



## **Like It or Not, Technology Sea Change is Sweeping Across Southeast**

*By John Yates, Special To LTW*

**Editor's note: John C. Yates Chairs the Technology Group of the law firm Morris, Manning & Martin, LLP.**

ATLANTA - The Southeastern technology community is undergoing a major sea change. We have to face the facts – even if they don't paint an optimistic picture.

### **Fact 1: The plug has been pulled on the “living dead”**

The living dead technology companies in the region have been largely abandoned by their investors. The result has been bankruptcy, liquidation or hibernation for many tech companies. This trend has occurred over the last two years, and these companies have exited the business world. Most left quietly without much of a whimper. They left in their wake several common factors:

- Emaciated venture fund portfolios.
- Talented but unemployed executives, managers and engineers.
- A few super-wealthy entrepreneurs (who got out before the market turned).

### **Fact 2: Most of the management talent has stayed in the Southeast**

Despite tough times and widespread unemployment of technology talent, most executives have elected to stay in our region. The benefits we all appreciate – weather, hospitality, growth – outweigh many of the disadvantages. This is a positive sign for the future. The comeback for our technology community relies on these executives staying in the Southeast – and not fleeing to Boston, Austin or California.

### **Fact 3: The IPO market is gone for all but a few**

Only the select few companies will be able to close an IPO for the next several years. As a result, a series of business motivations have had to be readjusted:

- Senior management will not become rich following the IPO and be able to retire.
- Venture and angel investors will be unable to get liquid within their desired window.
- Directors will be burdened with under-performing companies that must be downsized or shut down.

There are some notable exceptions. The IPO route may still be possible for companies in the business process outsourcing (BPO) area. And there are several good IPO candidates in the Southeast in the BPO area. Also, some entrepreneurs will be fixated on an IPO as the ultimate goal – and we wish them the best (and patience).

**Fact 4: Acquisitions will continue at a fever pace**

An acquisition is the only viable exit strategy for most technology companies. The number of acquisitions has dramatically increased in the Southeast. Many of the target-acquired companies are small public or private businesses that have unique technologies, a significant customer base or an experienced management team looking for a new home. There are several common factors with regard these actions:

- They usually involve cash (with the elimination of pooling of interest accounting, we're seeing more cash deals).
- The purchase price usually is much less than the liquidation preferences (in other words, the purchase price is substantially less than the capital invested in the company).
- The common stockholders may get next to nothing from the deal (the preferred holders will take most, if not all, of the purchase consideration).

**Fact 5: Acquired Southeastern companies are being dismantled**

As Southeastern tech companies are acquired, the acquiring businesses are often stripping their targets of key assets. In many cases, management is terminated and the development team may be the only group remaining. The cycle is completed when the acquiror transitions the target's customers and decides to cut overhead by closing the Southeastern satellite office. Look for this trend to continue as companies seek more cost savings.

**Fact 6: Development is moving offshore – even for smaller companies**

The Southeast has provided a large pool of technology talent, especially in the programming field. But for years, IT services for large companies have been moving offshore. Now, smaller Southeastern-based companies are also using outsourced services.

The result will be a slowdown in the hiring of programming and development talent from our region's universities. The trend will be augmented by the increasing number of Southeastern tech companies being sold to acquirors based outside the region.

These facts must be carefully considered by the leaders of our region. The face of our technology community is changing. Our strategic plan for technology growth in the region must also change.

(Next week's column will focus on the changing technology strategy for Southeastern growth in this decade.)

*John C. Yates Chairs the Technology Group of the law firm Morris, Manning & Martin, LLP, which has offices in Atlanta, Charlotte and Washington, D.C. He can be reached at [jcy@mmmlaw.com](mailto:jcy@mmmlaw.com) and (404) 504-5444.*

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