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Nonprofits wired for fast growth

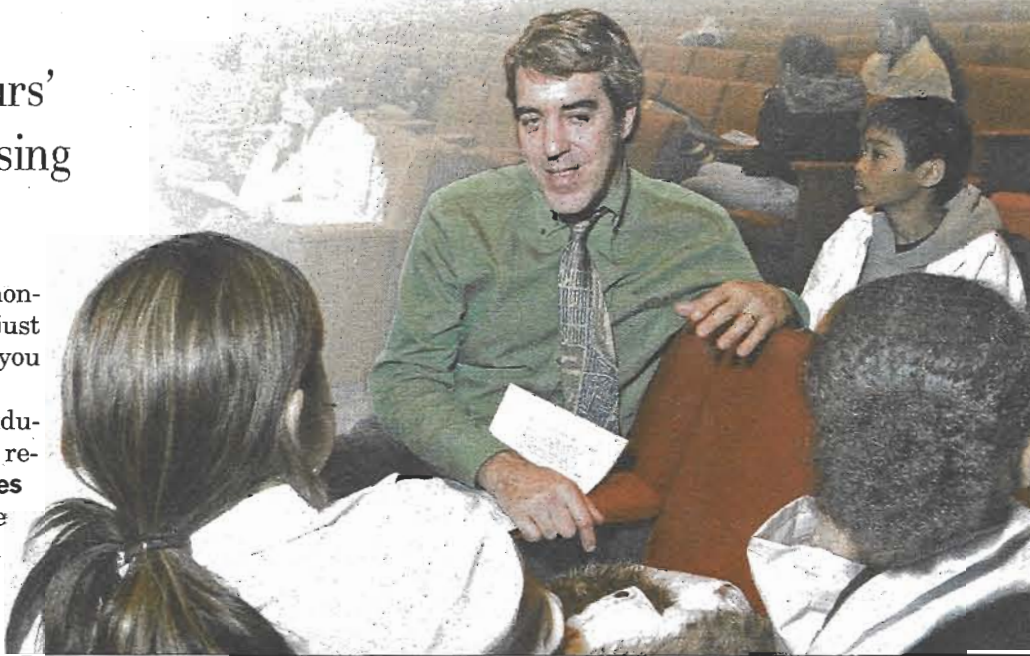
Business connections of 'social entrepreneurs' turbo-charge fund raising

BY NAOMI R. KOOKER
JOURNAL STAFF

In the competitive world of non-profit fund raising, it's not just what you do, it's whom you know.

Take **Earl Martin Phalen**, graduate of **Harvard Law School**. It was the relationship with his professor, **Charles Ogletree**, that got him an in with the **Red Sox Foundation** — a connection that has yielded upwards of \$2.75 million in fund-raising commitments to date for his Dorchester-based nonprofit **B.E.L.L.— Building Educated Leaders for Life**.

Since **Eric Schwarz**, president and CEO of **Citizen Schools** in Boston, met **Andrew Balson**, managing director of **Bain Capital LLC**, Balson's involvement has helped grow the nonprofit at a rapid clip. Balson, now chairman of the nonprofit's board, is helping lead a



W. MARC BERNSAU / BUSINESS JOURNAL

Eric Schwarz, president and CEO of **Citizen Schools**, talks with students of the **Edison School** as they prepare for a presentation at the **Federal Reserve Bank building**.

threefold expansion.

Phalen and Schwarz are among the more than a dozen so-called "social entrepreneurs" — individuals with considerable business skills and extensive

connections who have brought aggressive, growth-oriented approaches to building new nonprofits.

PLEASE SEE ENTREPRENEURS, PAGE 18

SJC blocks judges from using forced-deal remedy

BY BRIAN KLADKO
JOURNAL STAFF

No matter how badly they have been treated, aggrieved shareholders of small companies will no longer have recourse to an increasingly common remedy: the forced buyout.

Massachusetts' Supreme Judicial Court ruled last week that such court-ordered buyouts provide minority shareholders with disproportionate windfalls. Although judges might prefer a "clean break" among warring parties, the high court said some other kind of relief must be granted, such as a salary, dividends or a greater voice in company affairs.

The ruling, *Brodie v. Jordan et. al.*, was portrayed by the majority shareholders' attorney as a victory for small business, because a forced buyout could mean the dissolution of a company.

"You can't let one minority shareholder dictate what will be the future of the company," said **Dennis McKenna**, a partner at **Riemer & Braunstein LLP**, who represented the two majority shareholders of **Malden Centerless Grinding Co. Inc.**, a machine shop.

By forcing adversarial co-owners to work out truces, the ruling could alter the tenor and outcome of small-company disputes. Like the 1990s fight over



McKenna: Win for majority shareholders

PLEASE SEE SJC DECISIONS, PAGE 18

Bridgeline eyes Web firm buying spree

Aims to bring together a fragmented market

BY TODD WALLACK
JOURNAL STAFF

You've heard of Web 2.0. Now here comes roll-up 2.0.

Taking a page from **USWeb Corp.** and **iXL Enterprises Inc.** dot-com era strategy, **Bridgeline Software Inc.** of Woburn has sketched an ambitious plan to buy up small Web development shops in

cities across the continent to create an Internet powerhouse.

"We believe that the Web development market is rapidly growing and is fragmented," Bridgeline said in a filing with the **U.S. Securities and Exchange Commission** this month. "Consequently, we believe there is an opportunity for us to expand ... potentially creating one of the largest interactive technology companies in North America."

Bridgeline, which helps develop

BOUGHT BY BRIDGELINE

Some recent acquisitions:

- **Lead Dog Digital Inc.** of New York (February 2002)
- **Interactive Applications Group Inc.** of Washington, D.C. (December 2004)
- **New Tilt Inc.** of Cambridge (April 2006)
- **Objectware Inc.** of Atlanta (December 2006)

PLEASE SEE BRIDGELINE, PAGE 19

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SJC DECISIONS: No more quick, easy remedy in small-business cases

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the **Demoulas Supermarkets Inc.** chain, the feuds often involve family members and resemble divorce cases in their nastiness.

It's unclear how often judges have ordered such buyouts in Massachusetts. **Michael Roitman**, a solo practitioner who represented the minority shareholder in the Brodie case, said there have been at least a half-dozen such orders by Superior Court judges since 1975.

"It's certainly something that goes through trial judges' minds as a fair compensation for a party who has been improperly frozen out," said Superior Court Judge **Allan Van Gestel**, who presides over the Business Litigation Session of Suffolk Superior Court.

But lawyers on both sides say those accumulating rulings have set the tone for an untold number of negotiations

that never made it to trial, or even to litigation.

"I think this will affect the calculus of the relative risk and relative value of this kind of case," Roitman said.

Roitman said he was surprised by the ruling, especially because the Supreme Judicial Court was the first in the country to say that shareholders of closely held corporations must treat each other with the same principles of fairness and good faith expected of members of partnerships. The principles of that 1975 decision, *Donahue v. Rodd Electrotype Co.*, were emulated by almost every other state, Roitman said.

"I would have thought that the judges on the SJC would have looked at the *Donahue* decision as one of the great decisions the court had come out with in the last 25 years," he said.

The legitimacy of forced buyouts had never been tested in Massachusetts until this case, which pitted two of the

company's owners, **Robert Jordan** and **David Barbuto**, against **Mary Brodie**, who inherited her share of the company from her late husband.

Brodie and her late husband, unlike Jordan and Barbuto, have not received any money from the company since 1995. Jordan and Barbuto refused to provide Brodie with information about the company's finances and operations, had not held a shareholders' meeting in five years and excluded her from any decision-making.

Judge **Elizabeth Fahey**, sitting in Middlesex Superior Court, ordered the majority shareholders to buy out Brodie in 2002. A state appeals court upheld that remedy in a 2-to-1 ruling earlier this year.

"Forcing the parties to maintain a relationship none of them wants is not good for them or for the corporation and is bound to breed more litigation," the appellate court said.

But the SJC said a forced buyout creates "an artificial market" for her share of the company, "an asset that, by definition, has little or no market value." As a result, the court said, it made her better off than she would have been had there been no wrongdoing. The SJC sent the case back to the Superior Court to devise an alternative remedy.

By limiting the available outcomes to a small-business dispute, the SJC introduced a welcome predictability to small-business disputes, said **John Donovan**, a partner at **Ropes & Gray LLP**, who watched the oral arguments over the Internet.

"It was hopefully a signal that the SJC is returning to traditional rules of corporate law that would not create a remedy, like a buyout, out of thin air," said Donovan.

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ENTREPRENEURS: Donors tap well-heeled friends to boost fund raising

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Their contacts and business acumen are giving them a competitive fund-raising edge over traditional nonprofits. Many of the nonprofits created by social entrepreneurs are growing at the rates of for-profit startups, driven by the financial support and advice of some of Boston's business innovators.

"There is no question there is this small but very impressive group that is bringing a new approach (to the nonprofit sector)," said Mark Kramer, managing director of the FSG Social Impact Advisors in Boston. "(They're bringing) new management training and a new sense of ambition and growing much, much more rapidly." The median annual growth rate for small nonprofits is about 5 percent, according to **Common Impact**, a service provider to area nonprofits. Some of the nonprofits led by social entrepreneurs are growing 5 percent per month.

Their networks are driving much of the growth. **Gerald Chertavian**, founder and CEO of **Year Up**, can attest to how his relationship with **WilmerHale**, and in particular partner **Martin Kaplan**, helped him connect with people who have generated millions of dollars to help grow the Boston-based nonprofit. **Year Up**, whose mission is to close the "opportunity divide" by training inner-city teens in technical and professional skills and placing them in jobs, grew 412.5 percent over five years or, on average, 82.5 percent year-over-year in terms of fund raising. Those figures also include revenue raised through corporations that support the apprenticeship program.

But perhaps it was his connection to **Tim Dibble**, managing general partner of the private equity firm **Alta Communications** in Boston, that helped launch

Year Up. Dibble shared his Back Bay offices with the **Year Up** startup team, before the nonprofit made its own home on Summer Street. Some **Alta** associates became mentors to the students of **Year Up**; they helped with fund raising.

Chertavian, a for-profit world veteran (he co-founded **Conduit Communications** in London and grew it to \$20 million in annual revenue before selling it) said being able to talk business helped put business professionals at ease, but his background itself did not win their hearts — or wallets.

"The reality was, I was talking about the challenge to our community and offering a solution ... at the end of the day what they are really signing up for is a program that addresses a social challenge that exists in our community," he said.

As for Phalen, his one relationship with his Harvard Law School professor **Ogletree** is what led to his **Red Sox** connection. **Ogletree**, a renowned legal scholar and faculty fellow at **The Berkman Center for Internet & Society at Harvard Law School**, knew **Red Sox** co-owner **Larry Lucchino** through a mutual friend in legal circles.

It was **Ogletree** who suggested **B.E.L.L.**, which teaches at-risk youth academic skills that will help them go to college, to **Lucchino**, who had been looking to partner with nonprofits to develop the **Red Sox Scholars** program.

B.E.L.L. and the **Red Sox** have been partnering on **Field of Dreams** fundraisers, which raise money for the **Red Sox Scholars** and raise the visibility of **B.E.L.L.**, for the past two years.

Through that connection, **Fidelity Investments** has kicked in \$1 million and **Bank of America** \$250,000 — two companies **Phalen** said wouldn't have

looked twice at **B.E.L.L.** if it weren't for the opportunity for his students to shine at the **Field of Dreams** events held at **Fenway Park**.

Phalen forged a connection about six years ago with **John Hamilton**, the retired managing partner of **WilmerHale**, a connection that has saved **B.E.L.L.** \$750,000 on rent at a New York City office through pro-bono work.

"No chance that happens without **WilmerHale** treating us like we're one of their highest-paying clients," said **Phalen**.

All told, **B.E.L.L.**'s fund raising has grown more than 460 percent over the past five years, and it plans for a 23 percent jump as its goal is to reach the \$25 million range in 2007.

Results draw funding

Donors from the venture capital and private equity world often are drawn to the results-oriented approach social entrepreneurs bring to the board room. "I think nonprofits that are able to talk the language of business are able ... to attract a new group of donors who are very focused on results and very focused on growing great teams," said **Citizen Schools'** **Schwarz**. "They've made money investing in great teams and want to make a difference investing in a great nonprofit team that also gets great results."

In the past five years, **Citizen Schools'** fund raising has increased 83.3 percent, much of it driven by **Schwarz's** developing relationships in the VC world, and not just as supporters financially, but organizationally. **Bain's Balson** and his wife have contributed an undisclosed amount to **Citizen Schools**; **Andrew** has served on the board for two years, but just this year was elected chairman of the board. And he and his wife stepped up their financial commitment as **Citi-**

zen Schools takes on a capital campaign to kick off an aggressive five-year growth strategy.

"**Citizen Schools** reminds me of a great company," said **Balson**. "There is a great strategy ... (Eric) has surrounded himself with a team of people who are really good ... and then (he has) real clarity around what it is they want to accomplish and how they're going to go about accomplishing it."

Schwarz said the five-year goal is to grow the current \$11 million fund-raising budget to \$35 million, quadruple the total number of kids served and triple the operating budget. He wants to add five more states to the five **Citizen Schools** already operates in.

Aggressive growth has been one of the hallmarks of social entrepreneurs, of which Boston has more than its fair share and is often referred to as the Silicon Valley of social innovation.

Tim Conway, who just went public with his financial firm, **NewStar Financial Inc.**, has served on the **Citizen Schools** board for five years. Though he met **Schwarz** through traditional networking channels — **Conway** was a banking executive looking to get involved in the community — he said he's watched **Schwarz** broaden his network to include entrepreneurs and other business professionals.

"I've seen him evolve in a very different way — the way he raises money and so forth," said **Conway**. "He's extended that network way beyond the traditional large givers at big institutions. He has really focused on building his own network of people and through his board with more entrepreneurial executives and businesses that are impressed with the way he does things."

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