

The Packeteer Q3 2007 Financial Conference Call
October 18, 2007

2:00pm PDT

AGENDA

Thank you. David Yntema will begin today's call with a summary of Packeteer's financial results for the third 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

During this conference call, we will be using non-GAAP financial results that 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 results should not be

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

THIRD QUARTER 2007 HIGHLIGHTS

STATEMENT OF OPERATIONS / DAVID YNTEMA

Thank you, Bradley.

For the third quarter 2007, net revenues were \$36.4 million which represented a sequential increase from the second quarter 2007 of approximately 12%. For the nine months ended September 30, 2007, revenues of \$103.6 million represented an increase of approximately 1% from the similar period in 2006.

The Americas net revenues were down 41% of total net revenues for the third quarter of 2007, although the results from the first nine months of 2007 were a more normal 46%. Europe net revenues were 28% of total net revenues for the third quarter, close to the 29% of net revenues recorded for the first nine months of 2007. Asia-Pacific net revenues were strong at 31% of total net revenues for the third quarter compared with 25% in the first nine months of 2007.

Our top 10 customers accounted for 72% of total net revenues in the third quarter 2007, compared with 79% in second quarter 2007. Our largest distributor in the U.S., Alternative Technology, accounted for 22% of total net revenues in the third quarter similar to the 23% for the full year 2006. Westcon, a distribution partner in North America and Europe, accounted for 16% of total net revenues in the third quarter 2007, slightly lower than the 18% for the full year 2006. No other customer accounted for more than 10% of total net revenues in the third quarter 2007.

All remaining commentary in this script regarding income statement margins, costs, and absolute profits will refer to non-GAAP results, which was defined earlier in this conference call.

Gross profit margins were 70.5% of revenues in the third quarter of 2007, compared with 72% reported in the second quarter 2007. The quarterly reduction in gross margins resulted from a third quarter reserve for excess inventory for selected products, of approximately \$900,000 as we were not

able to fully adjust our product build plans during the past nine months in relation to our lower revenue run rates. We believe that our current build commitments and inventory levels are more closely tied to likely future revenues, and expect that at some future point we will be able to use this currently defined excess inventory.

Research and Development expenses in the third quarter were \$8.1 million or 22% of revenues compared with \$8.6 million or 27% of revenues in the second quarter 2007. The decrease was primarily the result of lower product development costs including lower prototype and beta unit costs incurred in the third quarter.

Sales and Marketing expenses in the third quarter were \$14.5 million or 40% of revenues compared with \$15.4 million or 47% of revenues in the second quarter of 2007. Sales and Marketing expenses declined primarily due to reduced expenses in existing marketing programs reflecting the impact of leadership changes and revisions to existing programs to make them more effective in support of our sales efforts.

General and Administrative expenses in the third quarter were \$3.2 million or 9% of revenues compared with \$3.7 million or 11% of revenues in the second quarter of 2007. The reduction in expenses primarily reflected reductions in professional fees.

The operating loss for the third quarter was \$240,000 compared with an operating loss of \$4.2 million or 13% of revenues in the second quarter of 2007. We are very pleased to report a net profit of \$682,000, or \$0.02 per diluted share for the third quarter 2007 compared with a net loss of \$2.9 million, or \$(0.08) per diluted share for the second quarter 2007.

Total headcount was 456 at September 30, 2007, nearly identical to the totals for the past couple of quarters.

Total cash, comprised of cash, cash equivalents and investments, was \$79.7 million at September 30, 2007 compared with \$81.4 million at June 30, 2007. The decrease in cash is due primarily to several decreased liability balances partially offset by lower receivable balances. Trade receivables of \$21.8 million at September 30, 2007 resulted in approximately 55 days sales outstanding, compared to \$24.1 million or 67 days reported at June 30, 2007.

Our reported inventories, which are primarily comprised of finished goods, were \$8.5 million at September 30, 2007, compared to \$9.2 million at June 30, 2007, primarily due to increased excess inventory reserves.

Finally, although we have been able to report higher revenues and substantially improved operating results in the third quarter, our visibility remains constrained as we continue to successfully navigate our way through the previously discussed Packeteer product transitions. Similar to our comments at the completion of the second quarter, we do not plan to provide any additional guidance at this time.

Nevertheless, as we continue to drive to once again deliver accelerating revenue growth rates on a consistent basis, we intend to balance carefully our need to make prudent investments with the need to control expenses. During the fourth quarter, we plan to significantly increase our investments in our sales and marketing initiatives, as well as our ongoing new product development programs to take advantage of our growing market opportunities. However, at the same time, until we regain our revenue growth momentum, we will continue to carefully monitor and limit lower priority expenses.

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. We are encouraged by the significant improvement in our operating results during the third quarter which we believe indicates a stabilization of our business. We are still in the midst of the iShaper product rollout, and have a number of additional new products in the immediate pipeline. As a result, we will continue to invest in the development and launch of those products. However, we will also continue to monitor and limit lower priority expenses until we regain our expected revenue growth.

We saw significant growth in our Asia business which represented 31% of revenues. EMEA was more balanced at 28% of revenues and the Americas represented 41% of revenues for the quarter which was down as a percentage from Q2 of 2007.

Acceleration revenue represented approximately 40% of total product revenue in Q307. Acceleration revenue includes iShapers, iShared, SkyX, and PacketShapers with acceleration technologies, so is reflective of all revenue with an acceleration component.

This year we have pointed to a changing and increasingly competitive landscape. More vendors are claiming to have WAN Optimization solutions and while we view this as a clear validation of the large and growing market opportunity before us, this dynamic creates a higher level of confusion and longer sales cycles.

The introduction of iShaper has significantly improved our position in today's competitive landscape. iShaper delivers very competitive acceleration features but adds important functionality to deliver application performance for all enterprise applications – voice, video, and transactions, not just file-based applications, as well as key Microsoft branch services to deliver the most complete branch consolidation platform in the industry. iShaper also greatly simplifies our messaging in the market – bringing together the most comprehensive solution for the delivery of all applications to the enterprise. We saw strong evidence of this in the third quarter as iShaper opened up more opportunities for us – both for iShaper and our other products. We have over 60 evaluations and proof of concepts underway with iShaper. The deals in the quarter that resulted from these efforts generated iShaper revenue but perhaps more importantly the iShaper opened more doors for us, some of which were better served with PacketShapers, iShared, or a combination of both. It is for this reason that we report acceleration revenue as the best metric for our growing success in the WAN Optimization market. iShaper is a platform from which we can more effectively sell our greater value proposition and gain access to a larger percentage of opportunities.

For example, after evaluating the iShaper platform, Coogee Resources, an Australian offshore oil and gas producer, deployed iShaper, iShared and PacketShaper solutions to ensure sustainable performance levels of critical business applications, backups, voice over IP and videoconferencing across its offshore satellite and remote office network.

The company's remote iShaper devices now connect with PacketShaper and iShared devices at Coogee's head office via satellite and wireless network links. This enables the acceleration and prioritization of individual business

applications and file services across the company's entire wide area network (WAN). With these solutions, Coogee Resources is also able to maintain the optimal performance of bandwidth-intensive applications such as videoconferencing, while ensuring that other business-critical applications are always available.

Another third quarter iShaper customer, a large architecture firm, was looking to consolidate servers and storage across its enterprise while prioritizing QoS for its mission critical VOIP and video applications.

Through the evaluation process, this customer recognized that with iShaper it could centralize all of its data for greater protection and ease of management, accelerate and optimize large AutoCad files between all remote offices and maintain access to the full fidelity of Microsoft services from one appliance.

With iShaper deployments in seven of its remote offices, this customer is recognizing a significant reduction in operating expenses associated with its storage and server consolidation while ensuring QoS for VOIP and video applications.

Evident by recent third party studies and independent testing, iShaper is quickly gaining recognition as the leading WAN optimization solution for Network Visibility, Application Optimization and Centralized Management for Multi-Branch Deployments. In a recent study Miercom Independent Testing Labs verified key advantages of the iShaper appliance including

- Deep visibility into traffic flows
- Easy to apply QoS to guarantee critical traffic such as VoIP
- Integrated Microsoft services such as print, SMS, domain controller, (DNS & DHCP)
- Centralized management for multi-branch deployments

The report also closely examines some of iShaper's performance advantages around acceleration and caching and reveals:

- iShaper's CIFS Acceleration offers up to 95% Improvement in file access performance over the WAN.

- iShaper's Wide Dictionary Caching provides customers with a 75% to 99% improvement on the cold hit and up to 99% Improvement on a warm hit.
- And in a Microsoft Exchange environment, iShaper provides customers with as much as 60% Acceleration in response time for initial file requests and greater than 75% Bandwidth Reductions during subsequent downloads.

This report provided conclusive evidence that Packeteer's acceleration results are comparable or better than other acceleration technologies in the market today.

This recognition is particularly relevant as CIFS, TCP and HTTP acceleration along with caching are key components of today's new competitive environment. While we view acceleration and caching as only a portion of a much broader opportunity to offer intelligent WAN application delivery solutions, our ability to offer "as good as, or better" acceleration and caching enables us to showcase the importance of our unique, advanced capabilities such as deep packet inspection and automatic application classification, detailed monitoring and statistics for all applications, as well as secure, and highly granular QoS that provides customers strategic, long term solutions to maximize the Return On Investment for applications being delivered across their wide area networks.

In another independent study, Internet Research Group (IRG) concluded that today's distributed enterprise branch office application delivery and optimization solutions must provide visibility into multiple classes of application traffic as well as the ability to optimize or accelerate not just file traffic but voice, video and transactional applications.

The study also recognizes Microsoft integration in WAN optimization appliances as a critical aspect of branch office solutions noting the widespread use of Microsoft platforms and applications and Microsoft's ongoing and increasing efforts to provide optimization and acceleration in the Branch office.

iShaper delivers the complete solution for the branch office by leveraging Packeteer's 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 channel. iShaper changes the landscape for us, delivering the performance our customers need in a solution that enables the delivery of all enterprise applications.

Both the Miercom and IRG studies are posted on our website.

As I mentioned above, there were a number of standalone PacketShaper and iShared installations as well. For example, long time customer Tec Engineering, a business unit of Toshiba Tec Corporation expanded its deployment of PacketShaper appliances in conjunction with a new rollout of iShared devices for better bandwidth utilization and to consolidate its two corporate datacenters. The company is also preparing to deploy iShapers.

Tec Engineering originally deployed a PacketShaper for real-time bandwidth utilization monitoring of its corporate network. After learning about additional traffic acceleration and compression features in the PacketShaper, the company began a phased deployment throughout its entire enterprise network – and can now quickly identify the cause of application performance problems anywhere in the network with a significantly reduced cost of WAN services.

Another customer, ROEL Construction, is deploying PacketShapers and iShares throughout its network as it consolidates remote servers into a centralized datacenter. ROEL has noted that this deployment will dramatically improve application performance and eliminate the need for costly WAN link upgrades and has cited an immediate improvement in throughput when traffic shaping rules were applied.

With iShared's combination of WAFS acceleration, application-intelligent caching, a distributed file system and single-instance storage, and dictionary-based compression, ROEL has centralized its network architecture and eliminated the need for servers at remote offices.

As you may have seen in our press release, we recently announced the appointment of Raymond Smets as vice president of worldwide sales and marketing. Ray will lead our global sales and marketing teams and brings seasoned experience from both the enterprise and telecom networking industries in sales, marketing, product and corporate development. We are

pleased that we have found a high quality individual like Ray to head up our sales and marketing organizations.

We also announced the appointment of David Winikoff as vice president of product management. In this newly created position reporting to me, Dave will bring together product management and product marketing efforts across all of our product lines. Dave's broad experience in communications and networking will help us to bring the next generation of Packeteer products to market with a strong competitive advantage.

We are very pleased with our new leadership in sales and marketing, and product management and believe these strategic hires will help us to strengthen the messaging around our leading value proposition and better penetrate our existing customer base as well as "Greenfield" customer opportunities.

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

In the third quarter, there were 45 deals over \$100K with an average deal size of approximately \$184K. This was down slightly from the just under 50 deals greater than \$100K in the prior quarter – Q2 2007, as well as just over 50 deals in the year ago quarter, Q3 2006.

In Q3, 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.

In the third quarter we continued the successful launch of the iShaper, experienced a clear stabilization of the overall business, and strengthened our organizational leadership with key new hires in sales and marketing, and product management.

Although our product transition programs are not yet complete, we have high expectations around the continuing rollout of our very competitive WAN Optimization product family, and ongoing development of important future products. Our entire focus as an organization is to regain the consistent acceleration of our business as quickly as possible.

Once again, thank you for your time. Now I'm going to turn the call back to

David Yntema for Q&A...

INTRODUCTION OF Q&A (David) This concludes Packeteer's financial and business presentations, and the call will now be open for Q&A. Our moderator will now review the Q&A process.

(Operator)

CONCLUSION OF CONFERENCE CALL This concludes the Packeteer Third Quarter 2007 Financial Conference call. Thank you for joining us today. If you have additional questions, please feel free to call our Investor Relations line at 408-873-4422.