding packets when the queues overflow. Router-based approaches typically identify and prioritize traffic based on rudimentary characteristics such as port number, IP address or protocol type. While these approaches can alleviate some of the bandwidth contention problems, they are inadequate to handle an increasingly complex mix of interactive and real-time mission-critical applications. These limitations include:

- Queuing-based approaches are reactive in nature and can only address congestion after the fact, rather than preventing it from occurring;

- Congested queues result in packet loss, retransmissions and delays that waste bandwidth and undermine application response times;

- Limited traffic classification capabilities inadequately distinguish between different types of application flows, resulting in sub-optimal prioritization of traffic;

- Queuing does not directly control end-to-end application performance; and - Queuing-based approaches do not control inbound traffic flowing from the WAN to the LAN.

Installing network-management tools. Several vendors provide software that analyzes and monitors network traffic. While these products enable network administrators to determine how bandwidth is being utilized, thereby identifying where bandwidth management is required, they do not comprise a complete solution for the following reasons:

- These products only monitor and report application performance and bandwidth utilization, offering no means of fixing or resolving performance problems; and - Products that detect problems once they occur are reactive and don't proactively prevent similar problems in the future.

The Bandwidth Management Opportunity As Internet computing is more widely adopted, both businesses and service providers are seeking ways to cost-effectively manage bandwidth, ensure application performance and increase network efficiency. As mission-critical applications compete with bandwidth-hungry non-critical traffic for limited network resources, enterprises require a solution that not only monitors and reports on application performance problems, but also provides the means to fix such problems. As the complexity of their network infrastructures increases, enterprises seek solutions that integrate easily into the existing network and are cost-effective to deploy and maintain. In response to growing competition, service providers are looking to create new revenue streams by offering differentiated network and application-based services that meet the needs of enterprise customers. Whether the solution is implemented by the enterprise or purchased from a service provider, effectively managing the performance of mission-critical applications is essential to businesses relying on Internet computing.

The Packeteer Solution

Packeteer provides application-adaptive bandwidth management solutions that enhance the performance of mission-critical applications over enterprise WANs and the Internet. Addressing the needs of both enterprises and service providers, our products incorporate innovative technology for discovery, classification, analysis, control and management of disparate traffic flows on congestion-prone WAN access links.

PacketWise software is at the core of our bandwidth management solutions and is embedded in Packeteer-manufactured products and OEM-manufactured products. Our PacketShaper family of products consists of an Intel architecture-based hardware platform that runs various configurations of our PacketWise software. Our PacketShaper products provide customers with a plug-and-play solution designed to be deployed easily and cost-effectively without additional investment in or impact to network equipment, software or infrastructure. In addition, by working with OEM partners to embed PacketWise technology into their networking products, we are able to address new market opportunities that are outside of the scope of our PacketShaper family of products.

As the enterprise network increasingly extends to include the Internet, network managers are challenged with managing the dynamic growth in critical and non-critical traffic. Each particular application and type of traffic -- such as transactions, file transfers, voice or streaming multimedia -- requires a tailored management strategy to ensure optimal performance. Our solutions are based on a comprehensive four-step methodology that provides the elements for effective bandwidth management:

I. Discover and Classify Traffic. Currently, PacketShaper automatically detects and identifies over 150 types of traffic. Network managers can refine traffic categories based on application, protocol, web page, addresses, users and host names. In addition, managers can define criteria to recognize proprietary applications so that PacketShaper automatically classifies the associated traffic. Sophisticated traffic classification enables network managers to understand network congestion and to precisely target bandwidth-allocation policies.

II. Analyze Performance. PacketShaper provides detailed analysis and evaluation of network resources and application performance. PacketShaper tracks traffic levels and trends, measures response times and calculates network efficiency. Network managers can analyze all traffic traversing a particular WAN access link or can focus on an individual application, client, server or traffic type.

III. Control Traffic. PacketShaper allows network managers to control application performance and network resources by defining precise bandwidth-allocation policies. Policies can protect important traffic, cap bandwidth-intensive traffic and guarantee service levels. Network managers can tailor management strategies and bandwidth allocation to suit the requirements of particular applications or traffic, such as voice, video or data. PacketShaper paces both inbound and outbound traffic over the WAN access link to optimize performance and control end-to-end QoS. Our control technology can also prohibit specific applications, such as web-based entertainment or leisure applications, from utilizing any enterprise resources.

IV. Report Performance. PacketShaper provides reports describing current and historical network performance. Comprehensive reports, graphs and tables enable network managers to refine bandwidth management policies, evaluate efficiency and plan capacity. PacketShaper automatically measures per-transaction response times for each application. Managers can set, enforce and monitor service-level agreements, which quantify desired QoS for a particular application or customer.

Our dynamic four-step approach to application-adaptive bandwidth management enables businesses and service providers to realize the following key benefits:

- Gain Network Performance Visibility and Insight. PacketShaper provides valuable historical and real-time information about application performance and network utilization through an easy-to-use browser interface. Network managers gain a better understanding of the nature of traffic running on their networks and the problems and inefficiencies associated with that traffic.

- Ensure Bandwidth to Mission-Critical Applications. Policy-based bandwidth allocation protects bandwidth for mission-critical applications such as SAP/R3, Oracle and Baan, preventing disruptions from bandwidth-hungry but less urgent applications such as file transfers or casual web browsing.

- Simplify Deployment. PacketShaper installs easily and automatically starts to discover, classify and analyze network traffic and suggests policies to optimize performance. It complements the existing network infrastructure, requires no router reconfiguration or desktop changes and is designed not to be a point of failure on the network.

- Enable Interactive Services. Voice over IP, real-time video and other streaming media require guaranteed bandwidth in order to achieve minimum quality requirements. By using PacketShaper to set minimum bandwidth guarantees and explicit delay bounds, network managers and service providers can deliver smooth and predictable performance of these delay-sensitive multimedia services.

- Increase Network Efficiency. PacketShaper improves network efficiency and helps delay expensive capacity upgrades by managing non-critical traffic to reduce retransmission overhead and smooth the variability in bandwidth utilization.

- Facilitate E-Commerce. PacketShaper can reserve bandwidth for individual website customers on a shared WAN connection. PacketShaper can also optimize response time for certain web pages, such as product order and home pages, and redirect users with slower connections to less data-intensive web pages.

Strategy

Our objective is to be the leading provider of application-adaptive bandwidth management solutions. Key elements of our strategy include:

Focus on Bandwidth Management Needs of Enterprises. We are focused on providing high performance, easy-to-use and cost-effective bandwidth management solutions to enterprises whose businesses are based on Internet computing. For these businesses, managing mission-critical application performance and optimizing the value of the network will continue to be competitive requirements. As the Internet proliferates, and new Internet-based applications and services emerge, we believe businesses will continue to adopt Internet computing business models at a rapid rate and that effective bandwidth management will become an increasingly important requirement for maintaining an efficient enterprise network. We believe we have established a differentiated market position in terms of our technology expertise, early market leadership and brand awareness. We intend to continue to direct our development, sales and marketing efforts toward addressing the bandwidth management needs of the Internet computing market.

Expand Presence in Service Provider Market. We are actively pursuing opportunities in the service provider market and currently have several service provider customers, including: Big Globe, a wholly owned subsidiary of NEC Corporation; CLEAR Communications Ltd.; NTT Corporation; SONERA Technologies; Telefonica de Espana; and Verio Inc. We believe service providers are under increasing pressure to attract new subscribers, reduce subscriber turnover, improve operating margins and develop new revenue streams. Specifically, service providers seek to differentiate themselves through value-added service offerings, such as web hosting, application outsourcing and application service-level management. We believe our PacketShaper and PacketWise solutions enable service providers to deliver these higher value services by enhancing network and application performance and better managing and allocating network resources. We intend to increase demand for our solutions with service providers by leveraging our strong enterprise presence.

Continue to Build Indirect Distribution Channels. We believe we have built a significant worldwide distribution channel. We currently have over 100 VARs, distributors and systems integrators that sell our products in over 50 countries. These relationships include: Syncordia Solutions, a division of British Telecommunications PLC; Datacraft Asia Ltd.; Fujitsu Limited; Macnica; Nissho Electronics Corporation; Persetel, a subsidiary of Comparex Holdings; Unisys Corp.; and Williams Communications Group Inc. Recently, we entered into an agreement with Alcatel Business Systems to distribute our products globally. We intend to continue to develop and support new VAR and distribution relationships, as well as to establish additional indirect channels with service providers, systems integrators and OEMs. We believe this strategy will enable us to increase the worldwide deployment of our products.

Develop OEM Relationships to Broaden PacketWise Deployment. We have designed our PacketWise software in distinct modules to integrate with network hardware platforms offered by other vendors. This integration brings Packeteer's unique capabilities into markets where tightly integrated QoS functions are required but are beyond the scope of the PacketShaper offering. We currently have an OEM relationship with ADC Telecommunications, in which they license portions of our PacketWise software to incorporate in their networking products. In addition, Memorex-Telex and NEC sell our PacketWise software and our dedicated hardware platform under their own labels. We intend to pursue additional OEM relationships in order to drive the proliferation of our technology in enterprise and service provider networks.

Extend Bandwidth Management Technology Leadership. Our technological leadership is based on our sophisticated traffic classification, flexible policy-setting capabilities, TCP rate control expertise and ability to measure response time and network performance. We intend to invest our research and development resources to increase the performance, functionality and modularity of our existing bandwidth management solutions and to develop new leading-edge technologies for emerging markets. This includes extending our bandwidth management solutions to incorporate in-depth application-management techniques that will improve performance over the Internet and reduce bandwidth requirements. We plan to extend our current portfolio by offering PacketWise-defined solutions that target the specific needs of three primary market opportunities: application service-level management, enterprise bandwidth management and service provider bandwidth management.

Products

We provide application-adaptive bandwidth management solutions to address the needs of both businesses and service providers. Our products incorporate innovative technology for discovery, classification, analysis, control and management of disparate traffic flows in congestion-prone TCP/IP WAN access links. Our PacketWise software is at the core of our bandwidth management solutions and is embedded in our PacketShaper family of products. PacketShaper products consist of an Intel architecture-based hardware platform running various configurations of PacketWise. We also license our PacketWise software to an OEM partner for incorporation in its networking products.

PacketShaper is available in three models to fit a broad range of network environments, including corporate and service providers' data centers, enterprise networks, branch offices and remote sites, as well as a wide variety of additional network environments. Our PacketShaper products support multiple WAN access link speeds. In addition, our solution supports thousands of simultaneous sessions involving a wide range of protocols. Each of our PacketShaper models is described below:

PacketShaper 1000 PacketShaper 1000 targets the needs of branch offices and remote sites. It connects to 10 Mbps Ethernet LANs and manages WAN access links with speeds up to 384 Kbps. PacketShaper 2000 PacketShaper 2000 targets the requirements of enterprise network administrators and Internet service providers. It connects to 10 Mbps LANs and manages WAN access links with speeds up to 8 Mbps, or two T1/E1 lines. PacketShaper 4000 PacketShaper 4000 targets corporate data centers, Fast Ethernet LAN environments and Internet service providers. It connects to 10 or 100 Mbps LANs and controls WAN access links with speeds up to 45 Mbps, or a T3 line. This model also has redundant power supplies and cooling fans, which are important features in service provider environments.

PacketShapers represent a plug-and-play solution designed to be deployed easily and cost-effectively in an existing network configuration. PacketShaper does not require any new protocols, standards, router reconfiguration or desktop changes. Additionally, each PacketShaper features a passive connector so that the network connectivity is maintained if a PacketShaper is turned off or shuts down due to a hardware or software failure. PacketShapers are typically deployed at the WAN access link between the LAN and the WAN access router. The diagram below depicts examples of how PacketShapers are deployed on customer networks.

[Insert Network Topology Diagram]

Technology

We differentiate our solution by combining our knowledge of distributed applications with our expertise in underlying network protocols. We have invested heavily in developing valuable, proprietary software and related technologies. In particular, we have developed expertise and technology in these major areas: sophisticated traffic discovery and classification, flexible policy definition and enforcement, precise rate control, application-based response-time measurement, high-performance packet engines and scaleable configuration. We have tied together these technologies with an easy to use, graphical user interface in order to insulate the end user from the sophistication of the underlying technology and to allow them to derive the benefits of the technology with minimal effort.

Sophisticated Traffic Discovery and Classification The ability to automatically detect and classify an extensive collection of applications and protocols differentiates PacketShaper from other bandwidth management technologies. Sophisticated traffic classification is crucial to understand network congestion and to target appropriate bandwidth-allocation policies. Network software or devices that claim QoS features typically offer rudimentary solutions because they can identify traffic based only on port numbers or protocol type. This approach limits application-specific QoS capabilities because these

products do not recognize the detailed information required to make intelligent classification decisions. PacketShaper discovers and classifies traffic by focusing on content and applications where value to the end user lies.

Relying only on low-level protocols to classify traffic prevents network managers from discovering important traffic trends and limits policy-setting. Sophisticated traffic types such as Voice over IP, Oracle 8, TN3270, Citrix, and Microsoft DCOM cannot be identified using simple IP-address or static-port schemes. PacketShaper identifies traffic markers, detects dynamic port assignments and tracks transactions with migrating port assignments. This sophisticated traffic classification allows network managers to set policies and control the traffic related to an individual application, session, client, server or traffic type. PacketShaper permits a network manager to isolate each published application running within a Citrix-based environment and can also differentiate among various applications using the same port. For example, web browsing, HTTP traffic from mission-critical web sites, PointCast and PeopleSoft e7.5 all run on the same TCP port, but can be individually classified using PacketShaper.

PacketShaper needs no assistance from network managers to automatically detect and identify over 150 traffic types. Without a sophisticated identification and classification capability, managers are usually unaware of the diversity of their own network traffic. In addition, managers can define proprietary applications so that their traffic can be recognized and reported. Our PacketShaper technology is differentiated by its ability to recognize legacy enterprise protocols, such as AppleTalk, DECnet, IPX and SNA. We continuously enhance PacketShaper's classification capability to include new traffic types. Any traffic category can be made even more specific by adding more detailed criteria -- for example, Oracle traffic from a specific server to a specific subnet. Many of the traffic types PacketShaper automatically classifies are listed below.

CLIENT/SERVER	DIRECTORY SERVICES	E-MAIL	FILE SERVER	INTERNET	NETWORK MANAGEMENT
CORBA	CRS	cc:MAIL	Lockd	ActiveX	PROTOCOL
FileMaker Pro	DHCP	IMAP	NetBIOS-IP	FTP	Cisco
FIX	DNS	MS DCOM	NFS	Gopher	Discovery
LotusNotes	DPA	(MS		HTTP	ICMP
MS DCOM	Finger	Exchange)	GAMING SYSTEMS	IP	NTP
MS SQL	Ident	MSSQ	Doom	IPv6	SNMP
Oracle	Kerberos	POP3	Kali	IRC	SYSLOG
SunRPC	LDAP	SMTP	Quake	NNTP	
	RADIUS		Quake II	SSH	
	TACACS			SSL	
	Whois			TCP	
				TFTP	
				UDP	
				UUCP	

PRINT	ROUTING	SESSION	STREAMING MEDIA	TUNNELING PROTOCOL	VOICE OVER IP
LPR	AURP	Citrix	MPEG	DLS	CUSeeMe
TN3287	BGP	RDP	NetShow	GRE	H.323
TN5250p	CBT	Telnet	RealAudio	IPSEC	I-Phone
	DRP	Timbuktu	RTSP	L2TP	Micom VIP
PUSH	EGP	TN3270	ST2	PPTP	RTCP
Backweb	EIGRP	TN5250	Streamworks		RTP
Marimba	IGMP	Xwindows			T.120
PointCast	OSPF				VDOPhone
	PIM				
	RARP				

```
RIP
Spanning Tree
```

Flexible Policy Definition and Enforcement PacketShaper provides network managers flexible tools to tailor solutions for different applications or traffic types. Unlike queuing-based approaches, PacketShaper allows network managers to do more than just prioritize one traffic type over another. Policy features such as per-session rate policies and fixed and burstable partitions offer the flexibility required to tune bandwidth to specific applications and dynamically utilize available bandwidth. Our policy features may be used individually or in conjunction with each other. PacketShaper policy features include:

- Per-session rate policies. These policies enable network managers to limit or guarantee bandwidth to each individual session of an application's traffic. Per-session policies allocate each session an appropriate amount of bandwidth and prevent one large session from inappropriately impacting others. Network managers specify a minimum-guaranteed rate and allow the session scaled access to additional available bandwidth. For example, a bandwidth cap for HTTP traffic prevents web browsers from competing for bandwidth required by mission-critical applications. Likewise, a guaranteed rate for audio or video streams ensures that they are not interrupted by bursty traffic types.

- Partitions. Partitions allow the creation of a separate, exclusive channel within a WAN access link. Partitions represent aggregate bandwidth minimums or maximums governing how much of the network can be used by a single application or traffic category. Partitions can be fixed, creating dedicated virtual circuits, or burstable, creating virtual circuits whose unused bandwidth can be shared.

- Priority policies. Priorities may be assigned to each application or traffic category. Eight priority levels are available. Priority policies are ideal for traffic that does not burst, non-IP traffic and traffic characterized by small, high-priority flows.

- Admission-control policies. Admission control determines the response if a bandwidth guarantee cannot be satisfied. Network managers may choose to deny access, accommodate an additional user with less than guaranteed performance, or, for web requests, redirect the request to another server. For example, if an online streaming-video service suffers a high- demand period and all available bandwidth is consumed, an admission-control policy could present a web page explaining that resources are busy. This allows a maximum number of users to receive a targeted service quality without degradation as new users seek to access the service.

- Discard and never-admit policies. These policies intentionally block traffic. Discard policies toss packets without sending feedback to the sender. Never-admit policies are similar to discard policies except that the policy informs the sender that service is blocked.

Precise Rate Control

One of TCP/IP's primary weaknesses is an inability to guarantee QoS. Unlike SNA and ATM protocols, which have an embedded concept of rate, TCP/IP's attempts to consume all available bandwidth conflict with the goal of predictable, consistent, mission-critical application performance. PacketShaper's standards-based TCP rate control technology overcomes TCP/IP's shortcomings by

proactively preventing congestion on both inbound and outbound flows and increasing overall network throughput. Rather than discarding packets from a congested queue, TCP rate control implements just-in-time packet delivery to prevent congestion. Rate control uses the remote user's access speed and real-time network latency to calculate the optimal transmission speed. Evenly paced packet transmissions, instead of packet bursts, yield significant efficiency gains in the network. TCP rate control is a proactive and precise way to increase network efficiency by avoiding retransmissions and packet loss and creates a smooth, even flow rate that maximizes throughput. By employing TCP rate control, PacketShaper manages the majority of traffic at the access link before network congestion occurs.

For non-TCP based traffic, such as UDP, alternative rate-based management techniques must be implemented. Typically UDP does not rely on acknowledgments to signal successful receipt of data, and it therefore offers no means for flow control. By directly controlling other TCP flows, PacketShaper effectively makes bandwidth available for UDP flows. The combination of per flow rate scheduling and explicit delay bounds removes latency and variability, or jitter, for the UDP flows traversing the WAN access link.

For example, Voice over IP, or VoIP, is a UDP-based application that is particularly latency-sensitive, requiring packets to be evenly spaced to eliminate jitter. PacketShaper enhances VoIP performance in two ways. First, PacketShaper manages competing traffic by using rate control to constrain bursty TCP traffic. In addition, a rate policy for VoIP gives a minimum bandwidth guarantee to each flow, ensuring that each voice stream gets the bandwidth it needs for predictable performance. When there is a lull in the conversation, any unused bandwidth is re-allocated to other traffic.

Application-Based Response-Time Measurement PacketShaper's position in the enterprise network -- monitoring and controlling all the traffic that passes -- gives it an opportunity to provide accurate response-time measurements for a relatively low cost. Because it already handles and classifies every packet, PacketShaper can easily calculate the time traffic spends traveling between a client and a server and the time used by the server itself.

PacketShaper breaks each response-time measurement into network delay, the time spent in transit, and server delay, the time the server used to process the request. It can highlight clients and servers with the slowest performance. PacketShaper allows network managers to set acceptability standards and then track whether performance adheres to the standards.

High-Performance Packet Engines Sophisticated classification and control of high-speed traffic must be accomplished in an efficient manner. Adding significant delay in the process of managing traffic flows would negate the resulting performance improvements. Packeteer has developed expertise in the development of high-speed, software-based packet engines running on real-time operating systems that can efficiently process thousands of simultaneous high-speed connections with minimal delay. This core-engine software technology scales to take advantage of ever-increasing microprocessor performance to manage faster access links.

Scaleable Configuration Large deployments require tools to ease the process of updating tens or hundreds of distributed PacketShapers. To address these requirements, PacketShaper offers its own features, aligns with industry standards and integrates with third-party tools.

PacketShaper's Group Configuration Service is a web-based tool that network managers use to define configuration details just once, then publish the changes to multiple PacketShapers. We have begun development of a complete directory-based configuration with the inclusion of an LDAP client and support for a host list schema. Host lists allow network managers to apply one management strategy to all traffic involving any computer in the list. PacketShaper is accessible from within HP OpenView and we are working with Hewlett Packard Company to make PacketShapers configurable from Hewlett Packard's Policy Based Network Management console.

Customers

Our direct customers consist of our indirect channel partners. The following is a list representative of our indirect channel partners by geographic region:

EUROPE, AFRICA NORTH AND SOUTH AMERICA AND THE MIDDLE EAST ASIA

AmeriNet, Inc.
Bay Data Consultants
Data Transit
DTM Corporation
M-13
MicroVisions
NCA (Network
Computing Architects, Inc.)
NETPLEX Systems, Inc.
Netsource
Ocean Systems Engineer/ITI
(OSEC)
SE Technologies, Inc.
Solunet, Inc.
ThinAspe Corp
Trivalent LAN Concepts
Unisys Corp. through LACD

Activis, Ltd.
ADAnet IIS
Antea Consulting
Data Construction
Iperformances
Logical Networks Plc
ME Networks AG
MIEL
Persetel
Telemation AG & Co Netzwerke
Wang Holdings Netherlands B.V.

AsiaSoft HK Ltd.
Datacraft Asia Ltd.
Kanematsu USA Inc.
Lan Systems
Macnica, Inc.
Nissho Electronics Corporation
Teledata SG
Unitech Computer Systems Limited

The following is a list of end users that have deployed multiple PacketShapers:

Enterprises Service Providers

American Bottling Company
Autodesk, Inc.
Borden Chemical Inc.
Boy Scouts of America
Cytec Industries Inc.
Domino's Pizza, Inc.
Grant Thornton International
Hoechst Marion Roussel AG
Hewlett-Packard Company
Lucent Technologies Inc.

Mitchell International, Inc.
Motorola, Inc.
Northwestern Mutual Life
Insurance Company
Sony Pictures Entertainment
Staley/Tate & Lyle North America
Standard & Poor's
Transamerica Corporation
Unilever N.V.

Big Globe
British Telecommunications PLC
CLEAR Communications Ltd.
Cypress Communications
NTT Corporation
SONERA Technologies
Telefonica de Espana
Verio Inc.

In 1998, sales to Macnica accounted for 11.9% of total net revenues. For the three months ended March 31, 1999, sales to ADC Telecommunications accounted for 12.1% of total net revenues, sales to Nissho Electronics accounted for 11.2% of total net revenues and sales to Macnica accounted for 10.7% of total net revenues. In 1998, sales to the top 10 indirect channel partners accounted for 45.0% of total net revenues and for the three months ended March 31, 1999, sales to the top 10 indirect channel partners accounted for 56.2% of total net revenues.

In 1998, sales to customers outside of North America constituted 54.7% of total net revenues and in the three months ended March 31, 1999, revenues attributable to sales to customers outside of North America constituted 55.3% of total net revenues.

The following case studies illustrate how some of our customers have deployed our products:

Autodesk. Autodesk is a leading supplier of PC design software and multimedia tools used for a wide range of design, engineering, mapping and design-visualization purposes. Autodesk sought to reduce spending on expensive international WAN connections to its worldwide offices, as well as to ensure predictable performance for mission-critical applications such as SAP, Citrix WinFrame and Microsoft Outlook. Before installing PacketShaper, Autodesk required two permanent virtual circuits, or PVCs, for each of its hub locations: one for mission-critical applications and another for secondary traffic such as file transfers. Using PacketShaper, Autodesk was able to consolidate its network traffic, simplify its network management, reduce its PVC requirements by half, and realize cost savings and efficiency by not maintaining additional network infrastructure.

Domino's Pizza. Domino's Pizza is a leader in pizza delivery. When Domino's purchased a new order-processing application from PeopleSoft, it sought to ensure that appropriate bandwidth would be available on its corporate network while preserving performance for other important traffic such as IPX, which is used for access to network directory services. Using PacketShaper, Domino's was able to identify the different types of traffic on its network, including traffic types it had not previously known were consuming bandwidth. Network managers defined bandwidth-allocation policies to enable PeopleSoft performance, protect other mission-critical applications, and reduce bandwidth for non-urgent traffic during times of contention.

Hoechst Marion Roussel. Hoechst Marion Roussel (HMR) is a leading pharmaceutical company with operations worldwide. When HMR began deploying SAP R/3 in its Latin American operations to support mission-critical financial management, manufacturing and sales functions, they found SAP R/3 competed for network bandwidth with Microsoft Exchange. Adding more bandwidth was not an effective solution because TCP/IP applications, such as Microsoft Exchange, burst in an attempt to consume all of the available bandwidth on a network. WAN bandwidth is also very expensive in Latin America. Packeteer's TCP rate control technology enabled HMR to manage their Microsoft Exchange traffic by setting appropriate bandwidth policies for several applications and enabling SAP R/3 to perform even during heavy network congestion. The plug-and-play nature and remote management capabilities of Packeteer's solution enabled HMR to deploy PacketShapers in multiple sites where technical resources were scarce.

Manufacturing

We outsource our manufacturing, including warranty repair, to two contract manufacturers. Quadrus, located in San Jose, California, manufactures our PacketShaper 1000 and 2000, and Sanmina, located in San Jose, California, manufactures our PacketShaper 4000. The manufacturing processes and procedures for both of these manufacturers are ISO 9002 certified. Outsourcing our manufacturing enables us to reduce fixed costs and to provide flexibility in meeting market demand.

We design and develop the key components of our products, including printed circuit boards and software. In addition, we determine the components that are incorporated in our products and select the appropriate suppliers of these components. Product testing and burn-in is performed by our contract manufacturers using tests and automated testing equipment that we specify. We also use inspection testing and statistical process controls to assure the quality and reliability of our products.

We use a rolling seven-month forecast based on anticipated product orders to determine our material requirements. Lead times for the materials and components we order vary significantly and depend on factors such as specific supplier, contract terms and demand for a component at a given time. We submit purchase orders for quantities requested within 90 days. Quadrus, Sanmina or Packeteer may terminate the contract without cause at any time. At that time the terminating party must honor all open purchase orders.

Marketing and Sales

We target our marketing and sales efforts at enterprises and service providers. Direct marketing and sales activities focus on reaching the corporate application network managers responsible for the performance of mission-critical applications in the enterprise. They also focus on reaching service providers that provide bandwidth-optimized services including web hosting and tiered network connectivity.

Our marketing programs support the sale and distribution of our products and educate existing and potential enterprise and service provider customers about the benefits of our application-adaptive bandwidth management solutions. Our marketing efforts include the following:

- publication of technical and educational articles in industry magazines;

- public speaking opportunities;

- web site-based communication and promotion;

- industry tradeshows, technical conferences and technology seminars; and - advertising, direct mail and public relations.

We classify our distribution channels in the following three categories:

- Solution Partners. We have established a network of over 100 VARs, distributors and systems integrators that sell our solutions in over 50 countries. These solution partners sell PacketShapers and other products that are complementary to our application-adaptive bandwidth management solution.

- Technology Partners. Technology partners are OEMs and companies with whom we have established joint development relationships. For example, we established a joint development relationship with Hewlett Packard so that PacketShapers can be viewed and managed through OpenView.

- Alliance Partners. We have developed a marketing alliance program to establish new marketing relationships, as well as enhance existing relationships, with hardware, software and systems vendors. We believe that we can build brand awareness by working with alliance partners to target the needs of specific customer environments. For example, we formed an alliance with Citrix to enhance the performance of individual applications within the Citrix MetaFrame and WinFrame environments and an alliance with Clarent Corporation to enhance the quality of their VoIP applications. We work with alliance partners on various joint marketing initiatives, including product literature, direct mailings and seminars.

As of March 31, 1999, our worldwide sales and marketing organization consisted of 42 individuals, including managers, sales representatives and technical and administrative support personnel. We have nine domestic sales offices located in Bedminster, New Jersey; Chicago, Illinois; Cupertino and San Diego, California; Dallas and Houston, Texas; Fall River, Massachusetts; Littleton, Colorado and Tacoma, Washington. In addition, we have four international sales offices located in Hong Kong; Sydney, Australia; Tokyo, Japan; and Waddinxveen, The Netherlands.

We believe there is a strong international market for our bandwidth management solutions. Our international sales are conducted primarily through our overseas offices. Sales to customers outside of North America accounted for 54.7% of our total net revenues in 1998 and 55.3% of our total net revenues for the three months ended March 31, 1999. In addition, sales to Asia Pacific accounted for 31.0% of our total net revenues in 1998 and 33.3% of our total net revenues for the three months ended March 31, 1999.

Research and Development

As of March 31, 1999, our research and development organization consisted of 22 employees, each with expertise in a different area of our software: core engineering, classification, configuration and reporting management and user interface and platform engineering. Since inception, we have focused our research and development efforts on developing and enhancing our application-adaptive bandwidth management solutions. To date, we have released the following products and enhancements:

QUARTER INTRODUCED	PRODUCT OR ENHANCEMENT	DESCRIPTION
Q1 1997	PacketShaper 2000	- First product ship (multi-T1-capacity
	PacketWise v1.1	hardware model)
Q2 1997	PacketWise v2.0	- Integrated, web-based Policy Console

		- Multi-protocol support (non-IP)
Q3 1997	PacketWise v2.1	- Policy modules
Q4 1997	PacketShaper 4000	- T3-capacity product hardware model
	PacketShaper 1000	- Fractional-T1 capacity hardware model
	PacketWise v3.0	- Integrated measurement engine and reporting
		- Traffic discovery and suggested policies
Q2 1998	PacketWise v3.1	- Policy-based management
		-- Dynamic DNS
		-- Fail-over to backup link
		-- Group configuration services
		- Support for VoIP traffic
		- Thin-client bandwidth management
		- HP OpenView support
Q3 1998	Memorex-Telex Bandwidth Manager	- First private-label PacketWise-based hardware model
Q4 1998	PacketWise v3.1-ADC	- First commercial OEM software licensing
Q1 1999	PacketWise v4.0	- Response-time management
		- Deep application classification of Oracle and Citrix
		- Microsoft Exchange classification

Customer Service and Technical Support

Our customer service and support organization provides both product maintenance and technical support services. Our technical support staff is strategically located in four regional service centers: California, Hong Kong, Japan and The Netherlands. Our indirect channel partners offer similar support services for all of our products they sell.

In addition to providing these maintenance and support services, we also offer two standard maintenance programs:

Packeteer Partner ProSupport. This service is designed for our indirect channel partners. Our partners purchase this program so that they can offer support services to their customers. These services include:

- an extended warranty period beyond the standard one-year warranty;

- a software subscription service allowing access to all software upgrades; and - web site access to software upgrades, current technical bulletins, advanced white papers, and other technical support materials.

Packeteer Premium ProSupport. This service is designed for end users who receive support services directly from us and includes:

- an extended warranty with advance replacement of defective units within two business days of notification;

- software subscription service allowing access to all software upgrades;

- unlimited telephone and e-mail support; and - web site access to software upgrades, current technical bulletins, advanced white papers, and other technical support materials.

Competition

We compete in a new, rapidly evolving and highly competitive sector of the bandwidth management solutions market. We expect competition to persist and intensify in the future from a number of different sources. We compete with Cisco and CheckPoint, which sell products incorporating competing technologies. We also compete with several small private companies which utilize competing technologies to provide bandwidth management. In addition, our products and technology compete for information technology budget allocations with products that offer monitoring technologies, such as probes and related software. Lastly, we face indirect competition from companies that offer enterprises and service providers increased bandwidth and infrastructure upgrades that increase the capacity of their networks, and thereby may lessen or delay the need for bandwidth management.

We believe the principal competitive factors in the bandwidth management solutions market are:

- expertise and in-depth knowledge of applications;

- timeliness of new product introductions;

- ability to integrate in the existing network architecture without requiring network reconfigurations or desktop changes;

- ability to ensure end-user performance in addition to aggregate performance of the WAN access link;

- compatibility with industry standards;

- products that do not increase latency and packet loss;

- size and scope of distribution network;

- brand name; and

- access to customers and size of installed customer base.

Intellectual Property

We rely on a combination of patent, copyright and trademark laws, and on trade secrets, confidentiality provisions and other contractual provisions to protect our proprietary rights. These measures afford only limited protection. We currently have one issued U.S. patent and 10 pending patent applications, including one for which we have received a notice of allowance. We cannot assure you that our means of protecting our proprietary rights in the U.S. or abroad will be adequate or that competitors will not independently develop similar technologies. Our future success depends in part on our ability to protect our proprietary rights to the technologies used in our principal products. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our products or to obtain and use trade secrets or other information that we regard as proprietary. In addition, the laws of some foreign countries do not protect our proprietary rights as fully as do the laws of the U.S. We cannot assure you that any issued patent will preserve our proprietary position, or that competitors or

others will not develop technologies similar to or superior to our technology. Our failure to enforce and protect our intellectual property rights could harm our business, operating results and financial condition.

From time to time, third parties, including our competitors, have asserted patent, copyright and other intellectual property rights to technologies that are important to us. We expect that we will increasingly be subject to infringement claims as the number of products and competitors in the application-adaptive bandwidth management market grows and the functionality of products overlaps. The results of any litigation matter are inherently uncertain. In the event of an adverse result in any litigation with third parties that could arise in the future, we could be required to pay substantial damages, including treble damages if we are held to have willfully infringed, to cease the manufacture, use and sale of infringing products, to expend significant resources to develop non-infringing technology, or to obtain licenses to the infringing technology. Licenses may not be available from any third party that asserts intellectual property claims against us on commercially reasonable terms, or at all. In addition, litigation frequently involves substantial expenditures and can require significant management attention, even if we ultimately prevail.

Employees

As of March 31, 1999, Packeteer employed a total of 76 full-time employees. Of the total number of employees, 22 were in research and development, 34 in sales and customer service, eight in marketing, three in operations and nine in administration. Our employees are not represented by any collective bargaining agreement with respect to their employment by Packeteer.

Facilities

We lease approximately 27,000 square feet of administrative and research and development facilities in Cupertino, California. We believe our current facilities will be sufficient to handle our operations for at least the next 12 months. We believe that future growth can be accommodated by obtaining the necessary additional space. Packeteer leases sales offices in the following locations: Bedminster, New Jersey; Dallas, Texas; Tacoma, Washington; Sydney, Australia; Hong Kong; Tokyo, Japan; and Waddinxveen, The Netherlands.

Legal Proceedings

We have no material legal proceedings threatened or pending.

Management

Executive Officers and Directors

Our executive officers and directors and their ages as of May 1, 1999 are as follows:

Name Age Position

Craig W. Elliott.....	38	President, Chief Executive Officer and Director
Brett D. Galloway.....	35	Vice President, Engineering, Chief Operating Officer and Director
Robert L. Packer.....	39	Chief Technical Officer and Director
William E. Klaus.....	39	Vice President, Business Development
Todd J. Krautkremer.....	38	Vice President, Marketing
Neil A. Sundstrom.....	46	Vice President, Worldwide Sales
David C. Yntema.....	54	Chief Financial Officer and Secretary
Steven J. Campbell(2)...	57	Chairman of the Board of Directors
Joseph A. Graziano(1)(2).....	55	Director
Peter T. Morris(1)(2)...	43	Director
William R. Stensrud.....	48	Director

(1) Member of audit committee (2) Member of compensation committee Craig W. Elliott has served as President, Chief Executive Officer and a Director of Packeteer since April 1996. From January 1991 to March 1996, Mr. Elliott served as International General Manager of Apple Computer, Inc.'s Online Internet Division, where he managed Apple's Internet and online business in more than 80 countries. From November 1987 to May 1994, Mr. Elliott served as Apple's Product Business Manager in charge of Networking and Communication Products. Mr. Elliott holds a B.S. in animal science from Iowa State University.

Brett D. Galloway, a co-founder of Packeteer, has served as Chief Operating Officer, Vice President, Engineering and a Director of Packeteer since its inception. Mr. Galloway also served as Chief Financial Officer of Packeteer from its inception in 1996 to January 1999. Prior to founding Packeteer, Mr. Galloway served as Director of Engineering at Metricom, Inc. from November 1994 through February 1996 and as Director of Software Engineering at Metricom from October 1990 to November 1994. Mr. Galloway holds a B.S. and an M.S. in electrical engineering from Stanford University.

Robert L. Packer, a co-founder of Packeteer, has served as Chief Technical Officer and a Director of Packeteer since its inception. From 1987 to January 1996, Mr. Packer was an independent consultant, developing telecommunications and networking technologies, including protocols for the Ricochet microcellular wireless network for Metricom, Inc., a wireless Internet networking company, OSI protocols for IBM Corporation and a high-performance packet switch for British Telecom North America, a telecommunications company. Mr. Packer holds a B.A. in philosophy and political science from Swarthmore College.

William E. Klaus has served as Vice President, Business Development for Packeteer since June 1998. From October 1996 to May 1998, Mr. Klaus served as Vice President of Sales and Business Development for Packeteer. From March 1996 to October 1996, Mr. Klaus served as Director of Products and Channels for Eagle River Interactive, an Internet development company. From October 1988 to March 1996, Mr. Klaus held various positions at Apple Computer, Inc., including Senior Manager of Business Development. Mr. Klaus was a founding member of KPMG Peat Marwick/ExIS, a joint effort of KPMG and Apple Computer, and also held positions with Racore, Inc., a networking company, and Motorola, an electronic equipment manufacturer. Mr. Klaus holds a B.S. in finance from San Jose State University.

Todd J. Krautkremer has served as Vice President, Marketing for Packeteer since January 1999. From October 1990 through December 1998, Mr. Krautkremer held various positions at Sync Research, a networking company, with his most recent position being Vice President of Strategic Marketing. Mr. Krautkremer holds a B.S. in computer science from St. Cloud State University.

Neil A. Sundstrom has served as Vice President, Sales for Packeteer since June 1998. From September 1997 to May 1998 Mr. Sundstrom served as Vice President of International Sales for Packeteer. From October 1994 to September 1997, Mr. Sundstrom served as Vice President of 3Com Corporation's Network Service Provider Division (known as Primary Access prior to its 1995 acquisition by 3Com). From January 1990 to September 1994 Mr. Sundstrom served as Intercontinental Area Manager for SynOptics Communications, Inc., a networking company. Mr. Sundstrom serves as a Director of Perle Systems, a publicly held company. Mr. Sundstrom holds a B.A. in psychology from Simon Fraser University, British Columbia.

David C. Yntema has served as Chief Financial Officer and Secretary of Packeteer since January 1999. From May 1994 through August 1998, Mr. Yntema served as Chief Financial Officer and Vice President, Finance and Administration of VIVUS , Inc., a pharmaceutical company. Prior to joining VIVUS, Mr. Yntema served as Chief Financial Officer for EO, Inc., a handheld computer company, Maspar Computer Corporation, a massively parallel computer company, and System Industries, a storage subsystem company and has held a variety of other financial management positions. Mr. Yntema also serves as a Director of Virologic, Inc., a biotechnology company. Mr. Yntema holds a B.A. in economics and business administration from Hope College and an M.B.A. from the University of Michigan.

Steven J. Campbell has served as Chairman of the Board of Directors of Packeteer since its inception and served as Packeteer's Chief Executive Officer from January 1996 through April 1996. Mr. Campbell was a founder of StrataCom, Inc., a network switching equipment company which was acquired by Cisco Systems in July 1996, where he was employed from 1986 through 1991 initially as Chief Executive Officer and then as Vice President of Engineering and finally as Vice President of Operations. He headed the PBX development at Rolm Communications, Inc., a telecommunications company, from 1978 through 1983. He is a Director of Air Flash, Inc., a wireless portal company. Mr. Campbell holds a B.S. in electrical engineering from Oregon State University and an M.S. in electrical engineering from Santa Clara University.

Joseph A. Graziano has served as a Director of Packeteer since February 1996. From June 1989 to December 1995, Mr. Graziano was the Executive Vice President and Chief Financial Officer of Apple Computer, Inc. and was a member of the Board of Directors of Apple Computer, Inc. from June 1993 until October 1995. Prior to this, Mr. Graziano held a variety of positions, including Chief Financial Officer of Sun Microsystems, Inc. and Chief Financial Officer of Apple Computer, Inc. In addition, he has held accounting positions with Rolm Communications, Inc., Intel Corporation and various other technology companies in the Silicon Valley. Mr. Graziano serves as a Director of Carrier Access Corporation and Pixar, Inc., both publicly held companies. He is also a Director of Talk City, Inc. Mr. Graziano holds a B.S. in accounting from Merrimack College and is a certified public accountant.

Peter T. Morris has served as a Director of Packeteer since September 1996. Mr. Morris is a general partner at New Enterprise Associates where he has been employed since 1992. Prior to joining New Enterprise Associates, Mr. Morris held positions at Telebit Corp., a networking company, Montgomery Securities and Bain and Company, an international strategy consulting firm. Mr. Morris serves as a Director of Accelerated Networks, Inc., America's Funding Source Corporation, AUNET, Gadzoox Microsystems, Inc., Invox Technology, LuxN, Mayan Networks Corporation, Packetcom Inc., Tiara Networks, Inc. and Virata Ltd. Mr. Morris received a B.S. in electrical engineering from Stanford University and an M.B.A. from the Stanford Graduate School of Business.

William R. Stensrud has served as a Director of Packeteer since July 1997. Mr. Stensrud has been a general partner at the venture capital investment firm of Enterprise Partners since January 1997. Previously, from February 1992 to March 1996, Mr. Stensrud served as President and Chief Executive Officer of Primary Access Corporation. Mr. Stensrud is a director of several public and privately held companies, including RhythmsNet Connections, Paradyne, and Juniper Networks, Inc. Mr. Stensrud holds a B.S. in electrical engineering and computer science from the Massachusetts Institute of Technology.

We have authorized seven directors. Following this offering, the board will consist of seven directors divided into three classes, with each class serving for a term of three years. At each annual meeting of stockholders, directors will be elected by the holders of common stock to succeed the directors whose terms are expiring. Messrs. Morris and Packer are Class I directors whose terms will expire in 2000, Messrs. Galloway and Stensrud are Class II directors whose terms will expire in 2001, and Messrs. Campbell, Elliott and Graziano are Class III directors whose terms will expire in 2002. The executive officers serve at the discretion of the board of directors. There are no family relationships among any of Packeteer's directors or executive officers.

Board Committees

Compensation committee. The compensation committee is primarily responsible for reviewing and approving our general compensation policies and setting compensation levels for our executive officers. The committee also administers Packeteer's incentive compensation plans. The committee currently consists of three directors, Mr. Campbell, Mr. Graziano and Mr. Morris.

Audit committee. The audit committee is primarily responsible for approving the services performed by our independent auditors and reviewing the auditor's reports regarding our accounting practices and systems of internal accounting controls. The committee currently consists of two directors, Mr. Graziano and Mr. Morris.

Compensation Committee Interlocks and Insider Participation

The members of the compensation committee of our board of directors are Mr. Campbell, Mr. Graziano and Mr. Morris. None of our executive officers serves on the board of directors or compensation committee of any entity which has one or more executive officers serving as a member of Packeteer's board of directors or compensation committee.

Director Compensation

We currently do not compensate any member of our board of directors. Members of the board of directors are eligible to receive discretionary option grants and stock issuances under the 1999 Equity Incentive Plan.

Executive Compensation

The following table sets forth certain information with respect to the compensation received for services rendered to Packeteer by its current Chief Executive Officer and each of the four other most highly compensated executive officers of Packeteer for the year ended December 31, 1998, whose total compensation during such fiscal year exceeded $100,000 (Named Executive Officers).

Summary Compensation Table

	ANNUAL COMPENSATION			LONG-TERM COMPENSATION SECURITIES UNDERLYING
NAME AND PRINCIPAL POSITION	SALARY	BONUS	OTHER ANNUAL COMPENSATION	OPTIONS GRANTED(#)
Craig W. Elliott.....	$150,033	$ --	$ --	-- President and Chief Executive Officer Brett D. Galloway.....	120,783	--	--	-- Vice President, Engineering, Chief Operating Officer and Former Chief Financial Officer(1) William E. Klaus.....	143,783	69,912(2)	50,000	50,000 Vice President, Business Development Robert L. Packer.....	120,789	--	--	-- Chief Technical Officer Neil A. Sundstrom.....	100,058	117,377(2)	--	-- Vice President, Worldwide Sales

(1) Mr. Galloway resigned as Chief Financial Officer in January 1999. (2) Represents commissions paid.

Option Grants in Fiscal Year 1998

NAME	NUMBER OF SHARES UNDERLYING OPTIONS GRANTED	PERCENT OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR(1)	EXERCISE PRICE(2)	EXPIRATION DATE	POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM(3) 5%	10%
Craig W. Elliott.....	--	--	--	--	--	--
Brett D. Galloway.....	--	--	--	--	--	--
William E. Klaus.....	50,000(4)	3.3%	$3.50	8/19/08	$110,000	$278,905
Robert L. Packer.....	--	--	--	--	--	--
Neil A. Sundstrom.....	--	--	--	--	--	--

(1) Based on an aggregate of 1,501,000 options granted to employees, consultants and directors during the year ended December 31, 1998. (2) The exercise price per share of each option was equal to the fair market value of the common stock on the date of grant as determined by the board of directors after consideration of a number of factors, including, but not limited to, Packeteer's financial performance, market conditions, the price and preferred rights and privileges of shares of equity securities sold to or purchased by outside investors and third-party appraisals.

(3) The potential realizable value is calculated based on the term of the option at its time of grant, which is ten years. It is calculated assuming that the fair market value of Packeteer's common stock on the date of grant appreciates at the indicated annual rate compounded annually for the entire term of the option and that the option is exercised and sold on the last day of its term for the appreciated stock price. (4) Mr. Klaus' 50,000-share option grant vests as follows: 50% vested on December 17, 1998, and the balance upon the date of achievement of certain performance milestones or on August 19, 2008, whichever is earlier. The date of Mr. Klaus' 50,000-share option grant was August 19, 1998. The option has a maximum term of 10 years, subject to earlier termination in the event of his cessation of service to Packeteer.

Aggregated Option Exercises in Last Fiscal Year and Last Fiscal Year-end Option Values

The following table sets forth information concerning option exercises and option holdings for the year ended December 31, 1998 with respect to the Named Executive Officers. Except as set forth below, no options or stock appreciation rights were exercised by any such individual during such year, and no

stock appreciation rights were outstanding on December 31, 1998.

NAME	SHARES ACQUIRED ON EXERCISE	VALUE REALIZED(2)	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT FISCAL YEAR-END EXERCISABLE	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT FISCAL YEAR-END UNEXERCISABLE	VALUE OF IN-THE-MONEY OPTIONS AT FISCAL YEAR-END(4) EXERCISABLE	VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT FISCAL YEAR-END(4) UNEXERCISABLE
Craig W. Elliott.....	--	--	--	--	--	--
Brett D. Galloway.....	--	--	--	--	--	--
William E. Klaus.....	40,000(1)	$50,000(2)	25,000(3)	25,000(3)	--	--
Robert L. Packer.....	--	--	--	--	--	--
Neil A. Sundstrom.....	--	--	--	--	--	--

(1) As of December 31, 1998, Mr. Klaus was vested in 12,500 of the shares exercised. (2) Based on the fair market value of the purchased option shares at the time of exercise, as determined by the board of directors, less the option exercise price paid for those shares. (3) Mr. Klaus' 50,000-share option grant vests as follows: 50% vested on December 17, 1998, and the balance upon the date of achievement of certain performance milestones or on August 19, 2008, whichever is earlier. The date of Mr. Klaus' 50,000-share option grant was August 19, 1998. The option has a maximum term of 10 years, subject to earlier termination in the event of his cessation of service to Packeteer. (4) Based on the fair market value of the option shares on December 31, 1998 ($3.50 per share), as determined by the board of directors, less the option exercise price payable for those shares.

Employee Benefit Plans

1999 Stock Incentive Plan. The 1999 Stock Incentive Plan is intended to serve as the successor program to our 1996 Equity Incentive Plan. The 1999 Stock Incentive Plan was adopted by the board in May 1999, subject to stockholder approval. The 1999 Stock Incentive Plan will become effective when the underwriting agreement for this offering is signed. At that time, all outstanding options under our existing 1996 Equity Incentive Plan will then be transferred to the 1999 Stock Incentive Plan, and no further option grants will be made under the 1996 Equity Incentive plan. The transferred options will continue to be governed by their existing terms, unless our compensation committee decides to extend one or more features of the 1999 Stock Incentive Plan to those options.

Except as otherwise noted below, the transferred options have substantially the same term as will be in effect for grants made under the discretionary option grant program of our 1999 Stock Incentive Plan.

Share Reserve. 3,845,917 shares of our common stock have been authorized for issuance under the 1999 Stock Incentive Plan. This share reserve consists of the number of shares we estimate will be carried over from the 1996 Equity Incentive Plan plus an additional increase of 900,000 shares. The share reserve under our 1999 Stock Incentive Plan will automatically increase on the first trading day in January each year, beginning with calendar year 2000, by an amount equal to 5% of the total number of shares of our common stock outstanding on the last trading day of December in the prior year, but in no event will this annual increase exceed 3,000,000 shares. In addition, no participant in the 1999 Stock Incentive Plan may be granted stock options or direct stock issuances for more than 1,000,000 shares of common stock in total in any calendar year.

Programs. Our 1999 Stock Incentive Plan has three separate programs:

- the discretionary option grant program, under which eligible individuals in our employ may be granted options to purchase shares of our common stock at an exercise price not less than the fair market value of those shares on the grant date;

- the stock issuance program, under which eligible individuals may be issued shares of common stock directly, upon the attainment of performance milestones or upon the completion of a period of service or as a bonus for past services; and - the automatic option grant program, under which option grants will automatically be made at periodic intervals to eligible non-employee board members to purchase shares of common stock at an exercise price equal to the fair market value of those shares on the grant date.

Eligibility. The individuals eligible to participate in our 1999 Stock Incentive Plan include our officers and other employees, our board members and any consultants we hire.

Administration. The discretionary option grant and stock issuance programs will be administered by our compensation committee. This committee will determine which eligible individuals are to receive option grants or stock issuances under those programs, the time or times when the grants or issuances are to be made, the number of shares subject to each grant or issuance, the status of any granted option as either an incentive stock option or a nonstatutory stock option under the federal tax laws, the vesting schedule to be in effect for the option grant or stock issuance and the maximum term for which any granted option is to remain outstanding. The compensation committee will also have the authority to select the executive officers and other highly compensated employees who may participate in the salary investment option grant program in the event that program is put into effect for one or more calendar years.

Plan Features. Our 1999 Stock Incentive Plan will include the following features:

- The exercise price for any options granted under the plan may be paid in cash or in shares of our common stock valued at fair market value on the exercise date. The option may also be exercised through a same-day sale program without any cash outlay by the optionee.

- The compensation committee will have the authority to cancel outstanding options under the discretionary option grant program, including any transferred options from our 1996 Equity Incentive Plan, in return for the grant of new options for the same or for a different number of option shares with

an exercise price per share based upon the fair market value of our common stock on the new grant date.

- Stock appreciation rights may be issued under the discretionary option grant program. These rights will provide the holders with the election to surrender their outstanding options for a payment from us equal to the fair market value of the shares subject to the surrendered options less the exercise price payable for those shares. We may make the payment in cash or in shares of our common stock. None of the options under our 1996 Equity Incentive Plan have any stock appreciation rights.

Change in Control. The 1999 Stock Incentive Plan will include the following change in control provisions which may result in the accelerated vesting of outstanding option grants and stock issuances:

In the event that we are acquired by merger or asset sale, each outstanding option under the discretionary option grant program which is not to be assumed by the successor corporation will immediately become exercisable for all the option shares, and all outstanding unvested shares will immediately vest, except to the extent our repurchase rights with respect to those shares are to be assigned to the successor corporation.

- The compensation committee will have complete discretion to grant one or more options which will become exercisable for all the option shares in the event those options are assumed in the acquisition but the optionee's service with us or the acquiring entity is subsequently terminated. The vesting of any outstanding shares under our 1999 Stock Incentive Plan may be accelerated upon similar terms and conditions.

- The compensation committee may grant options and structure repurchase rights so that the shares subject to those options or repurchase rights will immediately vest in connection with a successful tender offer for more than 50% of our outstanding voting stock or a change in the majority of our board through one or more contested elections. Such accelerated vesting may occur either at the time of such transaction or upon the subsequent termination of the individual's service.

- Most of the options currently outstanding under our 1996 plan will immediately vest as if they had been held for two times the length of time they had actually been held in the event of a change of control. In the event we are acquired, all options which are not exercised will terminate unless the acquired company assumes the options.

Automatic Option Grant Program. Each individual who is serving as a non-employee board member when the underwriting agreement for this offering is signed will automatically be granted an option to purchase 3,000 shares of common stock. Each individual who first becomes a non-employee board member at any time after the effective date of this offering will receive an option grant for 12,000 shares of common stock on the date such individual joins the board. In addition, on the date of each annual stockholders meeting held after the effective date of this offering, each non-employee board member who is to continue to serve as a non-employee board member, including each of our current non-employee board members, will automatically be granted an option to purchase 3,000 shares of common stock, provided such individual has served on the board for at least six months.

Each automatic grant will have an exercise price per share equal to the fair market value per share of our common stock on the grant date and will have a term of 10 years, subject to earlier termination following the optionee's cessation of board service. The option will be immediately exercisable for all of the option shares; however, we may repurchase, at the exercise price paid per share, any shares purchased under the option which are not vested at the time of the optionee's cessation of board service. The shares subject to each 3,000-share automatic grant will be fully-vested when granted. The shares subject to each initial 12,000-share automatic option grant will vest in a series of six successive equal semi-annual installments upon the optionee's completion of each six months of board service over the 36 month period measured from the grant date. However, the shares will immediately vest in full upon certain changes in control or ownership or upon the optionee's death or disability while a board member.

Additional Program Features. Our 1999 Stock Incentive Plan will also have the following features:

- Outstanding options under the salary investment and director fee option grant programs will immediately vest if we are acquired by a merger or asset sale or if there is a successful tender offer for more than 50% of our outstanding voting stock or a change in the majority of our board through one or more contested elections.

- Limited stock appreciation rights will automatically be included as part of each grant made under the salary investment option grant program and the automatic and director fee option grant programs, and these rights may also be granted to one or more officers as part of their option grants under the discretionary option grant program. Options with this feature may be surrendered to us upon the successful completion of a hostile tender offer for more than 50% of our outstanding voting stock. In return for the surrendered option, the optionee will be entitled to a cash distribution from us in an amount per surrendered option share based upon the highest price per share of our common stock paid in that tender offer.

- The board may amend or modify the 1999 Stock Incentive Plan at any time, subject to any required stockholder approval. The 1999 Stock Incentive Plan will terminate no later than May 18, 2009.

1999 Employee Stock Purchase Plan. Our 1999 Employee Stock Purchase Plan was adopted by the board in May 1999, subject to stockholder approval. The plan will become effective immediately upon the signing of the underwriting agreement for this offering. The plan is designed to allow our eligible employees and the eligible employees of our participating subsidiaries to purchase shares of common stock, at semi-annual intervals, with their accumulated payroll deductions.

Share Reserve. 500,000 shares of our common stock will initially be reserved for issuance. The reserve will automatically increase on the first trading day in January each year, beginning in calendar year 2000, by an amount equal to 2% of the total number of outstanding shares of our common stock on the last trading day in December in the prior year. In no event will any such annual increase exceed 1,000,000 shares.

Offering Periods. The plan will have a series of successive offering periods, each with a maximum duration of 24 months. However, the initial offering period may have a maximum duration of up to 27 months. The initial offering period will start on the date the underwriting agreement for the offering covered is signed and will end on the last business day in July 2001. The next offering period will start on the first business day in August 2001, and subsequent offering periods will set by our compensation committee.

Eligible Employees. Individuals scheduled to work more than 20 hours per week for more than five calendar months per year may join an offering period on the start date or any semi-annual entry date within that period. Semi-annual entry dates will occur on the first business day of August and February each year. Individuals who become eligible employees after the start date of an offering period may join the plan on any subsequent semi-annual entry date within that offering period.

Payroll Deductions. A participant may contribute up to 15% of his or her base pay through payroll deductions, and the accumulated deductions will be applied to the purchase of shares on each semi-annual purchase date. The purchase price per share will be equal to 85% of the fair market value per share on the participant's entry date into the offering period or, if lower, 85% of the fair market value per share on the semi-annual purchase date. Semi-annual purchase dates will occur on the last business day of July and January each year. In no event, however, may any participant purchase more than 1,000 shares on any purchase date, and not more than 200,000 shares may be purchased in total by all participants on any purchase date.

Reset Feature. If the fair market value per share of our common stock on any purchase date is less than the fair market value per share on the start date of the two-year offering period, then that offering period will automatically terminate, and a new two-year offering period will begin on the next business day. All participants in the terminated offering will be transferred to the new offering period.

Change in Control. Should we be acquired by merger or sale of substantially all of our assets or more than fifty percent of our voting securities, then all outstanding purchase rights will automatically be exercised immediately prior to the effective date of the acquisition. The purchase price will be equal to 85% of the market value per share on the participant's entry date into the offering period in which an acquisition occurs or, if lower, 85% of the fair market value per share immediately prior to the acquisition.

Plan Provisions. The following provisions will also be in effect under the plan:

- The plan will terminate no later than the last business day of July 2009; and - The board may at any time amend, suspend or discontinue the plan. However, certain amendments may require stockholder approval.

Employment Agreements and Change in Control Arrangements

We do not presently have any employment contracts in effect with the Chief Executive Officer or any other Named Executive Officer. We provide incentives such as salary, benefits and option grants to attract and retain qualified employees.

In the event of a change of control, Mr. Yntema, our Chief Financial Officer, and Mr. Krautkremer, our Vice President, Marketing, will each receive his base salary and bonus for one year.

In the event that Packeteer is acquired by merger or asset sale, each outstanding option held by the Chief Executive Officer or any Named Executive Officer under the 1999 Stock Incentive Plan will automatically accelerate in full, and all unvested shares held by such individuals under such Plan will immediately vest in full, except to the extent such options are to be assumed by, and Packeteer's repurchase rights with respect to those shares are to be assigned to, the successor corporation. The compensation committee will have the authority to grant options which will immediately vest upon an acquisition of Packeteer, whether or not those options are assumed by the successor corporation. The compensation committee is also authorized under the Discretionary Option Grant and Stock Issuance Programs to grant options and to structure repurchase rights so that the shares subject to those options or repurchase rights will immediately vest in connection with a change in control of Packeteer (whether by merger or asset sale, or successful tender offer for more than 50% of the outstanding voting stock or a change in the majority of the Board by reason of one or more contested elections for Board membership), with such vesting to occur either at the time of such change in control or upon the subsequent termination of the individual's service within a designated period (not to exceed 18 months) following such change in control. The options incorporated from the Predecessor Plan will immediately vest upon an acquisition of Packeteer by merger or asset sale, unless those options are assumed by, and Packeteer's repurchase rights are assigned to, the successor entity. In addition, certain options granted to executive officers provide that if the options are assumed in an acquisition and the optionee's service is involuntarily terminated within eighteen months following such acquisition the option shares will vest in full and Packeteer's repurchase rights will lapse. The compensation committee will have the discretion to extend the acceleration provisions of the 1999 Stock Incentive Plan to options outstanding under the Predecessor Plan.

Limitation of Liability and Indemnification Matters

Our certificate of incorporation limits our directors' liability for monetary damages arising from a breach of their fiduciary duty as directors, except to the extent otherwise required by the Delaware General Corporation Law. This limitation of liability does not affect the availability of equitable remedies such as injunctive relief or recission.

Our bylaws provide that we shall indemnify its directors and officers to the fullest extent permitted by Delaware law, including in circumstances in which indemnification is otherwise discretionary under Delaware law. We have entered into indemnification agreements with its officers and directors containing provisions that may require us, among other things, to indemnify such officers and directors against certain liabilities that may arise by reason of their status or service as directors or officers (other than liabilities arising from willful misconduct of a culpable nature), to advance their expenses incurred as a result of any proceeding against them as to which they could be indemnified, and to obtain directors' and officers' insurance if available on reasonable terms.

At present, there is no pending litigation or proceeding involving any of our directors or officers where indemnification is required or permitted.

Certain Transactions

Certain stock option grants to our directors and executive officers are described in this prospectus under the caption "Management--Executive Compensation."

PRIVATE PLACEMENT TRANSACTIONS Since inception, we have raised capital primarily through the sale of our convertible preferred stock in private placement transactions. Pursuant to these private placements, we have issued the following:

DATE OF ISSUANCE	SERIES	NUMBER OF SHARES	PRICE PER SHARE	AGGREGATE CONSIDERATION
February and April 1996.....	Series A Preferred	2,800,000	$0.25	$ 700,000
September and October 1996.....	Series B Preferred	4,821,860	1.00	4,821,860
June and July 1997.....	Series C Preferred	2,216,320	2.00	4,432,640
April and July 1998.....	Series D Preferred	2,552,821	3.94	10,058,115

The following table summarizes purchases, valued in excess of $60,000, of shares of common stock and preferred stock purchased by executive officers, directors, 5% stockholders and persons associated with them since our inception. All share numbers reflect the number of shares purchased by the respective party on an as-converted basis.

INVESTOR	SERIES A PREFERRED STOCK	SERIES B PREFERRED STOCK	SERIES C PREFERRED STOCK	SERIES D PREFERRED STOCK
New Enterprise Associates(1).....	400,000	3,080,000	287,400	--
BG Services Limited.....	--	--	--	2,538,071
Enterprise Partners(2).....	--	--	1,618,128	--
Onset Enterprise Associates II, L.P.....	--	1,000,000	112,600	--
Steven Campbell(3).....	400,000	212,880	77,168	

--			
Joseph A. Graziano.....	300,000	159,660	57,996
--			
Peter Morris.....	100,000	53,200	--
--			

(1) Represents 75,000 shares held by NEA Presidents Fund, L.P., 5,000 shares held by NEA Ventures 1996, L.P. and 3,687,400 shares held by New Enterprise Associates VII, Limited Partnership. Mr. Morris, a director of Packeteer, is a general partner of each of these entities. (2) Represents 129,448 shares held by Enterprise Partners III Associates and 1,488,680 shares held by Enterprise Partners III, L.P. Mr. Stensrud, a director of Packeteer, is a general partner of both of these entities. (3) Represents 690,048 shares held by the Campbell 1984 Revocable Trust U/A 2/12/84 UTD 10/12/92, of which Mr. Campbell is Trustee.

We have entered into indemnification agreements with each of our directors and officers. See "Description of Capital Stock -- Limitation of liability and indemnification matters."

Principal Stockholders

The following table sets forth certain information known to us with respect to the beneficial ownership of our common stock as of May 15, 1999, except as noted in the footnotes below by:

- all persons who are beneficial owners of 5% or more of our common stock;

- each director;

- our Named Executive Officers; and - all directors and executive officers as a group.

Unless otherwise indicated, each of the stockholders has sole voting and investment power with respect to the shares beneficially owned, subject to community property laws, where applicable.

		PERCENT BENEFICIALLY OWNED(1)	
	NUMBER OF SHARES	BEFORE THE OFFERING	AFTER THE OFFERING
Peter T. Morris.....	4,520,620	20.4%	
New Enterprise Associates(2)			
2490 Sand Hill Road			
Menlo Park, CA 94025			
BG Services Limited.....	2,538,071	11.5	
6 Minden Place			
St. Helier			
Channel Islands, JE 24WQ			
William R. Stensrud.....	1,618,128	7.3	
Enterprise Partners(3)			
7979 Ivanhoe Avenue, Suite 550			
La Jolla, CA 92037			
Onset Enterprise Associates II, L.P.....	1,312,600	5.9	
2490 Sand Hill Road			
Menlo Park, CA 94025			
Craig W. Elliott(4).....	1,250,000	5.6	
Brett D. Galloway(5).....	2,271,300	10.2	
Robert L. Packer(6).....	2,071,300	9.3	
William E. Klaus(7).....	225,000	1.0	
Neil A. Sundstrom(8).....	262,500	1.2	

Steven J. Campbell(9)	1,238,620	5.6
Joseph A. Graziano(10)	617,656	2.8
All directors and officers as a group (11 persons)(11)	14,675,124	63.3

* Less than 1%.

Except as otherwise noted below, the address of each person listed on the table is c/o Packeteer, Inc., 10495 N. DeAnza Boulevard, Cupertino, California 95014.

(1) Number of shares beneficially owned and the percentage of shares beneficially owned prior to the offering are based on 22,147,884 shares outstanding as of May 15, 1999. Beneficial ownership is determined in accordance with the rules of the SEC and includes voting and investment power with respect to such shares. All shares of common stock subject to options currently exercisable or exercisable within 60 days after May 15, 1999 are deemed to be outstanding and to be beneficially owned by the person holding such options for the purpose of computing the number of shares beneficially owned and the percentage ownership of such person, but are not deemed to be outstanding and to be beneficially owned for the purpose of computing the percentage ownership of any other person. Except as indicated in the footnotes to the table and subject to applicable community property laws, based on information provided by the persons named in the table, such persons have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them. (2) Includes 75,000 shares held by NEA Presidents Fund, L.P., 5,000 shares held by NEA Ventures 1996, L.P. and 4,287,400 shares held by New Enterprise Associates VII, Limited Partnership. Also includes 153,220 shares held by Mr. Morris. Voting and dispositive power over the shares is held by all of the general partners of New Enterprise Associates. Mr. Morris is a general partner at New Enterprise Associates, and as such he may be deemed to share voting and investment power with respect to such shares. However, Mr. Morris disclaims beneficial ownership of all such shares. (3) Represents 129,448 shares held by Enterprise Partners III Associates and 1,488,680 shares held by Enterprise Partners III, L.P. Voting and dispositive power over the shares is held by all of the general partners of Enterprise Partners. Mr. Stensrud is a general partner at Enterprise Partners, and as such he may be deemed to share voting and investment power with respect to such shares. However, Mr. Stensrud disclaims beneficial ownership of all such shares. (4) Includes 250,000 shares of common stock issuable upon exercise of immediately exercisable options. Also includes 208,334 shares of common stock subject to Packeteer's right of repurchase. Includes 100,000 shares held by Elliott Children's Trust, of which Mr. Elliott is Trustee. (5) Includes 62,500 shares of common stock issuable upon exercise of immediately exercisable options. (6) Includes 62,500 shares of common stock issuable upon exercise of immediately exercisable options. (7) Includes 25,000 shares of common stock issuable upon exercise of vested options. Also includes 50,834 shares of common stock subject to Packeteer's right of repurchase. (8) Includes 46,875 shares of common stock issuable upon exercise of immediately exercisable options. Also includes 123,959 shares of common stock subject to Packeteer's right of repurchase. (9) Includes 1,238,620 shares held by the Campbell 1984 Revocable Trust U/A 2/12/84 UT, of which Mr. Campbell is Trustee. (10) Includes 25,000 shares of common stock subject to

Packeteer's right of repurchase. (11) Includes 1,046,875 shares of common stock issuable upon exercise of immediately exercisable options. Also includes 383,127 shares of common stock subject to Packeteer's right of repurchase.

Description of Capital Stock

After this offering, the authorized capital stock of Packeteer consists of 85,000,000 shares of common stock, $0.001 par value per share and 5,000,000 shares of undesignated preferred stock, $0.001 par value per share. As of March 31, 1999, there were an aggregate 22,157,468 shares of common stock outstanding held of record by 74 stockholders and after giving effect to this offering, there will be an aggregate of shares of common stock issued and outstanding and approximately 2,539,249 shares of common stock issuable upon exercise of outstanding options. There will be no shares of preferred stock issued or outstanding.

The following description of our capital stock does not purport to be complete and is subject to and qualified in its entirety by our amended and restated certificate of incorporation and bylaws and by the provisions of the applicable Delaware law.

Common Stock

The holders of common stock are entitled to one vote per share on all matters to be voted upon by the stockholders. Subject to preferences that may be applicable to any outstanding preferred stock that may come into existence, the holders of common stock are entitled to receive ratably such dividends, if any, as may be declared from time to time by the board of directors out of funds legally available therefor. In the event of liquidation, dissolution or winding up, the holders of common stock are entitled to share ratably in all assets remaining after payment of liabilities, subject to prior distribution rights of preferred stock, if any, then outstanding. The common stock has no preemptive or conversion rights or other subscription rights. There are no redemption or sinking fund provisions applicable to the common stock. All outstanding shares of common stock are fully paid and nonassessable, and the shares of common stock to be outstanding upon completion of this offering will be fully paid and nonassessable.

Preferred Stock

The board of directors has the authority to issue the preferred stock in one or more series and to fix the price, rights, preferences, privileges and restrictions thereof, including dividend rights, dividend rates, conversion rights, voting rights, terms of redemption, redemption prices, liquidation preferences and the number of shares constituting a series or the designation of such series, without any further vote or action by our stockholders. The issuance of preferred stock, while providing desirable flexibility in connection with possible acquisitions and other corporate purposes, could have the effect of delaying, deferring or preventing a change in control without further action by the stockholders and may

adversely affect the market price, and the voting and other rights, of the holders of common stock. The issuance of preferred stock with voting and conversion rights may adversely affect the voting power of the holders of common stock, including the loss of voting control to others. We have no current plans to issue any shares of preferred stock.

Registration Rights of Certain Holders

Under the terms of a registration rights agreement, subject to certain exceptions, if we propose to register any of our shares of common stock under the Securities Act, either for our own account or the account of any stockholder, in any public offering, certain investors holding an aggregate of 12,391,001 shares of our preferred stock as of March 31, 1999 are entitled to notice of such registration and are entitled, upon conversion of their registrable securities to include those registrable securities. In addition, the holder or holders of an aggregate of at least 50% of the then outstanding registrable securities shall have the right to require us to file a registration statement on a form, other than Form S-3 under the Securities Act, in order to register the registrable securities then held by such holder or holders, provided that:

- at least one year has passed since our initial public offering of shares of common stock under a registration statement;

- the anticipated aggregate offering price to the public is at least $3,000,000; and - we shall not be required to file more than two such registration statements.

Further, a holder or holders may require us to use all reasonable efforts to file additional registration statements on Form S-3, provided that:

- the anticipated aggregate offering price to the public is at least $500,000 and - we shall not be required to file more than two such registration statements.

The right to include any of the above described registrable securities in any registration is subject to certain limitations and conditions, including the underwriters' right to limit the number of shares being registered by all holders. We are required to indemnify holders of registrable securities and the underwriters, if any, for these holders under certain circumstances. In general, we are required to bear the expenses of two demand and all piggyback registrations, except for the selling stockholders' pro rata portion of the underwriting discounts and commissions.

Anti-takeover Provisions of Delaware Law

Certificate of Incorporation and Bylaws. Our certificate of incorporation and bylaws contain certain provisions that, together with the ownership position of the officers, directors and their affiliates, could discourage potential takeover attempts and make more difficult, attempts by stockholders to change management, which could adversely affect the market price of our common stock. Furthermore, our

board of directors has the authority to impose various procedural and other requirements that could make it more difficult for stockholders to effect certain corporate actions. Any vacancy on the board of directors may be filled only by vote of the majority of directors then in office.

Our board of directors has the authority to issue up to 5,000,000 shares of preferred stock and to determine the price, rights, preferences, privileges and restrictions, including voting rights, of those shares without any further vote or action by the stockholders. The rights of the holders of common stock will be subject to, and may be adversely affected by, the rights of the holders of any preferred stock that may be issued in the future. The issuance of preferred stock, while providing flexibility in connection with possible acquisitions and other corporate purposes, could have the effect of making it more difficult for a third party to acquire a majority of the outstanding voting stock.

Section 203 of the Delaware General Corporation Law. We are subject to Section 203 of the Delaware General Corporation Law which imposes restrictions on business combinations (which include a merger, asset sale or other transaction resulting in a financial benefit to the interested stockholder) with interested stockholders (being any person who acquired 15% or more of our outstanding voting stock). In general, we are prohibited from engaging in business combinations with an interested stockholder, unless:

- before such person became an interested stockholder, the board of directors approved the transaction in which the interested stockholder became an interested stockholder or approved the business combination;

- upon consummation of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of our voting stock outstanding at the time the transaction commenced (excluding for purposes of determining the number of shares outstanding stock held by directors who are also officers and by employee stock plans that do not provide employees with the rights to determine confidentiality whether shares held subject to the plan will be tendered in a tender or exchange offer); or - at or subsequent to the time which such person became an interested stockholder, the business combination is approved by the board of directors and authorized at a meeting of stockholders by the affirmative vote of the holders of two-thirds of the outstanding voting stock not owned by the interested stockholder.

Under Section 203, the restrictions described above also do not apply to certain business combinations proposed by an interested stockholder following the earlier of the announcement or notification of one of certain extraordinary transactions involving Packeteer and a person who had not been an interested stockholder during the previous three years or who became an interested stockholder with the approval of the board of directors, if such extraordinary transaction is approved or not opposed by a majority of the directors who are directors prior to any person becoming an interested stockholder during the previous three years or who were recommended for election or elected to succeed such directors by a majority of such directors. By restricting our ability to engage in business combinations with an interested person, the application of Section 203 to Packeteer may provide a barrier to hostile or unwanted takeovers.

Limitation of Liability and Indemnification Matters

Pursuant to the provisions of the Delaware General Corporation Law, we have adopted provisions in our amended and restated certificate of incorporation that provide that our directors shall not be personally liable for monetary damages to us or our stockholders for a breach of fiduciary duty as a director, except for liability as a result of:

- a breach of the director's duty of loyalty to us or our stockholders;

- acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law;

- an act related to an unlawful stock repurchase or payment of a dividend under Section 174 of the Delaware General Corporation Law; or - transactions from which the director derived an improper personal benefit.

This limitation of liability does not affect the availability of equitable remedies such as injunctive relief or rescission. Nevertheless, this charter provision may have the effect of reducing the likelihood of derivative litigation being instituted against members of the board. Furthermore, it may discourage or deter our stockholders or management from bringing a lawsuit against board members for breaches of fiduciary duty, even though such an action, if successful, might benefit us and our stockholders.

Our bylaws require us to indemnify our officers and directors and permit us to indemnify our other agents, by agreement or otherwise, to the fullest extent permitted under Delaware law. We have entered into separate indemnification agreements with our directors and officers that may, in some cases, be broader than the specific indemnification provisions contained in the Delaware General Corporation Law. The indemnification agreements may require us, among other things, to indemnify the officers and directors against certain liabilities, other than liabilities arising from willful misconduct of a culpable nature, that may arise by reason of their status or service as directors or officers. These agreements also may require us to advance the expenses incurred by the officers and directors as a result of any proceeding against them as to which they could be indemnified, and to obtain directors' and officers' insurance if available on reasonable terms.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, executive officers or persons controlling the company, we have been informed that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

Warrants

After the offering, there will be warrants to purchase 200,628 shares of common stock at a weighted average exercise price of $3.67.

Listing

We have applied to have our common stock approved for quotation on The Nasdaq National Market under the symbol PKTR.

Transfer Agent and Registrar

The transfer agent and registrar of the common stock is EquiServe.

Shares Eligible for Future Sale

Future sales of substantial amounts of shares of our common stock in the public market could adversely affect prevailing market prices. Furthermore, since only a limited number of shares will be available for sale shortly after this offering because of certain contractual and legal restrictions on resale (as described below), sales of substantial amounts of common stock in the public market after the restrictions lapse could adversely affect the prevailing market price.

After this offering, shares of common stock will be outstanding (based on shares outstanding as of March 31, 1999, and assuming no exercise of outstanding options or warrants), assuming the issuance of an aggregate of shares of common stock. An aggregate of shares, including shares sold in this offering, will be freely tradable without restriction under the Securities Act. Of the remaining shares outstanding upon completion of the offering, shares of common stock held by existing stockholders are restricted securities in that they may be sold in the public market only if registered or if they qualify for an exemption from registration under the Securities Act or Rules 144, 144(k) or 701 as promulgated under the Securities Act. Of such shares, shares are subject to lock-up agreements as described below.

All of the officers and directors and stockholders, optionholders and warrantholders of Packeteer holding an aggregate of shares of common stock have entered into lock-up agreements generally providing that they will not offer, pledge, sell, offer to sell, contract to sell, sell any option or contract to purchase, purchase any option to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of, directly or indirectly, any of the shares of common stock or any securities convertible into, or exercisable or exchangeable for, common stock owned by them, or enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the common stock, for a period of 180 days after the date of this prospectus, without the prior written consent of BancBoston Robertson Stephens Inc., subject to certain limited exceptions. BancBoston 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. BancBoston Robertson Stephens Inc. currently has no plans to release any portion of the securities subject to lock-up agreements. When determining whether or not to release shares from the lock-up agreements, BancBoston Robertson Stephens Inc. will consider, among other factors, the stockholder's reasons for requesting the release, the number of shares for which the release is being requested and

market conditions at the time. Following the expiration of the 180 day lock-up period, additional shares of common stock will be available for sale in the public market subject to compliance with Rule 144 or Rule 701.

In general, under Rule 144 as currently in effect, an affiliate of Packeteer or a person (or persons whose shares are aggregated) who has beneficially owned restricted securities for at least one year, including the holding period of any prior owner except an affiliate, would be entitled to sell within any three months ended a number of shares that does not exceed the greater of 1% of the then outstanding shares of Packeteer common stock or the average weekly trading volume of Packeteer common stock on the Nasdaq National Market during the four calendar weeks preceding such sale. Sales under Rule 144 are also subject to certain manner of sale provisions, notice requirements and the availability of current public information about Packeteer. Any person (or persons whose shares are aggregated) who is not deemed to have been an affiliate of Packeteer at any time during the 90 days preceding a sale, and who has beneficially owned shares for at least two years including any period of ownership of preceding non-affiliated holders, would be entitled to sell such shares under Rule 144(k) without regard to the volume limitations, manner of sale provisions, public information requirements or notice requirements.

Packeteer has also agreed not to offer, sell, contract to sell or otherwise dispose of shares of common stock or any securities convertible into common stock for a period of 180 days after the date of this prospectus, without the prior written consent of BancBoston Robertson Stephens Inc., subject to certain limited exceptions.

Underwriting

The underwriters named below, acting through their representatives, BancBoston Robertson Stephens Inc., Bear, Stearns & Co. Inc. and Dain Rauscher Wessels, a division of Dain Rauscher Incorporated, have severally agreed with us, subject to the terms and conditions set forth in the underwriting agreement, to purchase from us the number of shares of common stock set forth opposite their names below. The underwriters are committed to purchase and pay for all such shares if any are purchased.

Number of Underwriter Shares

BancBoston Robertson Stephens Inc. ..... Bear, Stearns & Co. Inc. ..... Dain Rauscher Wessels..... Total.....

We have been advised by the representatives that the underwriters propose to offer the shares of common stock to the public at the initial public offering price set forth on the cover page of this prospectus and to certain dealers at such price less a concession of not in excess of $ per share, of which $ may be reallowed to their dealers. After the initial public offering, the public offering price, concession and reallowance to dealers may be reduced by the representatives. No such reduction shall

change the amount of proceeds to be received by us as set forth on the cover page of this prospectus. The common stock is offered by the underwriters as stated herein, subject to receipt and acceptance by them and subject to their right to reject any order in whole or in part.

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

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 additional shares of common stock at the same price per share as we will receive for the 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 such 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 shares offered hereby. If purchased, such additional shares will be sold by the underwriters on the same terms as those on which the shares are being sold. We will be obligated, pursuant to the option, to sell shares to the extent the option is exercised. The underwriters may exercise such option only to cover over- allotments made in connection with the sale of the shares of common stock offered hereby. If such option is exercised in full, the total public offering price of the shares we sell to the

underwriters, underwriting discounts and commissions on such shares and total proceeds to us from the sale of such shares will be $, $ and $, respectively.

The following table summarizes the compensation to be paid to the underwriters by us:

		Total	
	Per Share	Without Over-allotment	With Over-allotment
Underwriting discounts and commissions payable by us	$	$	$

We estimate that expenses payable by us in connection with this offering, other than the underwriting discounts and commissions referred to above, will be approximately $.

Indemnity. The underwriting agreement contains covenants of indemnity among the underwriters and us against certain civil liabilities, including liabilities under the Securities Act and liabilities arising from breaches of representations and warranties contained in the underwriting agreement.

Lock-up Agreements. With the exception of holders of shares of outstanding common stock and holders of options and warrants to purchase shares of common stock, each of our executive officers, directors, stockholders of record, optionholders and warrantholders has agreed with the representatives, for a period of 180 days after the date of this prospectus, subject to certain exceptions, not to offer to sell, contract to sell, or otherwise sell, dispose of, loan, pledge or grant any rights with respect to any shares of common stock, any options or warrants to purchase any shares of common stock, or any securities convertible into or exchangeable for shares of common stock owned as of the date of this prospectus or, with certain exceptions, thereafter acquired directly by such holders or with respect to which they have or hereafter acquire the power of disposition, without the prior written

consent of BancBoston Robertson Stephens Inc. However, BancBoston Robertson Stephens Inc. may, in its sole discretion and at any time without notice, release all or any portion of the securities subject to the lock-up agreements. There are no agreements between the representatives and any of our stockholders providing consent by the representatives to the sale of shares prior to the expiration of the period of 180 days after this prospectus.

Future Sales. In addition, we have agreed that during the period of 180 days after this prospectus, we will not, subject to certain exceptions, without the prior written consent of BancBoston Robertson Stephens Inc.

- Consent to the disposition of any shares held by stockholders prior to the expiration of the period of 180 days after this prospectus; or - Issue, sell, contract to sell or otherwise dispose of any shares of common stock, any options or warrants to purchase any shares of common stock or any securities convertible into, exercisable for or exchangeable for shares of common stock, other than (1) the sale of shares in this offering, (2) the issuance of common stock upon the exercise or conversion of outstanding options, warrants or convertible securities, (3) our issuance of stock options under existing stock option plans and (4) our issuance of common stock under the Employee Stock Purchase Plan. See "Shares Eligible for Future Sale."

Listing. We have applied for quotation on the Nasdaq National Market under the symbol PKTR.

No Prior Public Market. Prior to this offering, there has been no public market for our common stock. Consequently, the initial public offering price for the common stock offered hereby was determined through negotiations between us and the representatives. Among the factors considered in such negotiations were prevailing market conditions, certain of our financial information, market valuations of other companies that we and the representatives believed to be comparable to us, estimates of our business potential, the present state of our development and other factors deemed relevant.

Stabilization. The representatives have advised us that, pursuant to Regulation M under the Securities Act, certain persons participating in this offering may engage in transactions, include 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 or the purchase of the common stock on behalf of the underwriters to reduce a short position incurred by the underwriters in connection with this 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 this offering if the common stock originally sold by such underwriter or syndicate member is purchased by the representatives in a syndicate covering transaction and has therefore not been effectively placed by such underwriter or syndicate member. The representatives have advised us that such transactions may be effected on the Nasdaq National Market or otherwise and, if commenced, may be discontinued at any time.

Directed Share Program. At our request, the underwriters have reserved up to shares of common stock to be issued by us and offered hereby for sale, at the initial public offering price, to directors, officers, employees, business associates and related persons of Packeteer. The number of shares of common stock available for sale to the general public will be reduced to the extent such individuals purchase such reserved shares. Any reserved shares which are not so purchased will be offered by the underwriters to the general public on the same basis as the other shares offered hereby.

Legal Matters

The validity of the issuance of the shares of common stock offered hereby will be passed upon for Packeteer by Brobeck, Phleger & Harrison LLP, Palo Alto, California. Certain legal matters in connection with this offering will be passed upon for the underwriters by Wilson Sonsini Goodrich & Rosati, Professional Corporation, Palo Alto, California.

Experts

The consolidated financial statements and schedule of Packeteer, Inc. as of December 31, 1997 and 1998, and for the period from January 25, 1996 (inception) to December 31, 1996, and for each of the years in the two-year period ended December 31, 1998 have been included herein and in the registration statement in reliance upon the reports of KPMG LLP, independent auditors, appearing elsewhere herein and in the registration statement, and upon authority of said firm as experts in accounting and auditing.

Where You Can Find More Information

We have filed with the SEC, Washington, D.C. 20549, under the Securities Act a registration statement on Form S-1 relating to the common stock offered. This prospectus does not contain all of the information set forth in the registration statement and its exhibits and schedules. For further information with respect to Packeteer and the shares we are offering pursuant to this prospectus you should refer to the registration statement, including its exhibits and schedules. Statements contained in this prospectus as to the contents of any contract, agreement or other document referred to are not necessarily complete, and you should refer to the copy of that contract or other document filed as an exhibit to the registration statement or any other document. You may inspect a copy of the registration statement without charge at the Public Reference Section of the SEC at Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549 or at the SEC's regional offices at 5670 Wilshire Boulevard, 11th Floor, Los Angeles, California 90036. The SEC maintains an Internet site that contains reports, proxy information statements and other information regarding registrants that file electronically with the SEC. The SEC's world wide web address is www.sec.gov.

We intend to furnish holders of our common stock with annual reports containing, among other information, audited financial statements certified by an independent public accounting firm and quarterly reports containing unaudited consolidated financial information for the first three quarters of each fiscal year. We intend to furnish these other reports as we may determine or as may be required by law.

Packeteer, Inc.

Index to Consolidated Financial Statements

Page

Independent Auditors' Report..... F-2 Consolidated Balance Sheets as of December 31, 1997 and 1998 and March 31, 1999 (unaudited)..... F-3 Consolidated Statements of Operations for the period from January 25, 1996 (inception) to December 31, 1996, for the years ended December 31, 1997 and 1998 and for the three months ended March 31, 1998 and 1999 (unaudited)..... F-4 Consolidated Statements of Stockholders' Equity for the period from January 25, 1996 (inception) to December 31, 1996, for the years ended December 31, 1997 and 1998 and for the three months ended March 31, 1999 (unaudited)..... F-5 Consolidated Statements of Cash Flows for the period from January 25, 1996 (inception) to December 31, 1996, for the years ended December 31, 1997 and 1998 and for the three months ended March 31, 1998 and 1999 (unaudited)..... F-6 Notes to Consolidated Financial Statements..... F-7

Independent Auditors' Report

To the Board of Directors and Stockholders of PACKETEER, INC.:

We have audited the accompanying consolidated balance sheets of Packeteer, Inc. and subsidiaries as of December 31, 1997 and 1998, and the related consolidated statements of operations, stockholders' equity, and cash flows for the period from January 25, 1996 (inception) to December 31, 1996, and for each of the years in the two-year period ended December 31, 1998. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Packeteer, Inc. and subsidiaries as of December 31, 1997 and 1998, and the results of their operations and their cash flows for the period from January 25, 1996 (inception) to December 31, 1996, and for each of the years in the two-year period ended December 31, 1998, in conformity with generally accepted accounting principles.

Kpmg Llp

Mountain View, California March 3, 1999, except as to Note 9, which is as of May 19, 1999

Packeteer, Inc. and Subsidiaries

Consolidated Balance Sheets (In Thousands, Except Share Data)

Assets

	DECEMBER 31,		MARCH 31,	PRO FORMA STOCKHOLDERS' EQUITY AT MARCH 31, 1999
	1997	1998	1999	
				(UNAUDITED)
Current assets:				
Cash and cash equivalents	$ 2,416	$ 2,550	$ 7,084	
Short-term investments	--	1,927	--	
Accounts receivable, less allowance for doubtful accounts of $37, $293, and $211 as of December 31, 1997 and 1998, and March 31, 1999	721	2,745	1,514	
Other receivables	764	39	39	
Inventories	362	188	419	
Prepaids and other current assets	124	124	224	
Total current assets	4,387	7,573	9,280	
Property and equipment, net	404	794	773	
Other assets	144	203	197	
Total assets	$ 4,935	$ 8,570	$ 10,250	
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Line of credit	$ --	$ --	$ 980	
Current portion of capital lease obligations	36	215	255	
Current portion of note payable	67	71	519	
Accounts payable	1,334	1,015	870	
Accrued compensation	85	253	337	
Other accrued liabilities	211	1,011	1,045	
Deferred revenue	42	1,507	1,209	

Total current liabilities	1,775	4,072	5,215		
Capital lease obligations, less current portion	116	570	649		
Note payable, less current portion	222	151	1,991		
Other long-term liabilities	18	18	18		
Total liabilities	$ 2,131	$ 4,811	$ 7,873		
Commitments					
Stockholders' equity:					
Preferred stock, $0.001 par value; 13,703,287 shares authorized; actual -- 9,838,180, 12,391,001 and 12,391,001 shares, issued and outstanding as of December 31, 1997 and 1998 and March 31, 1999; liquidation preference of $9,955, $20,013 and $20,013 in aggregate as of December 31, 1997 and 1998, and March 31, 1999; pro forma -- no shares issued and outstanding	10	13	13	$	--
Common stock, $0.001 par value; 40,000,000 shares authorized; actual -- 8,981,300, 9,722,842 and 9,766,467 shares issued and outstanding as of December 31, 1997 and 1998, and March 31, 1999, respectively; pro forma -- 22,157,468 shares issued and outstanding as of March 31, 1999	9	10	10		23
Additional paid-in capital	10,145	20,924	25,293		25,293
Deferred stock-based compensation	--	(514)	(3,668)		(3,668)
Notes receivable from stockholders	(214)	(729)	(803)		(803)
Accumulated deficit	(7,146)	(15,945)	(18,468)		(18,468)
Total stockholders' equity	2,804	3,759	2,377	$	2,377
Total liabilities and stockholders' equity	$ 4,935	$ 8,570	$ 10,250		

See accompanying notes to consolidated financial statements. F-3

Packeteer, Inc. and Subsidiaries

Consolidated Statements of Operations (In Thousands, Except Per Share Data)

	PERIOD FROM JAN. 25, 1996 (INCEPTION) TO DEC. 31, 1996	YEARS ENDED DECEMBER 31,		THREE MONTHS ENDED MARCH 31,	
		1997	1998	1998	1999
				(UNAUDITED)	
Net revenues:					
Product revenues	$ --	$ 1,413	$ 7,105	$ 1,246	$ 2,724
Licensing revenues	--	--	125	--	375
Total net revenues	--	1,413	7,230	1,246	3,099
Cost of revenues	--	457	2,386	476	854
Gross profit	--	956	4,844	770	2,245
Operating expenses:					
Research and development	725	2,932	2,779	566	955
Sales and marketing	349	3,210	8,866	1,551	2,429
General and administrative	238	934	1,750	292	533
Amortization of stock-based compensation	--	--	537	--	865
Total operating expenses	1,312	7,076	13,932	2,409	4,782
Net loss from operations	(1,312)	(6,120)	(9,088)	(1,639)	(2,537)
Other income, net	75	211	289	34	14
Net loss	$(1,237)	$(5,909)	$(8,799)	$(1,605)	$(2,523)
Basic and diluted net loss per share	$ (1.28)	$ (1.82)	$ (1.54)	$ (0.34)	$ (0.35)

Shares used in computing basic and diluted net loss per share	965	3,253	5,709	4,734	7,271	

See accompanying notes to consolidated financial statements. F-4

Packeteer, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY PERIOD FROM JANUARY 25, 1996 (INCEPTION) TO DECEMBER 31, 1996 AND FOR THE YEARS ENDED DECEMBER 31, 1997 AND 1998, AND FOR THE THREE MONTHS ENDED MARCH 31, 1999 (UNAUDITED) (IN THOUSANDS)

	PREFERRED STOCK									
	SERIES A		SERIES B		SERIES C		SERIES D		COMMON STOCK	
	SHARES	AMOUNT	SHARES	AMOUNT	SHARES	AMOUNT	SHARES	AMOUNT	SHARES	AMOUNT
Issuance of common stock for cash	--	$--	--	$--	--	$--	--	$--	640	$--
Issuance of common stock for personal property	--	--	--	--	--	--	--	--	5,120	5
Issuance of Series A preferred stock, net of issuance costs of $7	2,800	3	--	--	--	--	--	--	--	--
Issuance of common stock upon exercise of stock options	--	--	--	--	--	--	--	--	1,759	2
Issuance of Series B preferred stock, net of issuance costs of $43	--	--	4,822	5	--	--	--	--	--	--
Repurchase of common stock	--	--	--	--	--	--	--	--	(160)	--
Net loss	--	--	--	--	--	--	--	--	--	--
Balances as of December 31, 1996	2,800	3	4,822	5	--	--	--	--	7,359	7
Issuance of Series C preferred stock, net of issuance costs of $41	--	--	--	--	2,216	2	--	--	--	--
Issuance of common stock upon exercise of stock options	--	--	--	--	--	--	--	--	1,940	2
Repurchase of common stock	--	--	--	--	--	--	--	--	(318)	--
Issuance of warrants for Series B preferred stock	--	--	--	--	--	--	--	--	--	--
Net loss	--	--	--	--	--	--	--	--	--	--
Balances as of December 31, 1997	2,800	3	4,822	5	2,216	2	--	--	8,981	9
Issuance of Series D preferred stock, net of issuance costs of $950	--	--	--	--	--	--	2,553	3	--	--
Issuance of common stock upon exercise of stock options	--	--	--	--	--	--	--	--	1,042	1
Stock-based compensation to										

non-employees	--	--	--	--	--	--	--	--	--	--	--	--
Issuance of common stock upon exercise of stock purchase rights	--	--	--	--	--	--	--	--	--	6	--	
Repurchase of common stock	--	--	--	--	--	--	--	--	--	(306)	--	
Issuance of warrants for Series D preferred stock	--	--	--	--	--	--	--	--	--	--	--	
Repayment of notes receivable from stockholders	--	--	--	--	--	--	--	--	--	--	--	
Deferred compensation related to stock option grants	--	--	--	--	--	--	--	--	--	--	--	
Amortization of stock-based compensation	--	--	--	--	--	--	--	--	--	--	--	
Net loss	--	--	--	--	--	--	--	--	--	--	--	
Balances as of December 31, 1998	2,800	3	4,822	5	2,216	2	2,553	3	9,723	10		
Stock-based compensation to non-employees	--	--	--	--	--	--	--	--	--	--	--	
Issuance of common stock upon exercise of stock options	--	--	--	--	--	--	--	--	--	46	--	
Repurchase of common stock	--	--	--	--	--	--	--	--	--	(3)	--	
Issuance of warrants for Series D preferred stock	--	--	--	--	--	--	--	--	--	--	--	
Repayments of notes receivable from stockholders	--	--	--	--	--	--	--	--	--	--	--	
Deferred compensation related to stock option grants	--	--	--	--	--	--	--	--	--	--	--	
Amortization of stock-based compensation	--	--	--	--	--	--	--	--	--	--	--	
Net loss	--	--	--	--	--	--	--	--	--	--	--	
Balances as of March 31, 1999 (unaudited)	2,800	$ 3	4,822	$ 5	2,216	$ 2	2,553	$ 3	9,766	$10		

	ADDITIONAL PAID-IN CAPITAL	DEFERRED STOCK-BASED COMPENSATION	NOTES RECEIVABLE FROM STOCKHOLDERS	ACCUMULATED DEFICIT	TOTAL STOCKHOLDERS' EQUITY
Issuance of common stock for cash	$ --	$ --	$ --	$ --	$ --
Issuance of common stock for personal property	(4)	--	--	--	1
Issuance of Series A preferred stock, net of issuance costs of $7	690	--	--	--	693

Issuance of common stock upon exercise of stock options	42	--	(29)	--	15
Issuance of Series B preferred stock, net of issuance costs of $43	4,774	--	--	--	4,779
Repurchase of common stock	(4)	--	4	--	--
Net loss	--	--	--	(1,237)	(1,237)
Balances as of December 31, 1996	5,498	--	(25)	(1,237)	4,251
Issuance of Series C preferred stock, net of issuance costs of $41	4,389	--	--	--	4,391
Issuance of common stock upon exercise of stock options	242	--	(195)	--	49
Repurchase of common stock	(10)	--	6	--	(4)
Issuance of warrants for Series B preferred stock	26	--	--	--	26
Net loss	--	--	--	(5,909)	(5,909)
Balances as of December 31, 1997	10,145	--	(214)	(7,146)	2,804
Issuance of Series D preferred stock, net of issuance costs of $950	9,105	--	--	--	9,108
Issuance of common stock upon exercise of stock options	619	--	(568)	--	52
Stock-based compensation to non-employees	269	--	--	--	269
Issuance of common stock upon exercise of stock purchase rights	1	--	--	--	1
Repurchase of common stock	(40)	--	52	--	12
Issuance of warrants for Series D preferred stock	38	--	--	--	38
Repayment of notes receivable from stockholders	--	--	1	--	1
Deferred compensation related to stock option grants	787	(787)	--	--	--
Amortization of stock-based compensation	--	273	--	--	273
Net loss	--	--	--	(8,799)	(8,799)
Balances as of December 31, 1998	20,924	(514)	(729)	(15,945)	3,759
Stock-based compensation to non-employees	276	--	--	--	276
Issuance of common stock upon exercise of stock options	148	--	(120)	--	28
Repurchase of common stock	(9)	--	8	--	

(1)					
Issuance of warrants for Series D preferred stock	211	--	--	--	211
Repayments of notes receivable from stockholders	--	--	38	--	38
Deferred compensation related to stock option grants	3,743	(3,743)	--	--	--
Amortization of stock-based compensation	--	589	--	--	589
Net loss	--	--	--	(2,523)	(2,523)
Balances as of March 31, 1999 (unaudited)	$25,293	$(3,668)	$(803)	$(18,468)	$ 2,377

See accompanying notes to consolidated financial statements.

Packeteer, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS (in thousands)

	PERIOD FROM JANUARY 25, 1996 (INCEPTION) TO DECEMBER 31, 1996	YEARS ENDED DECEMBER 31, 1997	1998	THREE MONTHS ENDED MARCH 31, 1998	1999
(UNAUDITED)					
Cash flows from operating activities:					
Net loss	$(1,237)	$(5,909)	$(8,799)	$(1,605)	$(2,523)
Adjustments to reconcile net loss to net cash used in operating activities:					
Depreciation and amortization	68	261	215	39	124
Allowance for doubtful accounts	--	37	305	69	(82)
Amortization of deferred stock-based compensation	--	--	542	--	865
Issuance of warrants and stock purchase rights	--	26	38	--	211
Changes in operating assets and liabilities:					
Accounts receivable	--	(758)	(2,329)	(300)	1,313
Other receivables	--	(764)	724	752	--
Inventories	(6)	(356)	175	222	(231)
Prepaids and other current assets	(18)	(106)	--	54	(100)
Accounts payable	149	1,185	(318)	(577)	(145)

Accrued compensation	25	60	168	81	84
Other accrued liabilities	28	184	800	107	34
Deferred revenue	--	42	1,464	24	(298)
Net cash used in operating activities	(991)	(6,098)	(7,015)	(1,134)	(748)
Cash flows from investing activities:					
Purchases of property and equipment	(241)	(492)	(605)	(122)	(103)
Purchase of short-term investments	--	--	(1,927)	--	--
Proceeds from sale of short-term investments	--	--	--	--	1,927
Other assets	--	(113)	(59)	--	6
Net cash used in investing activities	(241)	(605)	(2,591)	(122)	1,830
Cash flows from financing activities:					
Net proceeds from issuance of preferred stock	5,472	4,391	9,108	--	--
Net proceeds from issuance of common stock	15	49	53	4	28
Proceeds from stockholders' note receivable	--	--	1	--	38
Repurchase of common stock	--	(4)	12	(1)	(1)
Borrowings under line of credit	--	--	--	--	1,145
Repayments of line of credit	--	--	--	--	(165)
Proceeds from note payable	--	287	--	--	2,500
Payments of note payable	--	(29)	(67)	(17)	(212)
Proceeds from lease financing	--	165	749	223	177
Principal payments of capital lease obligations	--	(13)	(116)	(19)	(58)
Proceeds from other long-term liabilities	--	18	--	--	--
Net cash provided by financing activities	5,487	4,864	9,740	190	3,452
Net increase (decrease) in cash and cash equivalents	4,255	(1,839)	134	(1,066)	4,534
Cash and cash equivalents at beginning of year	--	4,255	2,416	2,416	2,550
Cash and cash equivalents at end of year	$ 4,255	$ 2,416	$ 2,550	$ 1,350	$ 7,084
Supplemental disclosures of cash flow information:					
Cash paid during year for interest	$ --	$ --	$ 48	$ 4	$ 51
Noncash investing and financing activities:					
Issuance of common stock in exchange for equipment and technology	$ 1	$ --	$ --	$ --	$ --
Issuance of common stock upon exercise of options in exchange for notes receivable	$ 25	$ 195	$ 568	$ 134	$ 120
Repurchase of common stock in exchange for cancellation of notes receivable	$ --	$ 6	$ 52	$ 4	$ 8

See accompanying notes to consolidated financial statements.

Packeteer, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 1996, 1997 AND 1998 (INFORMATION AS OF MARCH 31, 1999 AND FOR THE THREE-MONTHS ENDED MARCH 31, 1998 AND 1999 IS UNAUDITED) (IN THOUSANDS, EXCEPT PER SHARE DATA)

1. Organization and Summary of Significant Accounting Policies

(a) Organization

Packeteer, Inc. (the Company) was incorporated on January 25, 1996, to provide application-adaptive bandwidth management solutions that enhance mission-critical application performance over enterprise WANs and the Internet. The Company's solutions enable businesses and service providers to manage proactively bandwidth contention at WAN access links, protect important application traffic and increase network efficiency. The Company markets and distributes its products via a worldwide network of VARs, distributors, systems integrators and OEMs. The Company commenced principal operations in 1997. The Company is headquartered in Cupertino, California, and has wholly owned subsidiaries in Japan and Hong Kong.

(b) Principles of Consolidation The accompanying consolidated financial statements include the financial statements of the Company and its two wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

(c) Use of Estimates

The preparation of consolidated 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 liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(d) Unaudited Interim Consolidated Financial Statements The accompanying unaudited interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. In the opinion of management, the accompanying unaudited consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements, and including all adjustments, consisting only of normal recurring adjustments, necessary for the fair presentation of the Company's financial position as of March 31, 1999 and the results of its operations and its cash flows for the three months ended March 31, 1998 and 1999.

(e) Revenue Recognition The Company recognizes product revenues after the following events have occurred: the customer issues a noncancelable purchase order; a product has been shipped to the customer; and collection of the sales price is probable.

For software transactions entered into after January 1, 1998, the Company adopted the American Institute of Certified Public Accountants' (AICPA) Statement of Position (SOP) 97-2, "Software Revenue Recognition" as modified by SOP 98-9, "Modification of SOP 97-2, Software Revenue

Packeteer, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 1996, 1997 AND 1998 (INFORMATION AS OF MARCH 31, 1999 AND FOR THE THREE-MONTHS ENDED MARCH 31, 1998 AND 1999 IS UNAUDITED) (IN THOUSANDS, EXCEPT PER SHARE DATA) 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- (CONTINUED) Recognition, with Respect to Certain Transactions." SOP 97-2 generally requires revenue earned on software arrangements involving multiple-elements to be allocated to each element based on its relative fair value. The fair value of the element must be based on objective evidence that is specific to the vendor. If a vendor does not have objective evidence of the fair value of all elements in a multiple-element arrangement, all revenue from the arrangement must be deferred until such evidence exists or until all elements have been delivered, unless the only undelivered element is post-contract customer support, in which case, the entire fee is recognized over the support period.

Service revenue is recognized as the services are performed. To date, these amounts have not been significant.

(f) Cost of Revenues

Cost of revenues consists primarily of costs of product sales. Costs of licensing revenues, including product packaging, documentation and reproduction have not been significant. The Company provides reserves for warranty costs expected to be incurred. To date the Company has not incurred significant warranty costs.

(g) Cash, Cash Equivalents and Short-Term Investments The Company considers all highly liquid investments with a maturity from date of purchase of three months or less to be cash equivalents. Cash and cash equivalents consist primarily of cash on deposit with banks, money market instruments, and investments in commercial paper. As of December 31, 1997 and 1998, cash equivalents total approximately $2,141 and $2,389, respectively.

Management determines the appropriate classification of investment securities at the time of purchase and reevaluates such designation as of each balance sheet date. As of December 31, 1997 and 1998, all investment securities are designated as "available-for-sale." Available-for-sale securities are carried at fair value based on quoted market prices, which approximates cost. The cost of securities sold is determined based on the specific identification method.

(h) Inventories

Inventories are stated at the lower of cost (on a first-in, first-out basis) or market. Inventory balances represent completed products available-for-sale.

(i) Property and Equipment Property and equipment, including leasehold improvements and equipment acquired under capital lease, are recorded at cost. Depreciation and amortization are provided using a straight-line method over the shorter of the estimated useful lives of the assets or the lease terms, generally one to four years.

Packeteer, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 1996, 1997 AND 1998 (INFORMATION AS OF MARCH 31, 1999 AND FOR THE THREE-MONTHS ENDED MARCH 31, 1998 AND 1999 IS UNAUDITED) (IN THOUSANDS, EXCEPT PER SHARE DATA) 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- (CONTINUED) The Company reviews property and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of property and equipment is measured by comparison of its carrying amount to future net cash flows the property and equipment are expected to generate. 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 property and equipment exceeds its fair market value. To date, the Company has made no adjustments to the carrying amount of its property and equipment due to impairment.

(j) Research and Development Costs Development costs incurred in the research and development of new products and enhancements to existing products are expensed as incurred until technological feasibility in the form of a working model has been established. To date, software developments have been completed concurrent with the establishment of technological feasibility, and, accordingly, no costs have been capitalized.

(k) Business and Concentrations of Credit Risk Financial instruments, which potentially subject the Company to concentrations of credit risk, consist primarily of cash, cash equivalents, short-term investments and accounts receivable. The Company's cash, cash equivalents and short-term investments are maintained with highly accredited financial institutions. The Company's cash equivalents are primarily in highly liquid money market funds. The Company believes no significant concentration of credit risk exists with respect to these financial instruments. Concentrations of credit risk with respect to trade receivables are limited as the Company performs ongoing credit evaluations of its customers. Based on management's evaluation of potential credit losses, the Company believes its allowances for doubtful accounts are adequate.

The Company's products, which are sold worldwide, are targeted to organizations utilizing wide area networks. Accordingly, the Company's future success depends upon the capital spending patterns of such customers and the continued demand by such customers for the Company's product. The networking industry is characterized by rapidly changing technology, evolving industry standards, changes in end-user requirements and frequent new product introductions and enhancements.

The Company's continued success will depend upon its ability to enhance existing products and to develop and introduce, on a timely basis, new products and features that keep pace with technology developments and emerging industry standards. Furthermore, as a result of its international sales, the Company's operations are subject to risks of doing business abroad, including, but not limited to, export duties, changes to import and export regulations, longer payment cycles, and greater difficulty in collecting accounts receivable. While, to date, these factors have not had an adverse material impact on the Company's consolidated results of operations, there can be no assurance that there will not be such an impact in the future.

Packeteer, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 1996, 1997 AND 1998 (INFORMATION AS OF MARCH 31, 1999 AND FOR THE THREE-MONTHS ENDED MARCH 31, 1998 AND 1999 IS UNAUDITED) (IN THOUSANDS, EXCEPT PER SHARE DATA) 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- (CONTINUED) (l) Income Taxes The Company uses the asset and liability method of accounting for income taxes. Under this 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. 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 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. The measurement of deferred tax assets is reduced, if necessary, by a valuation allowance for any tax benefits of which future realization is uncertain.

(m) Stock-Based Compensation For employee stock-based compensation plans, the Company uses the intrinsic value-based method of accounting. Deferred compensation expense associated with stock-based compensation is being amortized on an accelerated basis over the vesting period of the individual award consistent with the method described in Financial Accounting Standards Board (FASB) Interpretation No. 28, Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans.

For non-employees, the Company computes the fair value of the stock based compensation in accordance with SFAS 123 "Accounting for Stock Based Compensation" and Emerging Issues Task Force (EITF) 96-18 "Accounting for Equity Instruments that are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services."

(n) Foreign Currency Transactions The Company's sales to international customers are U.S. dollar-denominated. As a result, there are no foreign currency gains or losses related to these transactions.

The functional currency for the Company's foreign subsidiaries is the U.S. dollar. Accordingly, the entities remeasure monetary assets and liabilities at year-end exchange rates, while nonmonetary items are remeasured at historical rates. Income and expense accounts are remeasured at the average rates in

effect during the year, except for depreciation which is remeasured at historical rates. Remeasurement adjustments and transaction gains and losses are recognized in income in the year of occurrence. To date, the effect of such amounts on net income has not been material.

(o) Other Comprehensive Income The Company has no material components of other comprehensive income.

Packeteer, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 1996, 1997 AND 1998 (INFORMATION AS OF MARCH 31, 1999 AND FOR THE THREE-MONTHS ENDED MARCH 31, 1998 AND 1999 IS UNAUDITED) (IN THOUSANDS, EXCEPT PER SHARE DATA) 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- (CONTINUED) (p) Net Loss Per Share Basic net loss per share is computed using the weighted-average number of vested outstanding shares of common stock. Diluted net loss per share is computed using the weighted-average number of shares of vested common stock outstanding and, when dilutive, potential common shares. Potential common shares include unvested common stock outstanding and potential common shares from options and warrants to purchase common stock using the treasury stock method, and convertible preferred stock on the as-if converted basis. All potential shares have been excluded from the computation of diluted net loss per share for all periods presented because the effect would be antidilutive. Pursuant to the SEC Staff Accounting Bulletin No. 98, common stock and convertible preferred stock issued for nominal consideration, prior to the anticipated effective date of the initial public offering, or IPO, are included in the calculation of basic and diluted net loss per share as if they were outstanding for all periods presented. To date, the Company has not had any issuances or grants for nominal consideration. Diluted net loss per share does not include the effects of the following potential common shares:

	PERIOD FROM JANUARY 25, 1996 (INCEPTION) TO DECEMBER 31, 1996	YEARS ENDED DECEMBER 31,	
		1997	1998
Shares issuable under stock options	704	900	1,073
Shares of unvested stock subject to repurchase	5,177	4,571	2,757
Shares issuable pursuant to warrants to purchase convertible preferred	--	42	58
Shares issuable related to convertible preferred stock on an "as-if-converted" basis	7,622	9,838	12,391

The weighted-average exercise price of stock options outstanding was $0.22 and $1.90 as of December 31, 1997 and 1998, respectively. The weighted average purchase price of unvested stock was $0.10 and $0.34 as of December 31, 1997 and 1998, respectively. The weighted average exercise price of warrants was $1.00 and $1.81 as of December 31, 1997 and 1998, respectively.

(q) Financial Instruments The carrying value of cash, cash equivalents, short-term investments, accounts receivable, accounts payable and accrued expenses approximates their estimated fair value due to the relative short maturity of these instruments. The carrying value of long-term debt and

capital lease obligations approximates carrying value based on the market interest rates available to the Company for debt of similar risk and maturities.

Packeteer, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 1996, 1997 AND 1998 (INFORMATION AS OF MARCH 31, 1999 AND FOR THE THREE-MONTHS ENDED MARCH 31, 1998 AND 1999 IS UNAUDITED) (IN THOUSANDS, EXCEPT PER SHARE DATA) 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- (CONTINUED) (r) Recent Accounting Pronouncements The FASB recently issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives), and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. For a derivative not designated as a hedging instrument, changes in the fair value of the derivative are recognized in earnings in the period of change. The Company must adopt SFAS No. 133 by January 1, 2000. Management does not believe the adoption of SFAS No. 133 will have a material effect on the financial position or results of operations of the Company.

2. Property and Equipment

Property and equipment consisted of the following as of December 31, 1997 and 1998:

1997 1998

Computers and equipment	$262	$ 262
Equipment under capital lease	415	1,021
Furniture and fixtures	39	39
Leasehold improvements	17	17
	733	1,339
Less accumulated depreciation and amortization	329	545
	$404	$ 794

Accumulated depreciation and amortization includes amortization of approximately $31 and $226 on equipment under capital lease as of December 31, 1997 and 1998, respectively.

Packeteer, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 1996, 1997 AND 1998 (INFORMATION AS OF MARCH 31, 1999 AND FOR THE THREE-MONTHS ENDED MARCH 31, 1998 AND 1999 IS UNAUDITED) (IN THOUSANDS, EXCEPT PER SHARE DATA)

3. Lease Commitments

The Company leases its facility and certain equipment under noncancelable lease agreements, which expire at various dates through 2002. As of December 31, 1998, the future minimum rental payments under capital and operating leases are as follows:

YEARS ENDING DECEMBER 31,	CAPITAL LEASE	OPERATING LEASE
1999	$262	$ 699
2000	262	734
2001	248	770
2002	114	773
Total future minimum lease payments	886	$2,976
Less imputed interest	101	
Present value of future minimum lease payments under capital lease	785	
Less current portion	215	
Long-term portion	$570	

Rent expense for the period from January 25, 1996 (inception) to December 31, 1996 and for the years ended December 31, 1997 and 1998, was $32, $138 and $616, respectively.

4. Note Payable

The note payable, which totaled $287 at inception, has a stated interest rate of 6.75% and is payable in 48 monthly installments of $7 with a final balloon payment of $34 due on June 1, 2001. The note is secured by the Company's property and equipment. The note has been discounted for warrants valued at approximately $26 issued in connection with the note (see Note 5). The Company estimates the fair value of its fixed rate debt using discounted cash flow analysis based on the Company's current borrowing rates for similar debt.

Packeteer, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 1996, 1997 AND 1998 (INFORMATION AS OF MARCH 31, 1999 AND FOR THE THREE-MONTHS ENDED MARCH 31, 1998 AND 1999 IS UNAUDITED) (IN THOUSANDS, EXCEPT PER SHARE DATA)

5. Stockholders' Equity

(a) Preferred Stock

As of December 31, 1998, the Company has 13,703 shares of preferred stock authorized. As of December 31, 1997 and 1998 and March 31, 1999, the Company had designated and issued preferred stock as follows:

	DESIGNATED SHARES	OUTSTANDING SHARES DECEMBER 31, 1997	1998	MARCH 31, 1999	LIQUIDATION PREFERENCE
Series A	2,800	2,800	2,800	2,800	$0.25
Series B	4,864	4,822	4,822	4,822	1.00
Series C	2,216	2,216	2,216	2,216	2.00
Series D	3,823	--	2,553	2,553	3.94
	13,703	9,838	12,391	12,391	

In February and April 1996, the Company issued 2,800 shares of Series A preferred stock for cash of $0.25 per share. A total of $693 was raised, net of issuance costs.

In September and October 1996, the Company raised an additional $4,779, net of issuance costs, through the issuance of 4,822 shares of Series B preferred stock for cash of $1.00 per share.

During 1997, the Company issued 2,216 shares of Series C preferred stock for cash of $2.00 per share. A total of $4,391 was raised, net of issuance costs.

In 1998, the Company completed another round of private financing. A total of 2,553 shares of Series D preferred stock were issued for cash of $3.94 per share. A total of $9,108 was raised, net of issuance costs.

The rights, preferences, and privileges of the holders of Series A, B, C, and D preferred stock are as follows:

- The holders of Series A, B, C, and D preferred stock are entitled to receive dividends at the rate of $0.02, $0.08, $0.16, and $0.32 per share, respectively, per annum, payable when and as declared by the Company's Board of Directors, in preference and priority to any payments of dividends to holders of the Company's common stock. The dividend rights are not cumulative.

- Shares of Series A, B, C, and D preferred stock have a liquidation preference of $0.25, $1.00, $2.00, and $3.94 per share, respectively, plus any declared but unpaid dividends.

- Each holder of preferred stock has voting rights equal to common stock on an "as if converted" basis.

- Each share of preferred stock is convertible at any time into one share of common stock at the option of the holder, subject to adjustment. Each share of preferred stock automatically converts upon the closing of the sale of the Company's common stock in a public offering in

Packeteer, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 1996, 1997 AND 1998 (INFORMATION AS OF MARCH 31, 1999 AND FOR THE THREE-MONTHS ENDED MARCH 31, 1998 AND 1999 IS UNAUDITED) (IN THOUSANDS, EXCEPT PER SHARE DATA) 5. STOCKHOLDERS' EQUITY -- (CONTINUED) which the gross proceeds exceed $15,000 and the offering price equals or exceeds $3.75 per share for Series A, B, and C preferred stock, and $7.39 per share for Series D preferred stock.

(b) Common Stock

The Company is authorized to issue 40,000 shares of common stock.

In January 1996, the Company issued 640 shares in exchange for cash. In January 1996, the Company also issued 5,120 shares of common stock in exchange for certain personal property, which was recorded at estimated fair value of the property and is included in property and equipment on the accompanying balance sheets.

In July and August 1996, the Company issued 1,759 shares of common stock upon the exercise of stock options granted under the Company's 1996 Equity Incentive Plan (the Plan). Shares issued under the Plan are subject to repurchase as described below. Of the 1,759 shares issued upon the exercise of stock options, 1,280 shares were issued in conjunction with full recourse, promissory notes secured by the shares. Of the total purchase price, 10% was paid at the time of purchase. The remaining principal, which bears interest at 6.74%, is due annually in equal installments, plus interest, through 2006.

In December 1996, the Company repurchased 160 shares of common stock at $0.10 per share from a terminated employee in exchange for cash and forgiveness of a $4 promissory note.

During 1997, the Company issued 1,940 shares of common stock upon the exercise of stock options granted under the Company's 1996 Equity Incentive Plan (the Plan). Shares issued under the Plan are subject to repurchase as described below under Note (5)(c). Of the 1,940 shares issued upon the exercise of stock options in 1997, 1,840 shares were issued in conjunction with full recourse, promissory notes secured by the shares. Of the total purchase price, 10% was paid at the time of purchase. The remaining principal, which bears interest at 5.6% to 6.8%, is due in annual installments, plus interest, through 2002.

In October 1997, the Company repurchased 278 shares of common stock at $0.25 per share from two terminated employees in exchange for $4 in cash and forgiveness of a $3 promissory note.

In December 1997, the Company repurchased 40 shares of common stock at $0.10 per share from a terminated employee in exchange for cash and forgiveness of a $3 promissory note.

During 1998, the Company issued 1,048 shares of common stock upon the exercise of stock options and stock purchase rights. Of the 1,048 shares issued upon the exercise of stock options, 1,042 shares were issued in conjunction with full recourse, promissory notes secured by the shares. Of the total purchase price, 10% was paid at the time of purchase. The remaining principal, which bears interest at 5.5% to 6.5%, is due in annual installments, plus interest, through 2003.

During 1998, the Company granted rights to purchase 202 shares of common stock. These rights, which were not granted under the Plan, have exercise prices ranging from $0.25 to $3.50 per share.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 1996, 1997 AND 1998 (INFORMATION AS OF MARCH 31, 1999 AND FOR THE THREE-MONTHS ENDED MARCH 31, 1998 AND 1999 IS UNAUDITED) (IN THOUSANDS, EXCEPT PER SHARE DATA) 5. STOCKHOLDERS' EQUITY -- (CONTINUED) At the date of grant, the Company estimated the fair value of the rights to be $5 using the Black-Scholes model with the following assumptions: risk free interest rate of 4.5%; an expected life of four years; expected volatility of 50%; and no dividend.

During 1998, the Company repurchased 306 shares of common stock at $0.10 to $0.50 per share from terminated employees in exchange for $12 in cash and forgiveness of $52 in promissory notes.

(c) Equity Incentive Plan The Company has adopted the Plan in order to provide selected employees, directors, and consultants of the Company an opportunity to acquire the Company's common stock. The Plan provides for granting of incentive stock options, nonstatutory stock options, stock bonuses, and restricted stock purchase rights. The Plan is administered by the Board of Directors, which sets the terms and conditions of the options. Nonstatutory stock options and incentive stock options are exercisable at prices not less than 85% and 100%, respectively, of the fair value on the date of grant. The options become vested in increments over a four-year vesting period and expire at the end of 10 years from date of grant or sooner if terminated by the Board of Directors. The options may include a provision whereby the option holder may elect at any time to exercise the option prior to the full vesting of the option. Unvested shares so purchased shall be subject to a repurchase right by the Company at the original purchase price. Such right shall lapse at a rate equivalent to the vesting period of the original option. As of December 31, 1998, 2,010 shares were subject to repurchase. During 1997, the Board of Directors reserved 953 shares for issuance under the Plan, and 318 shares were made available through the repurchase of certain shares. In 1998, the Board of Directors reserved an additional 2,025 shares for issuance under the Plan, and 306 shares were made available through the repurchase of certain shares, as noted above.

Packeteer, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 1996, 1997 AND 1998 (INFORMATION AS OF MARCH 31, 1999 AND FOR THE THREE-MONTHS ENDED MARCH 31, 1998 AND 1999 IS UNAUDITED) (IN THOUSANDS, EXCEPT PER SHARE DATA) 5. STOCKHOLDERS' EQUITY -- (CONTINUED) A summary of stock option activity follows:

		OPTIONS OUTSTANDING	
	AVAILABLE FOR GRANT	NUMBER OF SHARES	WEIGHTED-AVERAGE EXERCISE PRICE
Shares made available for grant	3,440	--	$ --
Repurchased	160	--	--
Granted	(2,463)	2,463	0.05
Exercised	--	(1,759)	0.03
Balances as of December 31, 1996	1,137	704	0.10
Shares made available for grant	953	--	--
Repurchased	318	--	--

Granted	(2,480)	2,480	0.17
Exercised	--	(1,940)	0.13
Canceled	344	(344)	0.16
Balances as of December 31, 1997	272	900	0.22
Shares made available for grant	2,025	--	--
Repurchased	306	--	--
Granted	(1,300)	1,300	1.96
Exercised	--	(1,042)	0.59
Canceled	85	(85)	1.02
Balances as of December 31, 1998	1,388	1,073	1.90
Shares made available for grant (unaudited)	515	--	--
Repurchased (unaudited)	3	--	--
Granted (unaudited)	(1,280)	1,280	3.50
Exercised (unaudited)	--	(42)	3.35
Cancelled (unaudited)	1	(1)	0.25
Balances as of March 31, 1999	627	2,310	$2.76

The per share weighted-average fair value of stock options granted during 1996, 1997 and 1998 was $0.01, $0.04 and $0.90, respectively, on the date of grant using the minimum value method with the following weighted-average assumptions: risk free interest rate of 6.8%, 6.5% and 4.5% in 1996, 1997 and 1998, respectively; an expected life of four years; and no dividends.

Packeteer, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 1996, 1997 AND 1998 (INFORMATION AS OF MARCH 31, 1999 AND FOR THE THREE-MONTHS ENDED MARCH 31, 1998 AND 1999 IS UNAUDITED) (IN THOUSANDS, EXCEPT PER SHARE DATA) 5. STOCKHOLDERS' EQUITY -- (CONTINUED) The following table summarizes information about stock options outstanding under the Plan as of December 31, 1998:

	OPTIONS OUTSTANDING		
RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)	NUMBER VESTED
$0.10	128	7.94	57
0.25	182	8.73	48
0.50	77	9.15	--
1.50	148	9.36	--
2.50	163	9.54	--
3.50	375	9.77	--
	1,073		105

As of December 31, 1998, 105 options with a weighted-average exercise price of $0.17 were vested.

The weighted-average fair value of stock options granted during 1996, 1997 and 1998 with an exercise price equal to the fair value of the Company's common stock on the date of grant was $0.05, $0.17 and $0.73 per share. Stock options granted during 1998 with an exercise price below the deemed fair value of the Company's common stock on the date of grant had a weighted-average exercise price of $2.65 per share and a weighted-average fair value of $3.61 per share. In connection with options granted in fiscal year 1998 and during the three months ended March 31, 1999, the Company has recorded deferred stock-based compensation of $787 and $3,743 (unaudited), respectively, representing the difference between the exercise price and the fair value of the Company's common stock at the date of

grant. The amount is being amortized over the vesting period for the individual options. Amortization of stock-based compensation of $273 was recognized during the year ended December 31, 1998 and was $589 (unaudited) during the three months ended March 31, 1999.

Pursuant to SFAS No. 123, the Company is required to disclose the pro forma effects on the operating results of the Company as if the Company has elected to use the fair value approach to account for all its stock-based employee compensation plans. Had compensation costs for the Company's Plans been determined consistent with the fair value approach enumerated in SFAS

Packeteer, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 1996, 1997 AND 1998 (INFORMATION AS OF MARCH 31, 1999 AND FOR THE THREE-MONTHS ENDED MARCH 31, 1998 AND 1999 IS UNAUDITED) (IN THOUSANDS, EXCEPT PER SHARE DATA) 5. STOCKHOLDERS' EQUITY -- (CONTINUED) No. 123, net losses for the period from January 25, 1996 (inception) to December 31, 1996 and for the years ended December 31, 1997 and 1998 would have been as follows:

	PERIOD FROM JANUARY 25, 1996 TO DECEMBER 31, 1996	YEARS ENDED DECEMBER 31, 1997	1998
Net loss applicable to common stock as reported	$(1,237)	$(5,909)	$(8,799)
Pro forma net loss applicable to common stock	$(1,239)	$(5,934)	$(8,854)
Basic and diluted net loss per share as reported	$ (1.28)	$ (1.82)	$ (1.54)
Basic and diluted pro forma net loss per share	$ (1.28)	$ (1.82)	$ (1.55)

(d) Warrants

In June 1997, the Company issued a warrant in connection with a leasing agreement to purchase 42 shares of Series B preferred stock at $1.00 per share. The warrant is immediately exercisable and expires in June 2005. At the date of grant, the Company estimated the fair value of the warrant to be $26 using the Black-Scholes model with the following assumptions: risk free interest rate of 6%; an expected life of eight years; expected volatility of 50%; and no dividends.

In 1998, the Company issued a warrant in connection with a leasing agreement to purchase 16 shares of Series D preferred stock at $3.94 per share. The warrant is immediately exercisable and expires in June 2006. At the date of grant, the Company estimated the fair value of the warrant to be $38 using the Black-Scholes model with the following assumptions: risk free interest rate of 5%; an expected life of eight years; expected volatility of 50%; and no dividends.

6. Income Taxes

The difference between recorded income taxes and the "expected" tax benefit computed by apply the federal statutory income tax rate of 34% to pretax loss is due to the valuation allowance on

Packeteer, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 1996, 1997 AND 1998 (INFORMATION AS OF MARCH 31, 1999 AND FOR THE THREE-MONTHS ENDED MARCH 31, 1998 AND 1999 IS UNAUDITED) (IN THOUSANDS, EXCEPT PER SHARE DATA) 6. INCOME TAXES -- (CONTINUED) deferred tax assets. The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities as of December 31, 1997 and 1998, are presented below:

1997 1998

Deferred tax assets:		
Various accruals and reserves not deductible for tax purposes	$ 59	$ 264
Property and equipment	90	97
Net operating loss carryover	2,528	5,759
Research credit carryforwards	146	255
Capitalized start-up expenditures	376	315
Deferred stock-based compensation	--	215
Total deferred tax assets	3,199	6,905
Valuation allowance	(3,199)	(6,905)
Net deferred tax assets	$ --	$ --

As of December 31, 1998, the Company has net operating loss carryforwards for federal and California state income tax purposes of approximately $13,790 and $12,113, respectively. In addition, the Company had federal and state research credit carryforwards of approximately $142 and $112, respectively. The Company's federal net operating loss and research credit carryforwards will expire in the years 2010 through 2018, if not utilized. The Company's state net operating loss carryforwards will expire in the year 2004. The state research credit can be carried forward indefinitely.

Federal and state tax laws impose substantial restrictions on the utilization of net operating loss and tax credit carryforwards in the event of an "ownership change" as defined in Internal Revenue Code Section 382. The Company has not yet determined whether an ownership change has occurred.

7. 401(k) PLAN

In 1997, the Company adopted a 401(k) plan (the 401(k)). Participation in the 401(k) is available to all employees. Entry date to the 401(k) is the first day of each month. Each participant may elect to contribute an amount up to 20% of his or her annual base salary plus commission and bonus, but not to exceed the statutory limit as prescribed by the Internal Revenue Code. The Company may make discretionary contributions to the 401(k). To date, no contributions have been made by the Company.

8. Segment Reporting

The Company has adopted the provisions of SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." The Company's chief operating decision maker is considered to be the Company's CEO. The CEO reviews financial information presented on a consolidated basis substantially similar to the consolidated financial statements. Therefore, the Company has concluded

Packeteer, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 1996, 1997 AND 1998 (INFORMATION AS OF MARCH 31, 1999 AND FOR THE THREE-MONTHS ENDED MARCH 31, 1998 AND 1999 IS UNAUDITED) (IN THOUSANDS, EXCEPT PER SHARE DATA) 8. SEGMENT REPORTING -- (CONTINUED) that it operates in one segment and accordingly has provided only the required enterprise-wide disclosures.

The Company operates in the United States and internationally and derives its revenue from the sale of products and software licenses. In 1997 and 1998, the Company's sales, marketing, and development efforts have been focused on the PacketShaper family of products and PacketWise software. Sales outside of North America accounted for 59.9% and 54.7% of the Company's total revenues in 1997 and 1998, respectively.

Geographic Information

Years Ended December 31, 1997 1998

Total net revenues:		
North America	$ 566	$3,273
Asia Pacific	617	2,238
Europe and rest of world	230	1,719
Total net revenues	$1,413	$7,230

Total net revenues reflects the destination of the product shipped.

In 1997 and 1998, sales to Macnica, accounted for 14.2% and 11.9%, respectively, of the Company's total revenues. Also in 1997, sales to Nissho Electronics Corporation accounted for 10.4% of the Company's total revenues. No other single customer accounted for greater than 10% of the Company's total revenues in 1997 or 1998.

9. Subsequent Events

Revolving Loan Agreement In January 1999, the Company entered into a revolving loan agreement with a maximum line of $3,000. Advances are limited to the lesser of the maximum line or the borrowing base which is 80% of eligible receivables. The outstanding principal balance accrues interest

at a per annum rate equal to the prime rate and is secured by all present and future collateral of the Company.

Subordinated Loan Agreement Additionally, in January 1999, the Company entered into a subordinated loan agreement evidenced by a promissory note of $2,500, that is secured by the assets of the Company. The note has a stated interest rate of 12.25% and is payable in 36 monthly installments of various amounts with the final installment due on February 1, 2002. In connection with the note, the Company issued a warrant to purchase 98 shares of Series D preferred stock at $3.58 per share. The warrant is immediately exercisable and expires in January 2006. The Company estimated the fair value of the warrant on the

Packeteer, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 1996, 1997 AND 1998 (INFORMATION AS OF MARCH 31, 1999 AND FOR THE THREE-MONTHS ENDED MARCH 31, 1998 AND 1999 IS UNAUDITED) (IN THOUSANDS, EXCEPT PER SHARE DATA) 9. SUBSEQUENT EVENTS -- (CONTINUED) grant date to be $211 using the Black-Scholes model with the following assumptions: risk-free interest rate of 4.5%; an expected life of seven years; expected volatility of 50%; and no dividends. The Company will amortize the value to interest expense over the term of the note.

Initial Public Offering and Unaudited Pro Forma Consolidated Balance Sheet In May 1999, the Board of Directors authorized the filing of a registration statement with the SEC, that would permit the Company to sell shares of the Company's common stock in connection with a proposed IPO. If the offering is consummated under the terms presently anticipated, all of the outstanding shares of the Company's convertible preferred stock will automatically convert into shares of common stock upon closing of the proposed IPO. The conversion of the convertible preferred stock has been reflected in the accompanying unaudited pro forma consolidated balance sheet.

1999 Stock Incentive Plan In May 1999, the Company's Board of Directors approved the 1999 Stock Incentive Plan under which 900,000 shares have been reserved for issuance. In addition, any shares not issued under the 1996 Equity Incentive Plan will also be available for grant. The number of shares reserved under the 1999 Stock Incentive Plan will automatically increase annually beginning on January 1, 2000 by the lesser of 3,000,000 shares or 5% of the total number of shares of common stock outstanding. Under the 1999 Stock Incentive Plan, eligible individuals may be granted options to purchase common shares or may be issued shares of common stock directly.

1999 Employee Stock Purchase Plan The Company's Board of Directors adopted the 1999 Employee Stock Purchase Plan (the "Purchase Plan") in May 1999. The Purchase Plan is pending approval by the stockholders. A total of 500,000 shares have been reserved for issuance. The number of shares reserved will automatically increase annually beginning on January 1, 2000 by the lesser of 1,000,000 or 2% of the total number of common stock shares outstanding.

Description of Artwork

Inside Front Cover

The inside front cover of the prospectus contains five purple boxes on a background consisting of many lines of multi-colored text overlaid over itself. The background text is comprised of repeating names of different types of Internet traffic including Oracle, Voice Over IP, PointCast, Web Browsing, Lotus Notes, SNA and TN3270.

The boxes are staggered from top to bottom and contain the following questions from top to bottom: "You count on your network. Is it letting your applications down?"; "Is your network coping with the flood of Internet traffic?"; "What's running on your network today? Tomorrow?"; "Are users' tempers your only measure of response time?"; and "Applications drive your business. Shouldn't your network adapt to your applications?"

Inside Gatefold

Along the left side is a purple and black stripe which runs from the top to the bottom of the page vertically. Embedded in the stripe is a caption which reads "Case Study." Below such caption are four paragraphs, each following a separate subcaption, which read as follows: "Domino's Pizza. Domino's Pizza uses PacketShapers to protect its PeopleSoft supply-chain applications in nationwide distribution centers." "Hoechst Marion Roussel. When Hoechst Marion Roussel, one of the world's leading pharmaceutical firms, researched bandwidth-management solutions to control performance of SAP/R3 and Microsoft Exchange, chose Packeteer. PacketShaper detects and shelters SAP traffic and balances Exchange-related traffic for optimum performance." "Big Globe. Big Globe, a leading Japanese ISP owned by NEC, relies on PacketShaper to keep their customers up to speed. PacketShaper allocates a minimum rate to each subscriber to ensure timely response." "ADC Telecommunications. ADC Telecommunications embeds PacketWise software into their own ServicePoint(TM) products. Through ServicePoint, PacketWise enables service providers to offer differentiated managed services."

To the right of the case studies, at the top left of the Gateway, is the caption "4 Steps to Application-Adoptive Bandwidth Management" followed by "PacketShaper is an application-adoptive bandwidth-management solution that ensures mission-critical application performance over enterprise WANs and the Internet."

In the center of the Gateway is a circle consisting of four large arrows pointing in a clockwise direction. In the middle of the circle is a set of PacketShapers. Embedded in the stem of each arrow is one word reading as follows beginning with the arrow in the lower left section of the circle: "Report", "Classify", "Analyze" and "Control." Extending out from each arrow runs a line to a caption and a quotation. From the arrow embedded with the word "Report" is the caption, "Report on Performance" followed by the quotation, "PacketShaper told me Oracle's response time was over four seconds -- too slow. I set a two-second goal, brought performance within target, and track ongoing results." From the arrow embedded

with the word "Classify" is the caption, "Discover & Classify Traffic" followed by the quotation, "I denied that Real Audio was running on my network. Then PacketShaper set me straight." From the arrow embedded with the word, "Analyze" is the caption, "Analyze Network Behavior" followed by the quotation, "I didn't know that the file transfers and web browsing took 85 percent of my bandwidth. No wonder PacketShaper says my SAP and PeopleSoft response times are poor." From the arrow embedded with the word "Control" is the caption, "Control Bandwidth Allocation" followed by the quotation, "PacketShaper protects my Oracle and SNA applications from less urgent traffic. I can also ensure each voice stream gets the bandwidth it needs for a clear reception."

Below the circle are two cutaway diagrams of bandwidth cable. The left diagram, entitled "Before PacketShaper," illustrates how the use of bandwidth for "Web & FTP" traffic causes the performance of "Mission Critical Applications" to suffer. The right diagram, entitled "After PacketShaper," illustrates guaranteed bandwidth for Mission Critical Applications regardless of how heavy Web and FTP traffic is.

Along the right side of page is a purple and black stripe which runs from the top to the bottom of the page vertically. Embedded in the stripe is the caption "Market Opportunities" followed by three paragraphs which read as follows:

"Enterprise. PacketShaper keeps enterprise network managers informed and in control. Managers monitor application performance, evaluate network efficiency, and protect mission-critical applications with policy-based bandwidth allocation."

"Service Provider. In the face of heightened competition, service providers are seeking to differentiate themselves by offering such as web hosting, application outsourcing, and tiered service levels. These services require control over network and application performance. PacketShaper delivers control."

"OEM. OEM partners embed PacketWise software into their own products to deliver the bandwidth-management-intelligent analysis, sheltered application performance, and increased network efficiency."

Back Inside Cover

The back inside cover has a caption reading "Experience the Dividends of Predictable Performance." On the remainder of the page are four overlapping computer screenshots displaying various reports on Internet traffic produced by the PacketWise software.

Back Cover

Packeteer logo.

Diagram of Bottleneck Figure on Page 32 of Prospectus

A diagram entitled "Bandwidth Bottleneck" shows an hourglass shape lying on its side. On the left end of the diagram are wide lines which narrow into very thin lines through the center of the hourglass and then become wider again as the hourglass becomes wider to the right. Above the left end of the diagram is the caption "Enterprise Local Area Network" and below the diagram is the caption "10/100/1000 Ethernet Growing." Above the middle of the hourglass is the caption "WAN Access Link" and below is the caption "56K -- 1.5 Mbps." Above the right of the hourglass is the caption "Service Provider Backbone Network" and below is the caption "OC-3, OC-12, OC-192 & Growing."

Diagram of Network Topology Diagram on Page 37 of Prospectus

On the left are three pictures. The first two are computers with the captions "Web Server" and "File Server", respectively. The third is a cloud-like shape representing the "Enterprise Local Area Network." Lines from each of the above converge to a box to the right with the words "PacketShaper 2000" above it. To the right of the PacketShaper 2000, and connected by a line, is a circular depiction of a router entitled "Internet Access Router." To the right of the router and connected to it by a line is a cloud-shaped representation of the Internet. Running from the top of the Internet is a line connecting to another "Internet Access Router." Such line continues above the router to a box representing a "PacketShaper 4000." Splitting off from the PacketShaper 4000 are two lines, each running to a graphic depiction of a computer next to the caption "ISP Web Server Farm." Running from the cloud-like depiction of the Internet are four lines, each connected to a graphic depiction of a computer labeled, from top to bottom, as follows: "28.8 Modem Low-Speed User", "T-1 High-Speed User", "ISDN/xDSL Mid-Speed User" and "14.4 Modem Low-Speed User."

(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, other than underwriting discounts and commissions, payable by Packeteer in connection with the sale of Common Stock being registered. All amounts are estimates except the SEC registration fee and the NASD filing fees.

SEC Registration Fee	$ 15,346
NASD Filing Fee	6,020
Nasdaq National Market Listing Fee	66,710
Printing and Engraving Expenses	175,000
Legal Fees and Expenses of Packeteer	400,000
Accounting Fees and Expenses	350,000
Blue Sky Fees and Expenses	5,000
Transfer Agent Fees	8,000
Miscellaneous	23,924
Total	$1,050,000

Item 14. Indemnification of Directors and Officers

Section 145 of the Delaware General Corporation Law authorizes a court to award or a corporation's Board of Directors to grant indemnification 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"). Packeteer's Bylaws provide for mandatory indemnification of its directors and officers and permissible indemnification of employees and other agents to the maximum extent permitted by the Delaware General Corporation Law. Packeteer's Certificate of Incorporation provides that, subject to Delaware law, its directors shall not be personally liable for monetary damages for breach of the directors' fiduciary duty as directors to Packeteer and its stockholders. This provision in the Certificate of Incorporation does not eliminate the directors' fiduciary duty, and in appropriate circumstances equitable remedies such as injunctive or other forms of non-monetary relief will remain available under Delaware law. In addition, each director will continue to be subject to liability for breach of the director's duty of loyalty to Packeteer or its stockholders for acts or omissions not in good faith or involving intentional misconduct, for knowing violations of law, for actions leading to improper personal benefit to the director, and for payment of dividends or approval of stock repurchases or redemptions that are unlawful under Delaware law. The provision also does not affect a director's responsibilities under any other law, such as the federal securities laws or state or federal environmental laws. Packeteer has entered into indemnification agreements with its officers and directors, a form of which is filed as Exhibit 10 to this Registration Statement (the "Indemnification Agreements"). The Indemnification Agreements provide Packeteer's officers and directors with further indemnification to the maximum extent permitted by the Delaware General Corporation Law. Reference is also made to Section 6 of the Underwriting Agreement contained in Exhibit 1.1 hereto, indemnifying officers and directors of Packeteer against certain liabilities, and Section 3.7 of the Amended and Restated Investors' Rights Agreement contained in Exhibit 4.2 hereto, indemnifying certain of Packeteer's stockholders, including controlling stockholders, against certain liabilities.

Item 15. Recent Sales of Unregistered Securities

Since January 25, 1996, Packeteer has issued and sold the following securities:

1. Packeteer issued and sold 4,788,050 shares of its Common Stock to employees and consultants for an aggregate purchase price of $1,064,820 pursuant to the exercise of options under its 1996 Equity Incentive Plan (Exhibit 10.8).

2. On February 14, 1996 and April 26, 1996, Packeteer issued 2,800,000 shares of its Series A Preferred Stock, for an aggregate purchase price of $700,000 to several investors.

3. On September 12, 1996 and October 4, 1996, Packeteer issued and sold an aggregate of 4,821,860 shares of its Series B Preferred Stock for an aggregate purchase price of $4,821,860 to several investors.

4. On June 19, 1997 and July 18, 1997, Packeteer issued and sold an aggregate of 2,216,320 shares of its Series C Preferred Stock for an aggregate purchase price of $4,432,640 to several investors.

5. On April 16, 1998 and July 15, 1998, Packeteer issued and sold an aggregate of 2,552,821 shares of its Series D Preferred Stock for an aggregate purchase price of $10,058,115 to several investors.

6. On June 3, 1997, Packeteer issued warrants to purchase 42,000 shares of its Series B Preferred Stock, at an exercise price of $1.00 per share and on June 16, 1998 Packeteer issued warrants to purchase 15,863 shares of its Series D Preferred Stock, at an exercise price of $3.94 per share, to Comdisco Inc. in connection with an equipment leasing transaction.

7. On January 21, 1999, in connection with a subordinated loan and security agreement, Packeteer issued warrants to purchase 97,765 shares of its Series D Preferred Stock, at an exercise price of $3.58 per share, to Comdisco Inc.

8. Upon completion of initial public offering, Packeteer will issue warrants to purchase 45,000 shares of Series D Preferred Stock at an exercise price of $6.25 per share, to Meier Mitchell.

The issuances described in paragraph 1 were deemed exempt from registration under the Securities Act in reliance upon Rule 701 promulgated under the Securities Act. The issuances of the securities described in paragraphs 2 through 7 were deemed to be exempt from registration under the Act in reliance on Section 4(2) of the Act as transactions by an issuer not involving any public offering. In addition, the recipients of securities in each such transaction represented their intentions to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof and appropriate legends were affixed to the share certificates issued in such transactions. All recipients had adequate access, through their relationships with Packeteer, to information about Packeteer.

Item 16. Exhibits and Financial Statement Schedules

The exhibits and schedule listed in the Exhibit Index and Schedule are filed as part of this Registration Statement.

(a) EXHIBITS

Exhibit Number Exhibit Title

1.1	Form of Underwriting Agreement by and among the Registrant, BancBoston Robertson Stephens Inc., Bear, Stearns & Co. Inc. and Dain Rauscher Wessels, a division of Dain Rauscher Incorporated.
3.1	Registrant's Amended and Restated Certificate of Incorporation.
3.2	Registrant's Amended and Restated Bylaws.
4.1*	Form of Registrant's Specimen Common Stock Certificate.
4.2	Amended and Restated Investors' Rights Agreement, among the Registrant and the investors and founders named therein, dated as of April 16, 1998.
5.1*	Legal Opinion of Brobeck, Phleger & Harrison LLP, counsel for the Registrant.
10.1	Lease Agreement between Packeteer and Eldon R. Hoffman dated August 25, 1997.
10.2+	OEM Agreement between Packeteer and ADC Telecommunications, Inc., dated December 17, 1999
10.3+	Reseller Agreement between Packeteer and Alcatel Business Systems, dated May 7, 1999.
10.4	Loan and Security Agreement between Packeteer and Silicon Valley Bank, dated January 1, 1999.
10.5	Export-Import Bank Loan and Security Agreement between Packeteer and Silicon Valley Bank, dated January 19, 1999.
10.6	Subordinated Loan and Security Agreement between Packeteer and Comdisco, Inc., dated January 21, 1999.
10.7	Master Lease Agreement between Packeteer and Comdisco, Inc., dated June 3, 1997.
10.8	Registrant's 1996 Equity Incentive Plan.
10.9	Registrant's 1999 Stock Incentive Plan.
10.10	Registrant's 1999 Employee Stock Purchase Plan.
10.11	Form of Indemnity Agreement entered into by Registrant with each of its executive officers and directors.
21.1	Subsidiaries.
23.1	Independent Auditors' Consent and Report on Schedule.
23.2	Consent of Counsel (see Exhibit 5.1).
24.1	Power of Attorney.
27.1	Financial Data Schedule.

* To be filed by amendment.

+ Confidential treatment has been requested as to portions of this exhibit.

(b) SCHEDULES

Schedule II -- Valuation and Qualifying Accounts and Reserves

Item 17. Undertakings

Packeteer hereby undertakes to provide to the Underwriters at the closing specified in the Underwriting Agreement, certificates in such denominations and registered in such names as required by the Underwriters to permit prompt delivery to each purchaser.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of Packeteer pursuant to the Delaware General Corporation Law, the Certificate of Incorporation or the Bylaws of Packeteer, Indemnification Agreements entered into

between Packeteer and its officers and directors, the Underwriting Agreement, or otherwise, Packeteer 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 Packeteer of expenses incurred or paid by a director, officer, or controlling person of Packeteer 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 hereunder, Packeteer 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 of 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:

(1) For purposes of determining any liability under the Securities Act of 1933, 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 Packeteer 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; and (2) For the purpose of determining any liability under the Securities Act of 1933, 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.

Packeteer, Inc. and Subsidiaries

SCHEDULE II -- VALUATION AND QUALIFYING ACCOUNTS AND RESERVES PERIOD FROM JANUARY 25, 1996 (INCEPTION) TO DECEMBER 31, 1996 AND FOR THE YEARS ENDED DECEMBER 31, 1997 AND 1998 (IN THOUSANDS)

	BALANCE AT BEGINNING OF PERIOD	ADDITIONS CHARGED TO COSTS AND EXPENSES	DEDUCTIONS	BALANCE AT END OF PERIOD
1996				
Accounts Receivable Allowances	$--	$ --	$ --	$ --
Warranty Reserve	--	--	--	--
1997				
Accounts Receivable Allowances	--	37	--	37
Warranty Reserve	--	32	--	32
1998				
Accounts Receivable Allowances	37	305	(49)	293
Warranty Reserve	32	85	(41)	76

Signatures

Pursuant to the requirements of the Securities Act of 1933, as amended, the Registrant certifies that it has reasonable grounds to believe that it meets all the requirements for filing on Form S-1 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Cupertino, State of California, on this 21st day of May, 1999.

Packeteer, Inc.

By: /s/ CRAIG ELLIOTT Craig Elliott President and Chief Executive Officer

Power of Attorney

KNOW TO ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints, jointly and severally, Craig Elliott and David Yntema, and each one of them, his true and lawful attorneys-in-fact and agents, each with full power of substitution for him or her and in his or her 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 this Registration Statement that is to be effective upon filing pursuant to Rule 462(b) promulgated under the Securities Act of 1933, as amended, 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 that each of 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 by virtue hereof.

IN WITNESS WHEREOF, each of the undersigned has executed this Power of Attorney as of the date indicated.

Pursuant to the requirements of the Securities Act of 1933, as amended, this Registration Statement has been signed by the persons whose signatures appear below, which persons have signed such Registration Statement in the capacities and on the dates indicated:

Signature Title Date

/s/ CRAIG ELLIOTT - ---------- Craig Elliott	President and Chief Executive Officer (Principal Executive Officer and Director)	May 21, 1999
/s/ DAVID YNTEMA - ---------- David Yntema	Chief Financial Officer and Secretary (Principal Financial and Accounting Officer)	May 21, 1999

/s/ ROBERT PACKER Robert Packer	Chief Technical Officer, Vice President, Engineering and Director	May 21, 1999

Signature Title Date

/s/ BRETT GALLOWAY Brett Galloway	Chief Operating Officer and Director	May 21, 1999

/s/ STEVEN CAMPBELL Director May 21, 1999 Steven Campbell /s/ JOSEPH GRAZIANO Director May 21, 1999 Joseph Graziano /s/ PETER MORRIS Director May 21, 1999 Peter Morris /s/ WILLIAM STENSRUD Director May 21, 1999 William Stensrud

Exhibit Index

Exhibit Number Exhibit Title

1.1	Form of Underwriting Agreement by and among the Registrant, BancBoston Robertson Stephens Inc., Bear, Stearns & Co. Inc. and Dain Rauscher Wessels, a division of Dain Rauscher Incorporated.
3.1	Registrant's Amended and Restated Certificate of Incorporation.
3.2	Registrant's Amended and Restated Bylaws.
4.1*	Form of Registrant's Specimen Common Stock Certificate.
4.2	Amended and Restated Investors' Rights Agreement, among the Registrant and the investors and founders named therein, dated July 15, 1998.
5.1*	Legal Opinion of Brobeck, Phleger & Harrison LLP, counsel for the Registrant.
10.1	Lease Agreement between Packeteer and Eldon R. Hoffman dated August 25, 1997.
10.2+	OEM Agreement between Packeteer and ADC Telecommunications, Inc., dated December 17, 1998.
10.3+	Reseller Agreement between Packeteer and Alcatel Business Systems, dated May 7, 1999.
10.4	Loan and Security Agreement between Packeteer and Silicon Valley Bank, dated January 1, 1999.
10.5	Export-Import Bank Loan and Security Agreement between Packeteer and Silicon Valley Bank, dated January 19, 1999.
10.6	Subordinated Loan and Security Agreement between Packeteer and Comdisco, Inc., dated January 21, 1999.
10.7	Master Lease Agreement between Packeteer and Comdisco, Inc., dated June 3, 1997.
10.8	Registrant's 1996 Equity Incentive Plan.
10.9	Registrant's 1999 Stock Incentive Plan.
10.10	Registrant's 1999 Employee Stock Purchase Plan.
10.11	Form of Indemnification Agreement entered into by Registrant with each of its executive officers and directors.
21.1	Subsidiaries.
23.1	Independent Auditors' Consent and Report on Schedule.
23.2	Consent of Counsel (see Exhibit 5.1).
24.1	Power of Attorney (see page II-6).
27.1	Financial Data Schedule.

* To be filed by amendment.

+ Confidential treatment has been requested as to portions of this exhibit. </TEXT>