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Headsprout gets \$8M in funds

BY ERIC ENGLEMAN
STAFF WRITER

Headsprout, a Seattle maker of online learning programs for children, has received nearly \$8 million in new financing from educational testing giant Kaplan Inc. and other investors.

The fresh capital allows Headsprout to bolster marketing efforts and develop new products. It also may help the company tap new markets through Kaplan, which could also be a potential acquirer.

Although he wouldn't comment on a takeover, Headsprout CEO Dave Anderson wouldn't rule out the possibility.

"We want to keep all our options open at this point," Anderson said when asked about a buyout. "Everything is possible from our standpoint."

Kaplan spokesman Dick Riley declined to elaborate on Kaplan's interest in Headsprout, but said in an e-mail, "We believe Headsprout has a very bright future."

Since its founding seven years ago, Headsprout has made headway with schools around the country that are grappling with the No Child Left Behind Act. The federal law, which went into effect in 2002, boosts the role of standardized testing for public schools and seeks to hold schools accountable for student progress in reading and mathematics.

At the same time, the number of schools with broadband Internet connections has increased dramatically. As of 2003, the latest data available, 95 percent of U.S. public schools had broadband connections, creating a market for online learning programs.

Headsprout's "Early Reading" program teaches basic literacy skills for the kindergarten to second grade levels over the Internet. The company says more than 1,000 schools are using the product.

Kaplan's interest in Headsprout could open new doors for the company. Owned by The Washington Post Co., Kaplan is a major player in the education market. It started out offering SAT and other test preparation courses but has expanded into tutoring elementary and high school students, undergraduate and graduate education, and career skills courses.

Kaplan linked up with Headsprout several years ago when it began using the Headsprout Early Reading program in its Score! centers, which offer online and personal tutoring to kids in kindergarten through 10th grade.

"They were a natural partner for us," Headsprout



BUSINESS JOURNAL PHOTO MATT HAGEN

Dave Anderson, CEO of Headsprout, a Seattle company that develops online learning programs.

CEO Anderson said.

Kaplan led the new financing for Headsprout with a \$3.5 million investment, its first. Previous Headsprout investors, Roser Ventures of Boulder, Colo., and Sofinnova Ventures of San Francisco, also took part in the round, which totaled \$7.98 million. The new funding brings the company's total venture capital to date to \$19 million.

Anderson said Headsprout would use the funds to add sales and marketing staff and develop additional online learning programs, possibly targeting third grade, when many of the tests associated with No Child Left Behind kick in.

Headsprout faces big competitors in the market for supplemental reading programs, including London-based publisher Pearson plc, which distributes the Waterford Early Reading Program, and Irish publisher Riverdeep's Destination Reading Courses.

The alliance with Kaplan gives Headsprout more firepower in the marketplace. New York-based Kaplan has acquired a number of smaller companies in the past year, including PMBR,

which does test preparation for bar exams, and SpellRead, which develops reading programs for struggling students.

Anderson took over as president and CEO of Headsprout last year, replacing company co-founder Greg Stikeleather. Headsprout today has 42 employees.

The company's Headsprout Early Reading program is being used in schools in New York City, Chicago and Los Angeles, across the southeastern U.S. and on the West Coast, Anderson said. In Washington, Lake Washington is the largest school district using the program, he said.

The No Child Left Behind Act has drawn criticism on various fronts and Congress is due to consider whether to reauthorize it this year. Anderson said he wasn't concerned about the policy's fate, saying it wouldn't affect demand for Headsprout programs.

Contact: eengleman@bizjournals.com • 206-447-8505x117