

Raising Capital

Head of the Class

Soliloquy Learning is reinventing the way children learn to read. And now the company hopes to enroll a few investors for a first round of financing.

By Becky Bergman

From the get-go, company founder Joe Costello knew his educational software company Soliloquy Learning had the potential to change the world one class at a time. The \$750 billion education industry, only second behind health care, needed a new lesson plan to teach children to become fluent readers, and Costello figured his startup had the answer.



The problem, says Soliloquy CEO Bruce Bower, is that many children are not getting adequate instruction when it comes to learning to read. Significant research shows children who can read out loud by second or third grade remain strong readers beyond the elementary school level.

Try spelling that out to the venture capital industry. By the time Costello was ready to launch the company in September 2000, the days a great idea scribbled on a cocktail napkin could net you millions in investments were over. It didn't matter if you were Joe Schmo or Joe Costello, who was previously the CEO and president of Cadence Design Systems during its decade of growth and currently is Chairman & CEO of think3.

Weary VCs are done bankrolling every new idea that comes up. In fact, VC funding for the sliding education sector declined 73% last year. Investors dumped nearly \$800 million in education ventures in 2001, compared to the \$2.9 billion invested a year earlier, according to Tom Evans, Senior Analyst with the research firm Eduventures.

"You can't just go out with an idea anymore," says Bower. "You need to have milestones to show. You need to prove that you can execute a business plan and reach profitability."

So Costello decided to launch Soliloquy Learning with his own money. He hired Bower to run the startup and decided to develop an A+ strategy before the team began wooing investors.

Bower picked up his investing expertise as an attorney with Silicon Valley law firm Wilson, Sonsini, Goodrich and Rosati. As an attorney, Bower closed numerous deals, including financing efforts, private placement investments, and IPOs.

The ABCs of Soliloquy

Soliloquy Learning is targeting its reading software for the K-12 segment, and its most recent products are geared for grades K-5. Eventually, the company would like to design products for people learning English as a second language and illiterate adult students. The K-5 education biz amounts to about \$1.5 billion annually, while technology and instructional materials claim about \$7 billion of the market and is expected to grow an estimated 18% each year.

Soliloquy - defined as the act of speaking to oneself - first launched its reading assistant for

teachers and school administrators, an electronic program that uses speech recognition technology to provide an automated guided oral reading practice for early readers.

Bower, who joined Soliloquy in May 2001, and company chairman Costello should have no problem appealing to investors, according to Eduventures, which focuses exclusively on emerging trends in the learning markets.

The Boston-based research firm estimates the e-education market - which includes technologies, systems, and services that support the teaching infrastructure - is expected to grow from \$4.5 billion in 2001 to \$11 billion in 2005.

With that in mind, Soliloquy execs recently approached several investors for up to \$12 million, which Bower plans to earmark for marketing distribution and product development. The private company, which has no plans to go public anytime soon, is counting on reaching positive cash flow by next year.

Although he won't disclose details, Bower is confident the company will have its necessary funding by summer. The CEO also is tight-lipped about financials and company growth, except to say the company has doubled its headcount over the past year from 10 to 21.

He won't say how well the company has done during the first two years, but Bower says he's optimistic about Soliloquy's future.

"We have seen keen interest from a number of potential investors," says Bower.

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