

Beware of IBM's "Blue Washing"

By Christopher Barnett

Fans of Star Trek likely are familiar with the dreaded Borg – an alien race of cyborgs that survives and swells its ranks primarily by conquering other races and then absorbing them into the collective through brainwashing and physically altering them with Borg-y bionic body parts. Their creepy, trademark greeting to new races is always: "You will be assimilated."

And so it goes with IBM software. Big Blue grows its business lines as an organization just as much (if not more) through acquiring other companies as it does through originating its own products internally. One of the effects of that process is that legacy end users of companies acquired by IBM usually find themselves post-acquisition in the position of having to adapt both to any technical changes that IBM may want to make to new versions of the licensed software and also (likely more importantly) to IBM's way of licensing software. Insiders usually refer to IBM's Borg-like assimilation of acquired software lines as "blue washing."

Blue washing often is a very troubling occurrence for companies that have licensed business-critical products for many years under favorable terms offered prior to an acquisition. It is an especially bad situation for larger licensees that may have had the leverage to obtain sweetheart, "all you can eat" license agreements from smaller software vendors, but that, like most companies, have very little leverage to bring to the table against IBM. As a result, those companies have to find a way to absorb either the costs associated with transitioning to IBM's usually expensive licensing metrics or the costs associated with transitioning to other products.

So what can be done to defend against blue washing? Unfortunately, as with the Borg, the options are limited. However, three of the more important tips to keep in mind include the following:

- **Poison Pills.** Before an acquisition occurs, use whatever leverage your company enjoys to extract the most favorable terms possible in license agreements, including terms that would tend to preserve existing licensing metrics following an IBM takeover. For example, an agreement might include (1) a warranty by the software vendor that it will not assign its copyrights in the licensed software to a third party and (2) a software escrow provision that permits the release of the products' source code to the licensee under broad, perpetual license terms in the event that the warranty is breached.
- **Vigilance.** If a vendor's products are important to your business, it makes sense to keep an eye on what is happening with that vendor. IBM takeovers often are announced well before closing occurs. If that happens, you should use the time to ascertain what products currently are licensed from the acquisition target, how many of those products are deployed on company computers, and what kinds of remedies might be set forth under existing agreements to mitigate the effects of the inevitable blue washing. If nothing else, the advance warning will give a company time to identify and transition to other solutions if it appears that the acquisition will sink the company's licensing budget.
- **Litigation.** IBM usually is effective at structuring its acquisitions in such a way that it enjoys maximum flexibility in determining how acquired products will be licensed in the future. However, it is not infallible. After reviewing all the relevant agreements, if it appears that new licensing demands represent a breach of existing

commitments, then litigation remains an option. Just remember that IBM has the resources to throw lawyers at lawsuits in the same way that the Borg could throw cyborgs at attacking spaceships. It is important to have a high degree of confidence in your legal claims before proceeding with such a plan.

It should go without saying that all of the above options require significant input from a company's legal team. Corporate counsel has a role to play in almost every major software-licensing transaction, and it is important for procurement and IT teams to work with legal on all such matters in order to hedge against both typical pitfalls as well as looming threats.



About the author Christopher Barnett:

Christopher represents clients in a variety of business, intellectual property and IT-related contexts, with matters involving trademark registration and enforcement, software and licensing disputes and litigation, and mergers, divestments and service transactions. Christopher's practice includes substantial attention to concerns faced by media & technology companies and to disputes involving new media, especially the fast-evolving content on the Internet.

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