

The Packeteer Q2 2007 Financial Conference Call
July 19, 2007

2:00pm PDT

AGENDA

Thank you. David Yntema will begin today's call with a summary of Packeteer's financial results for the second quarter 2007. Dave Côté, our President and CEO will follow this summary with an overview of our business. At the conclusion of these presentations, there will be an opportunity for questions.

Today's call is being recorded. A replay of this call, along with management's script, can be accessed on Packeteer's website.

FORWARD LOOKING STATEMENT

During the course of this conference call, we will discuss with you some of the factors we currently anticipate may influence our results going forward. These forward-looking statements include express or implied statements regarding future operating results and business developments based on limited information available to us now, which is subject to change. Actual results may differ materially from those stated or implied by the forward-looking statements we may make today. Such statements are subject to risks and uncertainties, including the risks described in the press release announcing this call and the risks discussed in the Risk Factors section of our 10-K filed with the Securities and Exchange Commission on March 16, 2007, and our 10-Q's and other reports filed with the SEC from time to time.

REGULATION G DISCLOSURE

We will be using non-GAAP financial measures in this conference call, which exclude the amortization of purchased intangible assets, in-process research and development and stock-based compensation from acquisitions, and the expensing of stock based-compensation required by FAS 123R, partially offset by the tax effect of these items. For a detailed reconciliation of these financial measures, please see our website at www.packeteer.com under Company – Investors – Conference Calls. In accordance with SEC guidelines, the presentation of non-GAAP financial measures should not be

considered in isolation, or as a substitute for the Company's financial results prepared in accordance with GAAP.

SECOND QUARTER 2007 HIGHLIGHTS

STATEMENT OF OPERATIONS / DAVID YNTEMA

Thank you Bradley and thank you all for joining our second quarter 2007 earnings call.

For the second quarter 2007, net revenues were \$32.4 million which represented a sequential decrease from the first quarter 2007 of approximately 7% and a 5 % decrease from Q206.

The Americas net revenues were 51% of total net revenues for the second quarter of 2007, up from 47% of total net revenues in the first quarter of 2007. Europe net revenues were 30% of total net revenues for the second quarter up from 29% of net revenues in the first quarter of 2007. Asia-Pacific net revenues were 19% of total net revenues for the second quarter down from 24% in the first quarter of 2007.

Our top 10 customers accounted for 79% of total net revenues in the second quarter 2007, compared with 77% in first quarter 2007. Our largest distributor in the U.S., Alternative Technology, accounted for 31% of total net revenues in the second quarter compared with 26% in the first quarter of 2007.

Westcon, a distribution partner in North America and Europe, accounted for 16% of total net revenues in the second quarter 2007, compared with 17% in the first quarter of 2007. No other customer accounted for more than 10% of total net revenues in the second quarter 2007.

As you are aware, we experienced significant revenue and earnings shortfalls in the first and second quarters of 2007. We believe these shortfalls are in large part the result of a changing and increasingly competitive environment. In addition, we are also experiencing some internal product transition issues associated with our greater focus on acceleration related technologies and new product introductions. The focus has led to important improvements recently introduced in the iShared

products, an acceleration module available on the PacketShaper products and of course the recently introduced iShaper.

All remaining commentary in this script regarding income statement margins, costs, and absolute profits will refer to non-GAAP results. These non-GAAP results exclude the effects of stock-based compensation from acquisitions, the expensing of stock-based compensation, the amortization of purchased intangible assets, and the one time write off of in-process R&D associated with acquisitions.

Gross profit margins were 72% of revenues in the second quarter of 2007, compared with 68% in the first quarter 2007. The higher gross margins were the result of a more favorable product mix, and to a lesser extent, lower overhead costs.

Research and Development expenses in the second quarter were \$8.6 million or 27% of revenues compared with \$8.1 million or 23% of revenues in the first quarter 2007. The increase was primarily driven by product development costs including prototype and beta units.

Sales and Marketing expenses in the second quarter were \$15.4 million or 47% of revenues compared with \$16.0 million or 46% of revenues in the first quarter of 2007. Sales and Marketing expenses declined primarily due to decreased commissions and bonuses.

General and Administrative expenses in the second quarter were \$3.7 million or 11% of revenues compared with \$3.3 million or 10% of revenues in the first quarter of 2007.

The operating loss for the second quarter was \$4.3 million or 11% of net revenue compared with an operating loss of \$3.6 million or 10% of revenues in the first quarter of 2007. Other Income (net) for the second quarter 2007 was \$865,000, compared with \$832,000 in the first quarter 2007.

The net loss was \$2.9 million, or \$(0.08) per diluted share for the second quarter 2007 compared with a net loss of \$3.1 million, or \$(0.09) per diluted share for the first quarter 2007.

Total headcount was 456 at June 30, 2007, compared to 455 at March 31, 2007.

Total cash, comprised of cash, cash equivalents and investments, was \$81.3 million at June 30, 2007 compared with \$84.1 million at March 31, 2007. The decrease in cash is due primarily to increased inventory. Trade receivables of \$24.1 million at June 30, 2007 resulted in approximately 67 days sales outstanding, compared to \$24 million or 62 days reported at March 31, 2007. The increase in DSO was primarily related to the increases in our deferred revenue balances.

Our reported inventories, which are primarily comprised of finished goods, were \$9.2 million at June 30, 2007, compared to \$6 million at March 31, 2007, directly as a result of the substantially lower reported revenues in the first two quarters of 2007.

I'll now turn the call over to our CEO, Dave Côté, for some specific comments on the state of our business. Dave.

Dave Côté, CEO

Thank you David and thank you all for joining us today. Our second quarter of 2007 was extremely disappointing and well below our expectations. For the second quarter in a row, our revenues and operating income came in well below our targets and we saw particular weakness in the Americas and EMEA respectively representing 51% and 30% of our revenues for the quarter. Our Asia Pacific business represented 19% of revenues in the second quarter reflecting a more seasonally weak quarter in Japan.

One important bright spot in a disappointing quarter was acceleration revenue which represented 32% of total revenue in Q207, up from 23% of total revenue in Q107, which represents 30% growth quarter over quarter. Just as a reminder, acceleration revenue includes iShapers, iShared, SkyX, and PacketShapers with acceleration technologies, so is reflective of all revenue with an acceleration component.

Contributing to our miss in the second quarter is today's changing and increasingly competitive environment. In addition, we are also experiencing some internal product transition issues associated with our greater focus on acceleration related technologies and new product introductions – specifically noted are the important improvements recently introduced in the

iShared products, the acceleration module available on the PacketShaper products and of course the recently introduced iShaper.

We believe that the introduction of iShaper changes the landscape for us, by greatly simplifying our messaging in the market. We have a product that brings together the most comprehensive solution for the delivery of all applications to the enterprise. While we believe that the iShaper represents a significant advancement in the industry, the market remains a more competitive environment, and our focus on ramping iShaper in Q3 is critical to rebuilding our momentum.

We are generally very pleased with the launch of iShaper. We were able to complete our Beta period and even managed to ship several hundreds of thousands of dollars in iShaper product at the end of the quarter. We are encouraged by the initial interest and acceptance of iShaper, but recognize there is work ahead to build the pipeline for revenue opportunities.

While the delay of our return to growth and profitability has been frustrating, we believe the release of iShaper and other important steps we took in the second quarter will enable us to return to growth in the second half of 2007.

iShaper is the industry's first unified branch office appliance, combining application visibility, intelligent acceleration, QoS and native compatibility with Microsoft application services, bringing together functionality from both PacketShaper and iShared technologies. With the introduction of iShaper, we recognize our vision of extending an intelligent WAN overlay for application performance to the branch office. iShaper began shipping for revenue in the last week of the second quarter and is off to an impressive start. We are beginning to see a healthy pipeline for iShaper driven by customer demand for application visibility, security, control, and acceleration, as well as the full-suite of Microsoft branch services.

In fact, shortly after our announcement, leading worldwide research firm IDC issued an "Event Flash" titled "Microsoft Reaches Out to the Branch with Packeteer" that summarizes the market significance of our announcement. IDC recognized the new iShaper appliance as the first "comprehensive Windows-based WAN application delivery appliance out in the branch office."

Initial customer feedback is very positive and reinforces our confidence in iShaper as the best solution to address server and storage consolidation concerns.

For example, in early June one of our new iShaper customers, a large, multinational technology conglomerate with 20 branch offices was looking to consolidate all of its data into three core sites. This customer was ready to purchase and begin deployment of one of our competitor's acceleration-only products in 5 locations – but when the company saw our May iShaper announcement with Microsoft and learned it could have PacketShaper functionality, iShared functionality as well as the full fidelity Microsoft services in one device, it decided to look more closely at iShaper. In this account the customer recognized that iShaper is the only solution that can provide secure, fast, remote access to CIFS file shares and other business critical applications – and the only product offering detailed application monitoring and QoS and native compatibility with Microsoft branch services.

Additionally, like many large companies working to advance their IT infrastructures for improved return on investment and total cost of ownership, this customer is in the early stages of rolling out VOIP across the enterprise, and migrating to MPLS. With these imminent enhancements to their infrastructure, this customer welcomed the opportunity to commence a partnership with Packeteer - the only WAN optimization vendor with functionality to address all of their applications from transactions to files and VoIP to Video over IP, all while protecting their most important applications from problem traffic and congestion.

iShaper builds on our existing partnership with Microsoft highlighting our successful collaboration in engineering and marketing. Microsoft chose Packeteer as a partner because it recognizes us as the leading vendor of Wide Area Network optimization, application visibility and prioritization technologies. We welcome the opportunity to work with Microsoft to make computing faster, more secure and more cost-effectively managed in branch office locations.

Along with our launch we held iShaper training seminars at our May and June channel partner meetings in Asia Pacific, EMEA and the Americas - and this quarter we have rolled out an aggressive iShaper training plan

providing our partners with direct-touch iShaper sales training, sales tools, and a centralized iShaper web portal.

Additionally, we are launching a major marketing initiative aimed at building awareness and demand for iShaper worldwide. It will include programs aimed at our PacketShaper installed base and new prospects, as well as increased collaboration with Microsoft in delivering seminars and channel programs, all aimed at building the pipeline for iShaper opportunities.

iShaper is the first of several important new additions to our product suite, and in the second half of 2007 we will roll out more products that build on and create new demand for Packeteer's intelligent WAN application delivery and WAN optimization technologies.

I would like to highlight three important themes for new product areas we will introduce in the second half of 2007 including:

- A new, high performance, multi-gigabit architecture
- A new management framework
- And an enhanced Mobiliti solution for client-side optimization and back-up

These important new product areas compliment the significant benefits of iShaper for branch office consolidation by improving core data center scalability and performance, the management of larger, more diverse systems, and the delivery of client-based services to extend the reach of Packeteer technology beyond the branch and to the mobile user.

An interesting note on our Mobiliti product is that Acer announced its new TravelMate 3G laptops for mobile users in France, which will ship with Packeteer's Mobiliti software.

Before I close, I'll provide several of the metrics you are used to hearing about.

In the second quarter, there were ~50 deals over \$100K with an average deal size over \$175K. This was up from ~45 deals greater than \$100K in the prior quarter - Q1 2007, as well as ~45 in the year ago quarter, Q2 2006.

In Q2, more than 60% of PacketShaper product revenue came from core units with the balance from edge units. The unit split was approximately 75/25 - edge to core units.

New customers in the second quarter include EaglePicher, Merrick and Company, Paul Steelman Design Group, Brigham Young University, and Westjet Airline. Others continued global and large-scale deployments including the US Department of Homeland Security, Logitech, Glaxo Smith Kline and the Post Office of Japan.

With a disappointing first half of 2007 behind us, we believe we have a better understanding of the challenges we have faced and where we need to focus our efforts to return to growth and profitability. The second quarter represented an important new product quarter for us as we successfully launched the iShaper and we are better positioned to compete effectively in the growth of this market.

With the release of iShaper, and a combination of strong training programs for our field sales organization and our partners, coupled with aggressive marketing programs to drive demand, we believe Packeteer is in a better position than ever to leverage its core strengths – our breadth and depth of technology for deep application visibility, secure QoS, and acceleration; our time to market lead with the first Windows based branch office solution and our relationship with Microsoft, as well as a loyal installed base, and a well established network channel.

We believe we have identified the necessary steps to stabilize the business and are taking appropriate action. We are encouraged by the growth of our acceleration products. We have a stronger and more cohesive product suite to deliver to the market, and we will continue to add new products in the second half of 2007.

We recognize that we have not delivered in the first half of this year. While our primary goal is to execute our business and deliver value to our customers, we also recognize that we need to perform and deliver value to our shareholders. We believe these goals are completely congruent, and that rebuilding our momentum in the marketplace represents the right goal for delivering value to our shareholders, and that is our only focus as we enter the second half of 2007.

Once again, thank you for your time. Now I'm going to turn the call back to David Yntema for Q&A...

DAVID YNTEMA

Before we start Q&A, I wanted to address a couple of other issues. First, guidance. Given the transition issues that we have discussed, we have less visibility for the next couple of quarters and as a result have determined to suspend providing guidance at this time. Nonetheless, we did want to note that given our recent performance, we intend to balance carefully our need to make prudent investments with the need to control expenses. We plan to aggressively invest in the ongoing launch of IShaper as well as our other product development initiatives. We must invest to take advantage of the growing market opportunities. However, at the same time, until we regain our revenue growth momentum, we will carefully monitor and limit non-essential expenses.

I also wanted to address the IRS dispute that we recently announced. There has been a lot of misinformation communicated about this matter. However, I want to re-emphasize that we strongly believe that our position is correct. Moreover, we believe that we have ample reserves to address these claims. Finally, we also have substantial NOLs available which are available to help settle this matter. Bottom line is that other than some incremental G&A expenses associated with the defense of the matter, we do not expect any meaningful adverse cash impact from this.