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Still standing:

Firms founded in March 2000, as start-up economy collapsed, look back at survival lessons

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Five years ago this month, Safi Bahcall incorporated Synta Pharmaceuticals Corp. on a day when the Nasdaq Composite Index would boil above the 5,000 mark, the hot markets stoking the formation of more than 200 other Massachusetts tech and life science startups that month.

Fast-forward to 2005. Synta filed Jan. 18 for an initial public offering of stock. While three dot-coms launched the same day as Synta have long since perished, a significant number of peers have survived from the class of March 2000.

Of 225 Bay State-based entities that received their incorporation here that month, 45 percent are actively doing business today as independent businesses under their original charter, or as acquired entities, according to a Boston Business Journal review of information supplied by the Massachusetts Secretary of State. Approximately 125 companies went out of business (including Reading-based eVision Technologies, which quietly dissolved Monday), 80 are in business today and 20 were bought.

Historically, about half of new “employer firms” — as distinct from sole proprietors — survive at least four years, according to the U.S. Small Business Administration.

In that sense, the remaining startups in the class of March 2000 — left to the mercy of the twin market shocks of the Nasdaq



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John Bullock's Windspeed Ventures was one of three venture firms founded in March 2000, the month the startup economy began a long, painful collapse. His firm and others adapted and survived while others fell away.

crash followed by the 2001 terrorist attacks — defied the pessimistic prognosis of that era. Entrepreneurs from the period share a common experience: Venture investments and sales were abruptly curtailed or cut off. Their experiences diverge, however, in how they attempted to salvage their businesses and investments.

The startups to receive the earliest inkling were the venture capitalists who were feeding greenbacks into the fire. Three funds — CommonAngels Inc., Village Ventures Inc. and Windspeed Ventures Inc.

— were incorporated the first two days of the month.

Windspeed co-founder John Bullock had already made a small fortune as an early employee at Wellfleet Communications, a Billerica company that eventually became part of Nortel Networks Corp. in an \$8 billion transaction.

“Businesses are run by people, and people are emotional,” Bullock said. “You had people who saw senior management at another company make it big, and they wanted their turn.”

MARCH 2000: Adaptability proved key to survival for ill-timed startups

The same held true for many venture capitalists, admits Matt Harris, who started Williamstown-based Village Ventures to invest in startups in cities far from tech centers. After the Nasdaq sustained its 37 percent two-week plunge in April 2000, Village Ventures' founders were grilled by their backers.

"There was this 'come-to-Jesus' meeting. ... It didn't take long for the guys at Bain (Capital) and Highland (Capital Partners) to rethink" their founding vision of rapid cash deployment, opting instead for a steady-as-she-goes approach, Harris recalled. "We went in on a Saturday morning and recut the deal. We were dreading that meeting. We knew what we were doing, but we were thinking we were rock stars. But if not for that day, (Village Ventures) would have really struggled."

Between then and September 2001, all companies confronted similar moments of truth, squeezed by tight coffers and confronted with a siege of sky-high prices on salaries, real estate and professional services. For many of the March 2000 entrepreneurs, it marked their first experience in an adverse business cycle. The only other one to compare happened a decade earlier.

Tagsense Inc. and Lobby7 were two wireless startups from March 2000. Tagsense founder Richard Fletcher said some attorneys demanded equity in return for services rendered.

"When we first started up in March 2000, it was almost impossible to find a corporate lawyer," Fletcher said. "We had to get referred to one by our tax accountant — everyone was swamped with business from dot-coms. A year later they all lost a ton of clients, and they were begging us for our business."

Lobby7 co-founder Hugo Barra said in many ways it is easier to start a company today — both in managing expectations of customers and investors, and in keeping expenses in check. He estimates Lobby7,

acquired in 2003 by Peabody-based ScanSoft Inc. (Nasdaq: SSFT) could have developed its platform today for one-fifth the price five years ago.

"There are really well-structured outsourcing systems you can take advantage of today," Barra said. "Companies that were offshoring then were taking a lot of risks. It was difficult to find a structured system at all, let alone someone you trusted."

Murali Aravamudan learned the same lesson. He co-founded Winphoria Networks in Tewksbury in March 2000, and sold it three years later to Motorola Inc. (NYSE: MOT) for \$179 million, roughly triple what Waltham-based Matrix Partners LP and other investors sunk into it. Veveo.tv, Aravamudan's current \$14.5 million video-over-Internet startup backed by Matrix and others, is building off an old idea in a better economic and technical climate, according to Margaret Heffernan, who has a unique perspective on the market.

In March 2000, Heffernan launched iCast Movies with an investment from CMGI Inc. (Nasdaq: CMGI), which at the time was an Internet holding company based in Andover. CMGI, which has morphed into a supplies-fulfillment firm, later pulled the plug on iCast.

"It's been kind of interesting and mildly annoying to be sitting here knowing we were right," said Heffernan, who now is a business author.

For every Cushyjob.com Inc. ("site still under construction" the Web site proclaimed last week) in the class of March 2000, there was a Capecoder.com Ltd., whose founder took a second job to keep the business going. For every GiantLoop Network, which restructured after burning through vast tracts of venture capital, there was a Salesnet Inc., which discovered a niche in online customer management software that allowed it to be a player in 2005.

Great startups find a way regardless of

the markets, said Ian Campbell, who in March 2000 launched Nucleus Research Inc. in Wellesley to perform market research on enterprise software.

"For all the opportunities that have disappeared, I think there are at least as many that have shown up," Campbell said. "They are different, but more sophisticated in some ways."

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March 2000 trio eyes IPOs

The class of companies founded in March 2000 was notable in one respect - of four Massachusetts tech or biotech companies now on file for initial public offerings, three were founded that month: Synta Pharmaceuticals Corp., CombinatorX Inc. and eGenera Inc.

Waltham-based Unica Corps, which likewise has filed for an IPO, was started eight years before.

Marlborough-based eGenera was incorporated March 1, 2000, to make high-performance computer server modules. Synta was started in Lexington on March 10, 2000, the day the Nasdaq index hit its peak of 5048.62, and would raise \$200 million in venture capital to develop drugs. CombinatorX, was launched March 28, the day after the Nasdaq started a two-week swoon that would gouge out more than a third of its value.

Airvana Inc., a Chelmsford designer of wireless telephone switches, was also founded the same month and says it also is marching toward an IPO in the next year, though it has not filed formal paperwork.

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