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## Busy Sanders Morris Harris deals Austin software to IBM

Houston Business Journal - by [Mary Ann Azevedo](#) For Houston Business Journal

**Sanders Morris Harris Group Inc.** is poised to cash in on the sale of a portfolio company to **IBM**.

IBM's proposed acquisition of Austin-based **Lombardi Software Inc.** will mark the third major private equity investment exit for Sanders Morris Harris in the past 12 months.

The Houston firm sold **Wayport Inc.** to **AT&T Inc.** and **New England Pantry Inc.** to **7-Eleven Inc.**, early last year.

Lombardi aims to help organizations automate and integrate business processes with software and services.

IBM officials did not return calls for comment, but the tech giant formally announced plans in mid-December to buy Lombardi and fold the company into Big Blue's application integration and middleware division.

IBM General Manager Craig Hayman issued a written statement noting that Lombardi fills out IBM's business process and integration software portfolio.

The deal is expected to close in the first quarter of 2010.

### In at the start

Sanders Morris Harris first invested in Lombardi when the software services company was founded in 1999.

The local private equity group was Lombardi's first institutional investor and subsequently put another four rounds into the company.

Since inception, Lombardi has raised about \$50 million in venture capital.

In addition to Sanders Morris Harris, other Lombardi investors include **Austin Ventures**; **InterWest Ventures**, with offices in Dallas and California; and **Palomar Ventures**, also based in California.

No one firm owned a majority of the company.

Management had a significant stake in Lombardi as well, according to company CEO Rod Favaron.

"While we are not disclosing the price," says Favaron, "I can say the deal was very motivational for everybody, including employees and investors."

Lombardi, which has about 200 employees, will move into IBM's Austin building in late 2010.

The deal will allow Lombardi to take its product worldwide "through a much larger distribution network and sales partners," says Favaron.

"We will grow much faster than we could have grown on our own," he adds. "It's like flipping a switch and having access to thousands of people all over the world."

Over the years, Sanders Morris Harris served as more than a financial investor to Lombardi, according to Favaron.

"They helped us with introductions to people," he says. "They also gave us insight into the right things to do at the right time when you scale a company up from nothing."

Charles "Chip" Davis, a managing director at Sanders Morris Harris, says the deal is also noteworthy in the sense that "significant victories in enterprise software are not few and far between, but close to it."

Mergers and acquisitions as a whole are down in 2009 compared with 2008, according to the **National Venture Capital Association**.

In the first three quarters of 2009, the country saw 189 mergers and acquisitions compared with 280 deals in the first three quarters of 2008.

Selling portfolio companies to much larger companies speaks to the fact that the Sanders Morris Harris private equity group works to be creative in making investments.

“We have invested in firms that have been strategically important to large players,” Davis notes. “Did we do this by design? No, but we are always looking for firms that solve complex problems.”

While the IBM deal involves an Austin software company, the transaction gives a boost to Houston’s underrated venture scene.

Says Davis: “Houston gets a bad rap for being an inactive venture community. But there are pockets that are doing well.”

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