



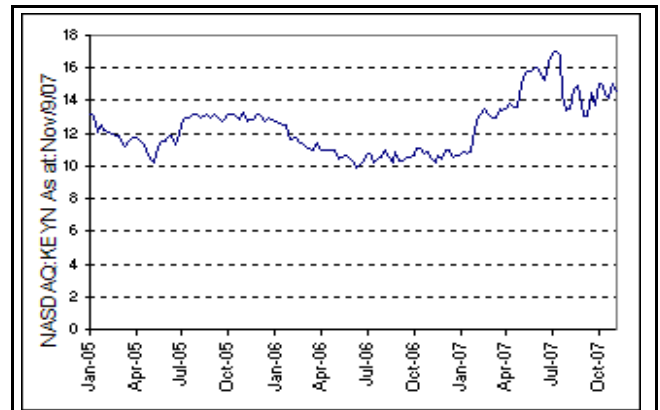
THE COMPANY

Keynote Systems is a California-based leading provider of measurement and monitoring systems for e-commerce websites with a market share of approximately 80%. Its customers range from small web-based companies to large Fortune 500 companies such as Amazon, American Express, Cisco, Dell, EBay and Microsoft. The company is headed by Umang Gupta, a well known Silicon Valley visionary and entrepreneur. Incidentally, Umang Gupta is one of Keynote's largest shareholders owning approximately 1.8 million shares or 10% of the company.

FINANCIAL DATA

	2004	2005	2006
Earnings per Share (\$)	0.24	0.37	0.28
Price to Earnings (times)	43.4	28.2	51.5
Dividend (\$)	-	-	-
Dividend Yield (%)	-	-	-
Book Value (\$)	10.20	9.89	10.43
Price to Book Value (times)	1.00	1.10	1.30

HISTORICAL SHARE PRICES



WHY ABC FUNDS BOUGHT KEYSTONE

Keynote went public in September 1999 at \$14 a share and didn't look back. Five months later it did a secondary offering at \$105. The shares rose to an incredible \$163.75 in March 2000 before succumbing to the bursting technology bubble. By December 2000, Keynote shares had given back all it had gained and eventually fell below its original IPO price. For the last five years, Keynote's stock has been virtually flat in comparison to its amazing rise and fall in 1999-2000. During this time however, the Company has quietly improved its product and service offerings and managed to remain the dominant monitoring company in the industry. It is also interesting to note that Keynote has partially used the money it raised at \$105 a share to repurchase shares at a fraction of the cost. Since 2000, Keynote's share base has declined from 23 million to just under 19 million today.

We do not usually purchase shares in technology companies because they are often too expensive on a book or net asset value basis. However, when we discovered Keynote trading below its tangible book value of \$10.43, we felt it warranted further investigation. After doing our homework, we found that Keynote was in fact an ABC type stock. With a market capitalization of close to \$200 million, Keynote was debt free with cash in the bank of \$137 million. It also owned its headquarters in San Mateo, California. The building, which was purchased for \$85 million in 2000, had been subsequently written down in 2002 to just \$35 million. While we don't know for sure what the building is worth today, we feel confident that its value has appreciated since 2002. When we added the cash and real estate together, we found that it accounted for nearly the entire market capitalization of the Company. In effect, we were getting the remaining technology business for next to nothing. With sales of over \$50 million in 2005, comparable peer analysis indicated the remaining business could conservatively be valued at two times sales, or over \$5 a share.

Today, CEO Umang Gupta is focused on expanding Keynote's service offerings and increasing its customer base. With the company's large war-chest of cash, he is also on the prowl for opportunistic acquisitions. In April, Keynote announced the acquisition of SIGOS, a German based company and leading supplier of mobile data network testing systems for approximately \$30 million. The acquisition is expected to be accretive to earnings by next year and introduces Keynote to some large European telecom customers such as Vodafone and T-Mobile. But with its share price continuing to trade at such low valuations, the hunter could become the hunted. Given its large cash position, hidden real estate, and dominant market position, we think Keynote might just end up being sold to a larger industry player. If it was to be purchased, we think an acquirer would have to pay a premium price to where the stock is currently trading.

ABC Funds
May 26, 2006

UPDATE

After a somewhat lackluster performance in 2006, shares of Keynote Systems are off to a good start in 2007. It appears that investors are once again taking notice of this former high flying Silicon Valley based technology company. Shares of Keynote, which provides web monitoring and mobile device testing services, have risen over 26% so far this year.

UPDATE (CONT'D)

Recently, Keynote reported strong first quarter results. Revenue increased 15% to \$15.8 million and net deferred revenue increased 144% to \$14.7 million. The SIGOS division, which was acquired in April 2006 and supplies mobile data network testing systems, was a major contributor to this growth. "SIGOS is clearly outperforming our expectations and fueling growth" commented Keynote's CEO Umang Gupta during the company's first quarter conference call. Although Keynote managed to earn a small profit in the quarter of \$0.01 per share, this figure does not account for about \$4 million in subscription revenue which must be deferred under GAAP accounting rules. Cash flow from operations, a more useful measure of current performance in this case, was \$5.1 million, or around \$0.30 per share.

Keynote's balance sheet remains in excellent shape. The company is debt free and has approximately \$95 million in cash. It also owns its headquarters, which is fully paid for, although it occupies only 40% of the space. Based on Keynote's first quarter results, it is on track to generate approximately \$80 million in cash sales this year. Many subscription-based technology companies sell for a multiple of 2 to 3 times sales. Yet, if we subtract Keynote's cash and real estate value from its current market value, we arrive at an implied public market value for the remaining business of only \$100 million, or just 1.3 times revenue.

Keynote also trades at a comparatively low multiple of only 12 times free cash flow. Similar technology companies command multiples which are much higher. The reason is that once a platform has been built; incremental revenue is usually highly profitable, and the market is willing to look forward to future earnings growth. We believe Keynote is close to reaching this threshold. Management believes that if revenue can reach \$100 million, its EBITDA margin would increase to 23% from 5% currently. This would essentially double Keynote's free cash flow, and could result in meaningful share price appreciation.

ABC Funds

February 23, 2007

Building on a strong first quarter, Keynote delivered impressive second quarter results. For the quarter, cash provided by operating activities was \$6.9 million, compared to \$4.7 million in the prior quarter and \$2.5 million in the second quarter of 2006. In addition, Keynote generated free cash flow of \$5.5 million for the quarter, compared to \$4.0 million in the prior quarter and \$1.9 million for the same period last year. Revenue for the second quarter was \$16.7 million, an increase of 6% compared to the preceding quarter and a 31% increase compared to the second quarter of fiscal year 2006. In the words of Keynote CEO Umang Gupta "Our team once again delivered strong financial results with solid execution across most business units".

Keynote's balance sheet remains in excellent shape. The company is debt free and has approximately \$93 million in cash. It also owns its headquarters, which incidentally, we feel is understated on the company's books. Based on Keynote's most recent results, it is on track to generate approximately \$85 million in cash sales over the next twelve months. Many subscription-based technology companies sell for a multiple of 2 to 3 times sales. Yet, if we subtract Keynote's cash and real estate, we arrive at an implied public market value for the remaining business of only \$100 million, or just 1.2 times revenue.

Keynote also trades at a comparatively low multiple of only 10 times free cash flow. Similar technology companies usually command a higher multiple. The reason is that once a platform has been built; incremental revenue is usually highly profitable, and the market is willing to look forward to future earnings growth. We believe Keynote is close to reaching this threshold. Management believes that if revenue can reach \$100 million, its EBITDA margin would increase to 23% from 5% currently. This would essentially double Keynote's free cash flow, and could result in significant investor interest.

ABC Funds

May 4, 2007

Building on a strong second quarter, Keynote delivered impressive third quarter results. For the quarter, cash provided by operating activities was \$5.9 million, compared to \$6.9 million in the prior quarter and \$2.9 million in the second quarter of 2006. In addition, Keynote generated free cash flow of \$3.8 million for the quarter, compared to \$5.5 million in the prior quarter and \$2.1 million for the same period last year. Revenue for the second quarter was \$17.4 million, an increase of 4% compared to the preceding quarter and a 25% increase compared to the second quarter of fiscal year 2006. In the words of Keynote's CEO Umang Gupta "Our team once again delivered strong financial results while our Mobile Test and Measurement business continued to exceed our expectations."

Keynote's balance sheet remains in excellent shape. Keynote is not only debt free, but is sitting on \$109 million, or \$6.41 per share in cash. It also owns its headquarters in San Mateo, California. The land and building is valued on Keynote's books for \$35 million. It should be noted however, that this appraisal occurred during the trough of the Silicon Valley real estate market back in 2002. Vacancy rates have since improved, and we guesstimate that the building's value has probably appreciated since this time.

UPDATE (CONT'D)

Based on Keynote's most recent results, it is on track to generate approximately \$85 million in cash sales over the next twelve months. Many subscription-based technology companies sell for a multiple of 2 to 3 times sales. Yet, if we subtract Keynote's cash and real estate value from its market cap of \$250 million, we arrive at an implied public market value for the remaining business of only \$60 million, or less than one times revenue.

Keynote also trades at a comparatively low multiple of only 10 times free cash flow. Similar SaaS (Service-as-a-Software) technology companies typically command a higher multiple. The reason is that once a platform has been built, there are significant economies of scale. We believe Keynote is close to reaching this threshold. In fact, management believes that if revenue can reach \$100 million, its EBITDA margin would increase to 25% from 5% currently. This would essentially double Keynote's free cash flow and could result in significant investor interest in Keynote's shares.

ABC Funds

August 10, 2007

Building on a strong third quarter, Keynote delivered impressive fourth quarter and fiscal year end results. For the latest quarter, cash provided by operating activities rose to \$2.9 million compared to \$1.2 million in the fourth quarter of 2006. In addition, Keynote generated free cash flow of \$1.6 million for the quarter compared to \$3.8 million in the prior quarter and \$0.3 million for the same period last year. Revenue for the quarter was \$17.8 million, an increase of 3% compared to the preceding quarter and a 17% increase compared to the fourth quarter of fiscal year 2006. According to the company's CEO, Umang Gupta, "Fiscal year 2007 has been the best year ever for Keynote. Our team delivered total cash from operations of over \$20.3 million and free cash flow of \$14.8 million, which is a record high for any twelve-month period in our history."

Keynote's balance sheet remains in excellent shape. The company is not only debt free but, more importantly, is sitting on \$108 million, or \$5.89 per share in cash. Although Keynote is actively looking to deploy its war chest, management is quite patient and discipline. Instead, the company is utilizing part of its overly capitalized balance sheet to repurchase its common shares. For instance, approximately 92,000 shares were repurchased by the company in the latest quarter, and a further 2 million shares have been authorized for repurchase by the company's board. Since January 2000, Keynote's share base has declined from 23 million to 18.3 million today via company buybacks.

In addition to its strong liquidity, Keynote also owns its headquarters - located in San Mateo, California. Keynote, which occupies only a portion of the building, recently signed long-term agreements with tenants for the remaining unoccupied portion. The company estimates this will generate close to \$270,000 in excess occupancy income per quarter. Incidentally, the building is valued on Keynote's books for roughly \$35 million. It should be noted, however, that this appraisal occurred during the trough of the Silicon Valley real estate market back in 2002. Given the recent strength of the technology sector, vacancy rates have since improved and we figure that the building's value has probably appreciated over the past five years.

ABC Funds

November 9, 2007