

Winter 2005/2006

KLINE HAWKES TEAM:

Frank Kline	Managing Partner
Jay Ferguson	Partner
Nick Memmo	Partner
Klaus Koch	Partner
Alain Rothstein	Principal
Brian Kim	Senior Analyst
Peter Ivory	Special Venture Partner
Leslie Shaw	Chief Financial Officer
Kim Magnin	Director of Finance
Cameron Wood	Director of Operations

CONTACT INFORMATION:

Tel: (310) 442-4700
Fax: (310) 442-4707
Email: info@klinehawkes.com
Website: www.klinehawkes.com

In This Issue...

RECENT LIQUIDITY EVENTS



MAKING NEWS

- *Rent.com acquired by eBay*
- *Investment in NewBridge College*
- *O2 acquired by Pacific Pulmonary*
- *Formation of APC*
- *Cogent Public Market Raise*
- *Evant acquired by Manhattan Assoc.*
- *KH Growth Equity Fund*
- *CaseStack raises \$20 million*
- *Rayne Corporation Investment*

SELECTED TRANSACTIONS

Kline Hawkes Pacific Paying Dividends

Top quartile Kline Hawkes Pacific fund reaps rewards
as it continues to invest at record pace

Recent liquidity events in three Kline Hawkes Pacific portfolio companies have ensured that the Partnership remains a top quartile 2000 vintage fund. 2005 got off to a great start when Santa Monica based Rent.com was acquired by the online retailer, eBay, (NASDAQ: EBAY) for approximately \$415 million in cash. In August, the sale of oxygen delivery service company, O2 Science, to Pacific Pulmonary, and the acquisition of Evant by Manhattan Associates (NASDAQ: MANH) were completed. Since the last newsletter was published, the Partnership has distinguished itself by putting more than \$55 million to work in a variety of companies that include manufacturers of advanced specialty materials, water filtration service dealerships, medical laboratories and career/technical colleges. These investments mark the most money the firm has put to work over a twelve month period since its inception. More details on these events and other fund raising activities are in the Kline Hawkes & Co. winter 2005 newsletter.



Rent.com Acquired by eBay

Auction giant pays \$415 million cash for Internet Leasing Site

Late last year as Rent.com prepared to file for an Initial Public Offering, the Santa Monica, California based company was made an unsolicited offer by a major publicly traded company. Having grown from a fledgling start-up in 1999 to a business booking more than \$45 million in revenues and dominating its industry sector, the offer was a surprise, but hardly unexpected. Upon the advice of its joint underwriters Bank of America and UBS, Rent.com approached other potential buyers and received a number of offers. eBay, Inc. (NASDAQ: EBAY), the online auction company, tendered the highest bid, closing the all cash transaction of approximately \$415 million on February 23, 2005. The acquisition returned Kline Hawkes more than six times its original investment.

Rent.com is the nation's leading Internet Listing Site (ILS) in the apartment and rental housing industry, ranking #1 in unique visitors, property listings and verified lease transactions. The Company deploys a unique transaction-based business model that tracks and receives payment for leases between renters and apartment owners. Its unique business model has made it the number one third-party producer of verified lease transactions in the nation online and offline. The Rent.com service is available to renters and property owners and managers in most American cities, including the nation's top fifty metropolitan markets.

"Going public was a very viable option," said Scott Ingraham, Chairman and Chief Executive of the rental property services company. "But the opportunity to sell to eBay at such an attractive valuation was more compelling to our shareholders, customers and employees. Kline Hawkes played an important role in our success both with their capital and start-up expertise. I was particularly impressed with their poise and patience in the early days when the business model was struggling and morphing. We will always appreciate their steadfast support for the management team and the business model."

Continued on page 4



NewBridge College SoCal's newest technical institution

In February 2005, Kline Hawkes partnered with Dr. Duncan Thomas to build a leading career/technical college in Southern California. As a Kline Hawkes & Co. advisor, Duncan has had a long and trusted association with the firm and his success as both an entrepreneur and former EVP/COO of SmartForce PLC and EVP/GM at outsourced services company, Exult, Inc., made him an ideal candidate to partner with. Since the partnership with Duncan was formed in early 2005, three colleges with five school locations have been acquired, integrated and re-branded under the name of NewBridge College.

The colleges are located in Santa Ana, Long Beach, Monterey Park, Stanton and Burbank, California. The school provides certificates and



NewBridge College provides healthcare careers such as surgical technology

diploma courses for medical/healthcare careers such as surgical technology, medical laboratory technology, medical billing and medical office administration.

NewBridge intends to extend and deepen brand recognition with improved marketing, expand the number of courses offered, and begin delivering courses online. These actions should significantly increase margins and build market share. In doing so, the NewBridge College schools will make a meaningful impact on their local communities, offering students a first-rate learning experience and giving them a chance to pursue rewarding careers.

“While NewBridge College has recently made strong gains, it took us twelve months to navigate the regulatory channels of the Department of Education before we could take ownership of the colleges,” noted NewBridge CEO, Dr. Thomas. “While the regulations provide a significant barrier-to-entry into the education market, the extended pre-acquisition period and administrative complexity requires very patient investors. Not only did Kline Hawkes unwaveringly support my efforts, but they provided the office space and resources I needed to get the deals closed. You couldn’t ask for better support.”

“We were attracted to NewBridge because it contains many elements that are necessary for a successful investment: motivated and experienced management you can depend upon and an industry that is highly fragmented with businesses that can be acquired at attractive multiples,” noted Klaus Koch, Kline Hawkes Partner and NewBridge Board Member. “We’re confident that we have backed the right team for this industry and with Duncan, we can grow NewBridge into a premier Southern California career/technical college.”

Rent.com continued from page 1.



“It would have been very satisfying to see Rent go public,” commented Kline Hawkes Partner and former Rent Board Member Klaus Koch. “It’s always nice to see the tombstone sitting on your credenza. But Kline Hawkes is in the business of making returns for its investors. When you look at it from that perspective, cash is king. I was just fortunate to be working with such a savvy senior management team led by veterans such as Scott Ingraham and Allan Hunter, who know how to build a business and exit it successfully. I certainly look forward to the day we can work together again.”





O2 Science Acquired by Pacific Pulmonary Services Exit earns Kline Hawkes 3x in 14 months



Founded in June 2000, O2 Science is a regional provider of respiratory services and home healthcare products. The company's services include the provisioning of oxygen equipment, respiratory medications, sleep related equipment and home medical equipment. O2 operates from 14 branch locations throughout the southwest and distinguishes itself throughout the industry with its unparalleled quality of care and service.

Kline Hawkes teamed up with industry veteran and O2 CEO, Mark Hanley late in 2003 and closed on a deal whereby the assets of O2 were carved out from the oxygen services parent company DVI, Inc., on May 11, 2004. Fourteen short months later, O2 Science and Kline Hawkes inked a deal with Pacific Pulmonary Services, which acquired the Tempe, Arizona based O2 Science in an all cash transaction that closed in late August 2005 and returned Kline Hawkes just over three times its investment.

Based in Novato, California, Pacific Pulmonary Services is a leading provider of respiratory therapy services and home healthcare products

with operations in 13 states. Since the two companies have very little geographic overlap, the new combined entity will now serve much of the western United States.

"It was tremendously satisfying to see this transaction close," remarked Kline Hawkes Partner and O2 Chairman Klaus Koch. "When you think of all the effort it took to carve O2 out from under its bankrupt parent company, I think it took us longer to put our money into the company than it did to pull it out. Obviously in hindsight, all the hard work more than paid off, which really is a credit to Mark and the efficient manner in which he and his team made O2 such an attractive acquisition target in such a short time."

"Last year I was praising Kline Hawkes for their determination and professional approach during the protracted negotiations with DVI and their bankers," remarked O2 Science CEO Mark Hanley. "Now I have to tip my hat to them for the sage advice and support they offered during this sale. Already we have begun to explore further health service opportunities."



Advanced Products Corporation Next generation components manufacturer set to take off



Advanced Products Corporation ("APC") is a holding company established in September 2004 for businesses engaged in the manufacture of structural components comprised of advanced specialty materials used in the aerospace, automotive, medical and defense industries. Through APC, Kline Hawkes partnered with industry veterans Paul Pendorf and Bill Timmerman to explore opportunities in the advanced materials sector and closed the company's first deal on September 20, 2004 with the acquisition of Vermont Composites, Inc. ("VCI").

Headquartered in Bennington, Vermont, VCI designs, engineers and fabricates advanced custom carbon composite structures. Comprised of two principal elements, fiber, and a matrix, carbon composites are extremely versatile, corrosion resistant and durable. Components can be as strong as steel and yet 80% lighter, making it an ideal material for automotive and aerospace manufacturers. Defense and medical manufacturers use carbon composites in part because of its ability to be made transparent or absorbing to radar and sonar as well as acoustical or electromagnetic energy. VCI manufactures components for customers such as Lockheed Martin, Med-Tec, General Electric, Boeing, General Dynamics, Northrop Grumman and Philips Medical Systems among others. The fenders on General Motors' new Corvette



APC produces fenders on GM's new Corvette Z06

Z06, GM's fastest and most powerful car to date, are also produced by VCI (see picture below).

In May 2005, APC entered the southern California market when it acquired Gardena based Advanced Machine Stretchform International ("AMSI"). A manufacturer of complex machined and formed aluminum and titanium structural components, AMSI sells into the aerospace, defense and space industries. Examples of AMSI

components include wing panels, large fuselage sections and fuel tanks for space boosters. Major customers include Lockheed Martin, Boeing and Northrop Grumman among others.

"I'm extremely pleased with APC's progress to date," stated Kline Hawkes Partner and APC Board Member Jay Ferguson. "VCI has grown its top line from \$13.5 million in 2004 to a projected \$18 million in 2005. Over the same period, AMSI should more than double

its revenues from \$11.5 million in 2004 to \$25 million by year end, meaning the holding company, APC, will have approximately \$42 million in revenues on a pro forma basis. We are currently exploring further opportunities that could put APC on a \$60 to \$70 million run rate by 2006, at which stage APC itself would make an attractive acquisition for some of the larger players in the industry."



Cogent Raises \$69 million in Public Offering: Proceeds used to pay off debt and fund expansion

Cogent Communications Group, Inc. (AMEX: COI) raised \$69 million on June 7, 2005 when it sold 11,500 shares of common stock in a public offering. The net proceeds were used to repay \$27 million of Cogent's debt, fund the expansion of its sales and marketing efforts and to connect additional buildings to its network, primarily in Europe.

Cogent Communications is a multinational, Tier 1 facilities-based ISP that specializes in providing businesses with high speed Internet access and point-to-point transport services. Cogent's facilities-based, all-optical IP network backbone spans over 11 countries and provides IP services in markets located in North America and Europe.

In August 2004, Kline Hawkes sold Unlimited Fiber Optics to the Washington D.C. based ISP and then invested \$1.8 million in the Company's preferred stock.



Evant Acquired by Manhattan Associates Combined entity provides world's first complete supply chain management footprint

Kline Hawkes portfolio company, Evant, Inc., was acquired by Manhattan Associates (NASDAQ: MANH), the global leader in providing supply chain execution and optimization solutions. The transaction closed on August 31, 2005. Based in San Francisco and Atlanta, Evant provides solutions to more than 60 companies in the retail, manufacturing and wholesale distribution industries, including many that are joint Manhattan Associates clients. Under the terms of the agreement, Manhattan Associates will pay approximately \$50 million in cash for the company.

The Evant acquisition extends Manhattan Associates' solution footprint beyond its current supply chain execution leadership position. This combination of planning, optimization and execution solutions would make Manhattan Associates the only company in the world that provides the complete footprint for supply chain management.

"Merging Evant with Manhattan Associates makes a lot of sense in terms of the tremendous value it will bring to their customers and the expanded service they can now offer," said Jay Ferguson, Kline Hawkes Partner and Evant board observer. "In order to get to the next level, Evant either had to grow organically or align itself with a larger player. Given the amount of consolidation that has already taken place in the industry, the offer made by Manhattan was too good to pass up."

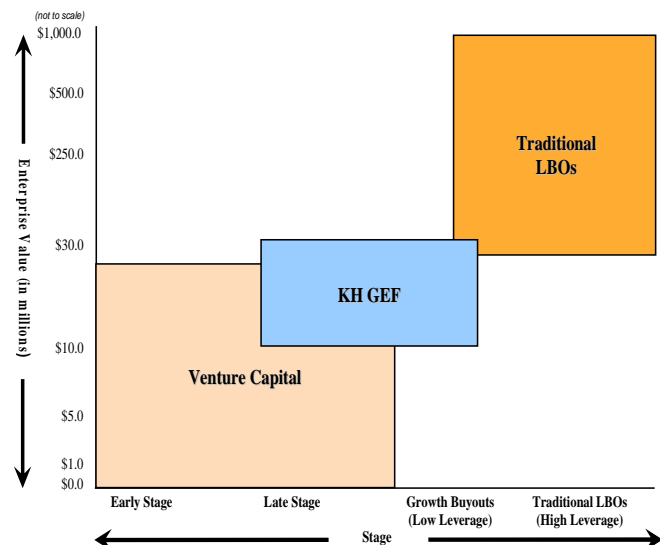


KH Growth Equity Fund, L.P.

Target Size: \$150 - \$200 million

KH Growth Equity Fund, L.P. ("KH GEF") is a late stage venture capital fund being formed to make growth equity investments in rapidly growing private companies headquartered in the United States and Canada. GEF will seek to make equity investments ranging between \$5 million and \$15 million in companies that (i) generate revenue between \$2 million and \$25 million annually, (ii) are growing at over 15% per annum and (iii) are profitable on an EBITDA basis, or within twelve months of profitability. The Fund will target opportunities expected to yield at least a 3x-5x return over a three to five year period. KH GEF's strategy will be to specifically target companies with post-money valuations of less than \$30 million because of the attractive supply and demand characteristics of this segment of the overall private equity market. As distinguished from buyout funds that require full control, the Fund will make substantial minority interest investments where it can control major corporate actions or exercise influence over the management and the company's strategic direction, while maintaining the flexibility to invest in small change-of-control situations. Consistent with the investment professionals' track record, the Fund's investments will be approximately two-thirds in substantial minority interests ranging between 15% and 35%, and one-third in majority interests.

Market Positioning





Tapping into a compelling growth industry

An opportunity to invest in Rayne Corporation was presented to the Kline Hawkes team by General Partner, Nick Memmo. Founded in 1928 and headquartered in Ventura, California, Rayne Corporation manufactures, sells and services water filtration equipment for residential and commercial use through a network of 55 Rayne dealerships, including six company-owned service centers in California and Arizona. Rayne dealerships sell, install, rent and service water softener units and reverse osmosis ("R.O.") drinking water systems.

As presented by Nick, the macro drivers supporting the investment appeared very favorable. The water conditioning and purification industry is estimated to be in excess of \$15 billion and is growing at 6%-8% annually, as water and water management continues to grow in importance. The U.S. market is saturated with thousands of unaffiliated "mom-and-pop" dealers that lack the financial resources, sales and marketing expertise and management depth to grow their businesses. When those macros are combined with Nick Memmo's extensive industry experience as one of the founding executives and members of the Board of Directors at U.S. Filter, an investment in water services made a lot of sense, given the right opportunity. Because of its long operating history, diverse product mix, recurring revenue model and significant growth potential, it became obvious that Rayne Corporation was that opportunity and an investment was made on February 24, 2005.

Three months after Kline Hawkes' investment in Rayne, the company acquired the largest independent Rayne dealership, Rayne San Diego. In addition to assessing several other strategic acquisitions for the company, Nick and his team are in the process of building a strong sales force and implementing innovative marketing strategies for each of the dealers, as well as introducing operating efficiencies such as centralized billing, outsourced bill processing and online ordering.

"Given my experience at U.S. Filter and all of the changes that have taken place in the industry in the past couple of years, I think it is a great time to be back in the water business," remarked Nick Memmo. "Through Rayne Corporation, we have the brand, the distribution network and the know-how to grow rapidly and gain market share. What is most satisfying, though, is that with the acquisition of Rayne San Diego, we are already at a size where Rayne can fund its future acquisitions. Given the increasing scarcity of this precious resource, I am tremendously excited about Rayne's prospects for the future."

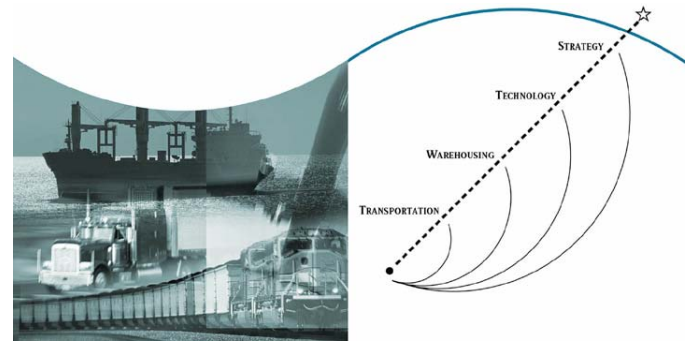


Rayne: water filtration services and equipment



Closes on \$20 million investment: Capital infusion to fund continued growth

Between 2001 and 2003, Santa Monica, California based outsourced logistics company, CaseStack, Inc., grew its top line by 990.6%. Those numbers were good enough to earn CaseStack the title of "Fastest Growing Private Company" in Los Angeles, as judged by the *L.A. Business Journal*. The performance was also good enough to grab the attention of local private equity firm Clarity Partners, who recently led a \$20 million investment round along with previous CaseStack investors, Kline Hawkes, Blumberg Capital and Garage Technology Ventures.



Investment will enable CaseStack to supplement its aggressive organic growth with strategic acquisitions

The investment will enable CaseStack to supplement its aggressive organic growth with strategic acquisitions of regional warehousing companies focused on the consumer packaged goods (CPG) industry. CaseStack provides logistics outsourcing services to mid-sized CPG companies that sell products to retailers, distributors and other manufacturers. CaseStack combines an advanced transportation and warehousing system with proprietary, web-based software to provide end-to-end fulfillment services that enable customers to reap the benefits and economies of a sophisticated, global logistics system without all the infrastructure costs.

"The logistics industry is highly fragmented with no dominant national leader focusing on the middle market," said CaseStack CEO, Daniel Sanker. "There are many remarkable regional players whose clients are requiring more sophisticated technology and a nationwide perspective to their logistics needs." Sanker added, "By acquiring the best of each region, CaseStack plans to take consolidation to a higher level, give clients a national footprint that matches today's retailers, and bring together the regional logistics leaders to create a dominant national player."

"We've been extremely pleased with CaseStack's growth to date and believe in management's strategy of bolstering the company's organic expansion with strategic acquisitions", noted CaseStack Board Member and Kline Hawkes Principal, Alain Rothstein. "I am looking forward to working with Steve Rader of Clarity Partners on the board. Clarity's investment is a reflection on Dan Sanker and his team and all the hard work they have put in to-date, as well as an endorsement of the company's go-forward strategy."



AboveNet Communications, Inc.
(OTC:ABVT.PK)
San Jose, CA
Collocation facilities and services
www.abovenet.com
Acquired by Metromedia Fiber Network.



Advanced Products Corporation
Los Angeles, CA
Advanced materials for aerospace, medical and automotive
Acquired Vermont Composites and Advanced Machine & Stretchform International



CaseStack, Inc.
Los Angeles, CA
Outsourced transportation and warehousing logistics services
www.casestack.com
Raised additional \$20 million in venture funding



Cogent Communications
Washington, D.C.
IP Networking Services
www.cogentco.com
Acquired UFO Communications



Cyalume
West Springfield, MA
Chemical light product manufacturer
www.cyalume.com



Evant, Inc.
San Francisco, CA
Demand chain forecasting and replenishment solutions
www.evant.com
Acquired by Manhattan Associates (NASDAQ: MANH)



IP MobileNet, Inc.
Irvine, CA
Wireless data communications hardware and software
www.ipmobilenetinc.com



LivHOME
Los Angeles, CA
Private-pay at-home healthcare services
www.livhome.com



NewBridge College
Los Angeles, CA
Private, for-profit career / technical education
www.newbridgecollege.edu



O2 Science
Tempe, AZ
Provider of respiratory services and home healthcare products
www.o2science.com
Acquired by Pacific Pulmonary Services



Overture Services, Inc.
(Formerly GoTo.com)
Pasadena, CA
Paid internet search
Acquired by Yahoo! (NASDAQ: YHOO)



PaeTec Communications, Inc.
Fairport, NY
Telecommunications service provider
www.paetec.com
Acquired CampusLink



Rayne Corporation
Ventura, CA
Residential water treatment services
www.raynewater.com



Rent.com
Santa Monica, CA
Online apartment leasing services
www.rent.com
Acquired by eBay (NASDAQ: EBAY)



Sensor Systems, Inc.
Sterling, VA
Visual analysis software
www.sensor.com



Transoft Networks, Inc.
Santa Barbara, CA
Fiber channel software
Acquired by Hewlett Packard (NYSE: HPQ)