

A growing concern

By SASHA NAGY

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It's full steam ahead for Kaboose.com.

And if the TSX Venture Exchange has their way, there will be more companies following the on-line media company into the ranks of publicly-traded companies.

Kaboose is the largest independent kids and family on-line media company in North America. But now, the Toronto-based company has another distinction. It became the first publicly traded pure play on-line media company in Canada when it began trading on the TSX Venture Exchange on Monday (symbol KAB), and it also recently closed a \$10-million financing deal.

The company represents something the TSX would like to see more of, new companies from a wide range of sectors joining the junior market to compliment the exchange's resource-based Western Canadian roots.

TSX Venture Exchange president Linda Hohol says helping more smaller companies go public is a major priority for the exchange. It has launched a program called Inside Success to mentor up and coming companies through the process.

The long range goal is to see these companies get their start on the junior market and eventually graduate to the Toronto Stock Exchange. Kaboose was a featured speaker at a TSX boot camp recently where the company spoke to aspiring firms about its experiences getting on the TSX venture exchange.

It's a message that Ms. Hohol has spent a lot of time trying to get out to prospective companies.

"Particularly in Ontario and Quebec, the notion of going and raising capital on the public market at such an early stage has not been historically very common because of the roots of the [TSX] exchange were in Vancouver, Calgary in oil, gas and mining," explained Ms. Hohol.

"But we've now visited all the major cities in Canada in the past two years, at least once, to talk about the exchange, to say, 'here's an option for you.'

"We are starting to see a lot of very diverse companies come to us in Ontario and Quebec. Companies in the non-resource sectors of technology, bio-technology, and manufacturing. It's been very good. I would say it has been a real success," said Ms. Hohol. "We are trying to build a more . . . classically diverse exchange."

According to Ms. Hohol, the climate is right for well-run companies that are looking to raise capital to get the financing they need to grow.

Kaboose.com chief executive officer Jason DeZwirek would agree, though he admitted that Canadian investors in general are very resource centric, which made it a challenge to sell investors in the merits of an on-line media company aimed at families. But he was successful, he says, because the company has been built on a very strong vision that was always leading towards going public.

Prior to going public, Kaboose.com emerged from the 2000 tech bubble burst in an acquisitive mindset, taking over three of its rivals (funschool.com, Zeeks.com, and kidsdomain.com) to become one of the major players in the family and kid space.

The company's management team now boasts a roster of Fortune 500 companies as advertisers, which has allowed it to post strong growth and financial performance. More than seven million unique monthly visitors go to Kaboose.com's family of web sites.

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"Certainly part of our ability to go public was our position in the marketplace, the critical mass of users, our roster of Fortune 500 clients and also the valuations put on companies in our space with those key metrics," said Mr. DeZwirek.

Kaboose is the sixth largest media company in the kid and family on-line space, sharing the top positions with giant brands like Disney, Mattel, Nickelodeon, Yahoo, PBS, and Hasbro.

"We are very proud of our position in the top 6," said Mr. DeZwirek. "What's interesting is eight of the other nine companies in the top 10 are advertising clients of ours. Disney doesn't like to advertising on Nickelodeon. And Nickelodeon doesn't like to advertise on Disney, but they can both advertise on Kaboose.

According to Mr. DeZwirek, Kaboose.com was always run as if it was a public company.

"We always felt that one day we would be in a position to go public. From Day 1, we have had audited financial statements, which is a prerequisite of going public. But we also prepared ourselves by hiring a CFO before entering this process," he said. "For the past two years we have had a compensation committee and other governance parameters put on the business by ourselves so that we would be running our business like a public company and be prepared for this."

Still, he acknowledged the TSX advisors provided valuable guidance.

"Companies going through this process need to realize that the TSX is a friend not a foe. They really are there to help guide you through this process," said Mr. DeZwirek. "It will probably take longer than most people anticipate in terms of the level of detail you need in preparing your financial statements. But they are there to help."

Kaboose reached an agreement with a Capital Pool Corporation, Iron Springs Capital, on Aug 11th, and just over the past two weeks closed the \$10-million financing deal. They closed the amalgamation with CPC Iron Springs, and began trading on the TSX on Monday.

The Capital Pool Company (CPC) program is unique to TSX Venture Exchange. The CPC program permits an IPO to be conducted and an exchange listing to be achieved by a newly created company that has no assets, other than cash, and has not commenced commercial operations. The CPC then uses this pool of funds to identify and evaluate assets or businesses which, when acquired, qualify the CPC for listing as a regular Tier 1 or Tier 2 Issuer on the Exchange.

Over the years, Kaboose was approached by several U.S. venture capitalists looking to invest in the company. Mr. DeZwirek, as the principal investor in the company, turned those offers down because he and his management team would have lost too much control of the company.

"It may have been more normal for a company like Kaboose, which is a smaller, high-growth, on-line media technology company, to look for venture capital financing, and we were actually approached over the past two years by over a dozen U.S. VCs," said Mr. DeZwirek.

"Since myself and really everybody on the management team here, have been significant investors in the business, cash investors in the business, we simply don't have founders stock or options. We really only had one conditional term with VCs which was, 'We have money in the business, you want to put money in the business. Let's all be in on the same terms.' "

That was usually the deal breaker, he noted.

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"They like to come in and have preferential treatment in the form of preferred stocks which gives them certain rights. You put yourself at risk. We acquired three companies that had all been VC-backed. Now we now own them, for a number of different reasons, but one of them is that VCs like to grow as quickly as possible. If we had done that in 1999 we would not be here today."

"With the public markets, it's an opportunity to be in a position to raise further capital, but where all investors and shareholders are on a level playing field."

Ms. Hohol is attempting to improve the quality and reputation of the exchange by providing aspiring companies proper guidance.

"It has also been a struggle in Ontario," she admits. "It's been hard to get those broker dealers that will play in the junior space. And they are important. We don't bring the money, we're just the exchange. You have to have lawyers, broker dealers, accountants that will support that space. In Toronto, it's Bay Street, everyone wants the big deals."

"It's been [a challenge] to build that following, but it is certainly coming."

The companies that join the TSX retain the expertise of the advisors, who follow them along. "A lot of these companies become very successful, they graduate to Toronto Stock Exchange. If you look at some of the graduations, the performance of the stock in the year before graduating is unbelievable," Ms. Hohol said.

By putting companies like Kaboose front and centre at TSX sponsored boot camps, they hope to inspire other companies to follow their lead.

"We're showcasing those companies," said Ms. Hohol. "I think the view of the junior market game has been that it only creates bad little companies and the investors lose their money. And that's not true."

"It's high risk, but it's high reward," she said. "And you are investing in the potential for this business to take off. And we remove the regulatory risk because we do the due diligence."

"The most important thing we do is determine the suitability of the officers and directors of these companies. If we do that well, you will prevent the bad things from happening. Then all the investor has to worry about is, is this management team going to be able to pull off what they say they are going to do. We put a lot of effort into it."