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■ CURRENT PORTFOLIO

Kline Hawkes Maintains its Investment Course

Emerging from the recent technology down-turn with little incident and two-thirds of its investment capital still available, Kline Hawkes intends to maintain its focus on IT infrastructure, enterprise software, outsourced services and expansion capital opportunities, the same investment strategy that proved so successful in its first fund, Kline Hawkes California. The past year saw the Partnership take an active stewardship in its portfolio companies, ensuring that management remained focused on their cash flow while growing their businesses. The hard work and investment discipline has paid off with the recent funding of an eldercare services operation, the sale of two portfolio companies and the initial close on a Series B round for an earlier Kline Hawkes investment. These stories and other developments, including a product profile on an emerging wireless services company, are featured in this current issue of the Kline Hawkes newsletter.



Kline Hawkes Backs LivHOME Compelling Demographics Spur Investment in SoCal Eldercare Company

In early February 2003, Kline Hawkes Pacific invested \$3 million in a new portfolio company, LivHOME, a private pay, at-home assisted living company, headquartered in Los Angeles.

Founded in 1999, LivHOME provides high quality professional care and support for the elderly who wish to continue living independently in the comfort of their home but who need assistance with the tasks of daily life. Targeting private pay/private insurance high net worth individuals, LivHOME teams “geriatric care managers” with specially trained “caregivers” to provide or coordinate all the services a senior may require to maximize their quality of life in the residential setting of their choice. These services range from minimal to comprehensive, temporary to permanent and cover needs such as cooking, shopping, housekeeping, transportation, medical monitoring, health and safety supervision, counseling, contingency planning and social interaction programs, among many others.

LivHOME’s careful selection and grooming of its caregivers, who are direct LivHOME employees, as opposed to outside contractors, ensures their clients receive the highest quality of attention and care. This emphasis on quality of service, combined with strategic acquisitions, has afforded LivHOME tremendous growth. Operating out of Los Angeles, Santa Barbara, Orange County and San Diego, LivHOME has grown at a CAGR of 174% since inception and is now the largest private pay, at-home eldercare company in the country.

Commenting on the appeal of the LivHOME investment, Kline Hawkes Principal and LivHOME board member, Klaus Koch remarked, “When you consider the number of people aged 65 and older is projected to double in the next 30 years and that seniors are retiring with more money in their pockets; the demographics alone make the industry extremely attractive.”

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Kline Hawkes Jumps to 4th In CalPERS NET IRR Rankings

In late December 2002, the country's largest Pension Fund, the California Public Employees' Retirement System (CalPERS), released the performance results in their Alternative Investment Management Program (AIM) and once again Kline Hawkes was amongst CalPERS top performing funds. When measuring results by "Net IRR", **Kline Hawkes California improved from 10th to the 4th best Fund** with a Net IRR of 43.32%. The ranking was all the more impressive considering the number of funds in the program increased 31% from 147 to 193 since CalPERS last released their numbers. Compared to the other funds in the same **1995 vintage**, Kline Hawkes' Net IRR ranked 3rd while its **Investment Multiple was the 2nd best performing in its vintage class.**

CalPERS AIM Performance Results 1990 - 2002

Total CalPERS capital commitments	\$18.2 billion
Total Funds in Program	193
Average CalPERS Net IRR	10.83%
Kline Hawkes Net IRR	43.32%
Average CalPERS Investment Multiple	1.24
Kline Hawkes Investment Multiple	2.76

Source: CalPERS AIM Program Performance Analysis as of 6/30/02

LivHOME continued from page 1

"Combine that with LivHOME's outstanding management team led by CEO Mike Nicholson, a 20 year industry veteran, and Chief Professional Officer Steve Barlam, who is also President of the National Association of Geriatric Care Managers and you have an extremely compelling investment opportunity."

"I'm looking to 2003 with great anticipation," enthused Mike Nicholson. "Now that we have an institutional investor like Kline Hawkes onboard, who has tremendous ties to the local investment community, I feel that all the pieces are in place for us to become the dominant player in what is really quite a fragmented industry."

A portion of the Series B round will be used for the strategic acquisition of San Diego based at-home eldercare company, Age Concerns, with the remainder of the funds being set aside for future acquisitions.

UFO Secures \$10MM Series B

In November 2002, Kline Hawkes' portfolio company, Unlimited Fiber Optic Communications (UFO), a leading provider of enterprise broadband optical communications services in major metropolitan areas, held its initial Series B closing of \$10 million that will enable the company to expand in 2003 into the Los Angeles and Dallas metropolitan markets. The total round is expected to be \$15 million. San Francisco based UFO currently operates metropolitan optical networks (MONs) in the San Francisco and Chicago markets. This expansion is part of the Company's strategy for a nationwide rollout to service the largest metropolitan areas in the US.

Keylime Acquired by Overture (NASDAQ: OVER)

ASP's superior data collection technology validated through Acquisition by pay-for-performance search market leader.

On January 2, 2003 web analytics company, Keylime Software, Inc., was acquired by the Internet's leading pay-for-performance search services company, Overture Services, Inc., a Kline Hawkes California L.P. investment.

Located in Carlsbad, California, Keylime Software, Inc. provides a new generation of ASP-based website visitor-analysis tools and services. The Company analyzes website effectiveness by leveraging live session collection technology with advanced data management services that enable corporations to quantify returns on investment in technology and correlate web site visitor behavior to specific business objectives.

By utilizing Keylime's suite of tools, companies can extrapolate vital e-business information such as: tracking where website traffic originates, determining who sources the best customers, understanding what content customers access the most or identifying which advertising campaigns drive the most sales. Because Keylime's third generation technology captures the data directly from its clients' websites, these reports can be generated in real-time, as opposed to capturing the data through the more cumbersome and error prone log files, as found in most of the competition's server-side solutions. Furthermore, since Keylime's tool set functions as an ASP, Keylime not only enjoys the benefits of monthly recurring revenues, it can get new customers up and running in a matter of days, as opposed to weeks.

The benefits of Keylime's services are reflected in an impressive client list that includes such prominent companies as: *Adobe Systems, American Stock Exchange, BusinessWeek, Hewlett-Packard, GE Capital, National Geographic, Farmers Insurance Group* and *Nestle*. Yet the recent down turn in the economy, and the overcrowding of the web analytics space, prompted Keylime to reconsider its role in the market, as Keylime board member and Kline Hawkes Partner, Nick Memmo, explained.

"Recently Keylime was faced with the dual challenges of sustained price pressure for its services and a lengthening sales cycle, which placed enormous pressure on the entire web analytics industry. As the economy continued to stall and IT budgets grew leaner, it became increasingly apparent that Keylime would make more sense as a product feature of a larger corporation. The acquisition by Overture made perfect sense. It really is a win-win for both companies. Keylime will help in Overture's effort to provide branded tools to advertisers, which in-turn will help those advertisers better understand the value of Overture marketing campaigns. And for its part, Keylime can continue to grow and develop its leading edge technology inside Overture's larger corporate umbrella."

"Overture, with a current market cap of over \$1.3 billion, could have purchased any one of a dozen web analytics companies," noted Keylime CEO Steve Mitgang. "So it was extremely satisfying they chose Keylime. The acquisition was a clear vindication of our superior data collection technology. Yet due to the difficult M&A environment this sale required an enormous amount of creativity on both sides and I'm thankful for all the advice and investment strategy Kline Hawkes brought to the table. Without their help I'm not sure this deal would have happened."

Evant Acquired in Strategic Merger

Key Retail Account Attracts
Industry Attention Prompting Sale

In November 2002, NONSTOP Solutions, a leading provider of supply chain optimization software and the fastest growing software company in the retail sector in 2002, agreed to acquire Evant. Recognizing the benefits Evant could bring to its merchandising platform, NONSTOP announced the acquisition shortly after Evant closed a significant sale to retail giant, Staples, Inc. The lucrative contract from the office supplies retailer clearly validated Evant's multi-channel merchandise management solution and was a major catalyst in NONSTOP's strategic acquisition of the Kline Hawkes portfolio company.

"The NONSTOP acquisition of Evant made a lot of sense for many reasons," noted Kline Hawkes Partner and Evant board member, Jay Ferguson. "Both companies are based in San Francisco, and both compete in the demand management software industry which addresses the replenishment and allocation of inventory using consumer demand and economic variables as drivers for forecasting. NONSTOP provides an integrated forecasting, replenishment, allocation and investment buying solution for wholesalers, distributors, manufacturers and retailers, while Evant offers a robust, scalable software solution, built with "best-in-class" technologies, that is specifically designed for multi-channel retailers."

Remarking on Evant's development Rob Feuerman observed, "In many respects Evant was indicative of the challenges young companies with great new technology face when trying to gain market acceptance in a tough environment. Evant clearly had a superior service offering that was robust, scaleable and solved many of the supply chain management problems large, multi-channel, retail businesses are faced with in the digital age. Yet due to the virtual freeze on IT spending, it became tough for the company to validate its technology. On numerous occasions we were selected in a "bake-off" by a particular retail chain only to have the company turn around and cancel the order because of IT budget constraints. It was the Staples win that really put us on the map."

Commenting on the Evant acquisition Bob Lewis, CEO of NONSTOP Solutions said, "The retail industry is looking for the next generation merchandising platform that will solve today's complex, evolving, merchandising challenges. In many cases, these companies are supported by legacy systems or software packages designed ten years ago. The combination of Evant and NONSTOP's product offerings gives retailers an exciting new option. Evant brings a comprehensive suite of planning and merchandise transaction management applications that, combined with NONSTOP's sophisticated replenishment tools, address many of these difficult problems. With this acquisition, we will be offering the first end-to-end merchandising suite built on an open systems platform, providing customers with a number of technology advantages including significant scalability, enhanced integration capabilities and platform independence." The strength of the combined entities was quickly demonstrated when Camping World, the world's largest retailer of RV accessories, committed to implementing both NONSTOP and Evant's product suites.

Following the acquisition, NONSTOP management decided to re-brand the company which will be known as Evant, Inc. going forward.

Ascendent Releases




Homeland Security Product
Continuous Product Development
Underscores Company Growth

On September 18, 2002, Encino, California based Ascendent Telecommunications Inc., a leader in advanced voice and mobility solutions for enterprise and government, announced the general availability of its new Continuity of Government (COG) solution, AscendentCOG™. Designed to provide governmental organizations with seamless communications capability in the event of a voice-system outage, telephone network outage or evacuation, AscendentCOG allows people to stay in contact when the main communications hub is down or an entire staff has been evacuated or displaced. This marks the third successful product evolution for Ascendent, assuring its continued relevance in today's rapidly changing telecommunications market.

The cornerstone of Ascendent Telecommunications mobile extension service is a device called WirelessConnect™, which allows virtually any type of wireless cellular phone to be quickly and seamlessly linked to practically any type of PBX anywhere in the country, giving the cell phone all the features and functions of a desktop phone and generating significant savings for companies with a large mobile workforce, as Ascendent founder and CEO Steve Forte explains, "Any salesperson that has to make international calls from outside the office can, at the touch of a button, gain access to the company's PBX and dial out as if the person was sitting at his or her desk. So instead of a call to Hong Kong from Los Angeles costing \$3 it may cost just 14 cents and if that person was dialing an international branch of their enterprise they would just have to punch the three or four digit extension to place the call."

WirelessConnect™ has been so well received in the market place that Nextel (Nasdaq: NXTL), the leading provider of fully integrated communications services, made a significant up-front payment for the rights to distribute the innovative PBX enhancement through their own distribution channels. Other company's extending the reach of their PBX include: *Accenture, Steelcase, Inc., Tellabs* and *General Motors Corp* to name just a few. *Toshiba Computer Systems Group (CSG)*, the number one vendor in worldwide notebook PC sales, was so impressed with the mobile extension capabilities Ascendent offered that they engaged in an OEM agreement whereby Ascendent would develop a customized enterprise mobility communications platform for Toshiba Notebook PCs and PDAs. Based on Ascendent's WirelessConnect™, the new embedded communications solution, called MobilityConnect, will provide Toshiba enterprise customers with the ability to privately manage incoming calls they receive on their cell or office phone via a soft console on their Notebook, PC or PDA.

"Ascendent has taken the knowledgebase and expertise it used to create WirelessConnect™, expanded those capabilities to any wireless device with their MobilityConnect offering and now, with AscendentCOG, they've launched a solution that is virtually mission critical," remarked Klaus Koch, Kline Hawkes Principal and Ascendent board member. "Ascendent, through their innovative development and creative product positioning, represents the kind of entrepreneurial skill set we look for in a company. We're excited about the progress they've made to date and look to the future with great anticipation as they continue to grow their business."

 <p>AboveNet Communications, Inc. San Jose, CA Internet Service Exchange www.abovenet.com <i>Acquired by Metromedia Fiber Network.</i></p>	 <p>ACTIVATE.net Seattle, WA Internet Broadcast Services www.ACTIVATE.net <i>Acquired by CMGI (NASDAQ: CMGI)</i></p>	 <p>Alta Healthcare System LLC Santa Monica, CA Healthcare Service <i>Sold September 2001</i></p>	 <p>Ascendent Telecommunications, Inc. Encino, CA Wireless Office Solution Provider www.ascendenttelecom.com</p>
 <p>Centric Software, Inc. Los Gatos, CA Collaborative Product Design Software www.centricsoftware.com</p>	 <p>Certus Enterprises, LLC. Huntington Beach, CA Healthcare Management Services www.certuscorp.com</p>	 <p>Evant, Inc. San Francisco, CA Next Generation Planning & Replenishment Solutions www.evant.com <i>Acquired by NonStop Solutions</i></p>	 <p>IP MobileNet, Inc. Irvine, CA Mobile Data Communications Solutions www.ipmobilenetinc.com</p>
 <p>Keylime Software Carlsbad, CA Web Site Analysis Services www.keylimesoftware.com <i>Acquired by Overture (NASDAQ: OVER)</i></p>	 <p>LivHOME Los Angeles, CA At-home assisted living www.livhome.com</p>	 <p>Metromedia Fiber Network, Inc. White Plains, NY Broadband Fiber Optic Network Provider www.mmfn.com <i>Acquired AboveNet Communications</i></p>	 <p>Micronet Technology, Inc. Irvine, CA Data Storage Technology www.micronet.com <i>Acquired by Ampex Corporation (ASE:AXC)</i></p>
 <p>National Water & Power Santa Ana, CA Utility Billing Software & Services www.nwpc.com</p>	 <p>Overture Services, Inc. (Formerly GoTo.com) Pasadena, CA Internet Search www.goto.com <i>(NASDAQ: OVER)</i></p>	 <p>PaeTec Communications, Inc. Fairport, NY Integrated Telecommunications Service Provider www.paetec.com <i>Acquired CampusLink</i></p>	 <p>Rent.com Santa Monica, CA Online Apartment Leasing Center www.rent.com</p>
 <p>Sensor Systems, Inc. Sterling, VA Visual Analysis Software www.sensor.com</p>	 <p>Transoft Networks, Inc. Santa Barbara, CA High Speed Networking Software www.transoft.net <i>Acquired by Hewlett Packard (NYSE: HPQ)</i></p>	 <p>UFO Communications San Francisco, CA IP Networking Services www.ufo.com</p>	 <p>Uprizer, Inc. Los Angeles, CA Peer-to-Peer Distributed Networking www.uprizer.com</p>