

# IBM's purchase of Red Hat highlights growing power of technology giants

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Red Hat and IBM officials announced a definitive agreement on October 28, under which IBM will acquire the open source enterprise Linux company for a cash value of \$34 billion. IBM is paying \$190 per share for Red Hat stock, a 63 percent premium to its closing price of \$116.68 on the previous Friday. It is the largest acquisition by IBM in its 107-year history.

The acquisition is the latest case of giant corporations swallowing up previously independent open source companies and the community of developers around them as they grow ever larger and more powerful. Nowhere is this more prevalent than among companies competing in the so-called public cloud market, in which IBM trails behind Amazon, Microsoft and Google.

In the 10 years from 2007 to 2017, the number of Microsoft employees grew from 79,000 to 124,000. Google had 16,805 in 2007 compared to 57,000 in 2017. The number of employees in Amazon Web Services (AWS) is not available, but the total number of employees at Amazon grew from 17,000 in 2007 to 566,000 in 2017. IBM, the dominant tech company for much of the 20th century saw a slight reduction from 386,000 to 366,000 in wholly owned subsidiaries for the same period.

IBM hopes that the acquisition of Red Hat will give it a competitive edge in the so-called hybrid cloud, which combines public cloud offerings with private clouds in data centers run by a company. In a press release, Ginni Rometty, IBM chairman, president and chief executive officer, said, "The acquisition of Red Hat is a game-changer. It changes everything about the cloud market." Rometty claimed that "IBM will become the world's #1 hybrid cloud provider, offering companies the only open cloud solution that will unlock the full value of the cloud for their businesses."

Jim Whitehurst, president and CEO of Red Hat, said, "Open source is the default choice for modern IT solutions, and I'm incredibly proud of the role Red Hat

has played in making that a reality in the enterprise."

IBM has had its own close relationship with open source software over the past 20 years, recognizing it as a superior development model to those of proprietary systems. With the open source model, IBM gains access to thousands of talented developers globally who would not necessarily work for the company.

Even Microsoft, whose former CEO Steve Ballmer described open source as "a cancer that attaches itself in an intellectual property sense to everything it touches" and "communism," has in recent years adopted the open source model for a number of projects. Sixty percent of instances running in Microsoft's Azure cloud are Linux based. Last month Microsoft completed its acquisition of GitHub for \$7.5 billion. The open source code repository and development platform has over 31 million users and hosts more than 96 million repositories from 2.1 million organizations.

Red Hat was founded in 1993 by Bob Young and Marc Ewing. Young ran a catalog service that distributed software while Ewing was developing his own distribution of the open source GNU/Linux operating system which he called Red Hat Linux. The distribution bundled together various application and utilities developed by the Free Software Foundation led by Richard Stallman and the Linux kernel developed by Linus Torvalds. Both the GNU and Linux were released as open source software that could be used by anyone free of charge. Most importantly, the GNU General Public License requires that the human readable source code be made available and gives users the right to modify that code. This was in stark contrast to the proprietary licenses of companies such as Microsoft, Apple and IBM.

Red Hat became the first commercial Linux distribution with a revenue model of distributing the software for free and charging a subscription service for support, updates and professional services. It has maintained a close

relationship with the open source developer community and contributed to numerous projects.

Today Red Hat is a significant corporation in its own right, with over 12,000 employees worldwide. Utilizing the code developed by thousands of volunteer programmers, Red Hat quickly established itself as the main distributor of Linux software to enterprise companies. In August 1999, Red Hat went public, achieving the eighth-biggest first-day gain in the history of Wall Street. In 2000 the company opened Red Hat India and began a series of acquisitions, most recently buying the Linux Container distribution, CoreOS, for \$250,000,000 in January this year.

A particular target of IBM's cloud strategy is JEDI, the \$10 billion Joint Enterprise Defense Infrastructure project of the Department of Defense. The project is intended to modernize and consolidate the defense department's IT systems into an enterprise-level commercial cloud. IBM has issued a protest against the JEDI solicitation, stating, "Throughout the year-long JEDI saga, countless concerns have been raised that this solicitation is aimed at a specific vendor. At no point have steps been taken to alleviate those concerns."

IBM are complaining specifically about a requirement that bidders meet the Defense Information Systems Agency Impact Level 6 security capabilities to handle secret-level military information. Two senior Republicans on the House Appropriations Committee, Reps. Steve Womack (R-Ark.) and Tom Cole (R-Okla.) have called for the Pentagon's internal watchdog to open an investigation into the cloud procurement, raising the same concerns in an October 23 letter to Glenn A. Fine, the acting inspector general at the Department of Defense. At the time the proposal was announced, only AWS met this requirement. Microsoft announced last month that it will soon meet the requirement.

Google withdrew from the JEDI bid last month following protests from employees. Microsoft went ahead with the bid despite opposition from workers. *Nextgov* reports that CEO Satya Nadella appeared at the United States Naval Academy in Annapolis, Maryland, October 10. Nadella reportedly said Microsoft has a four-decades-old partnership with the Defense Department and added that the US "armed forces have a fundamental grounding on what it means to deploy any technology or practice which is ethically used."

Amazon is also going ahead with its bid and criticized Google's decision to pull out. Speaking at the WIRED25 summit on October 15, Amazon CEO Jeff Bezos said,

"One of the jobs of a senior leadership team is to make the right decision even when [it] is unpopular." He added, "If big tech companies are going to turn their back on the DOD, then this country is going to be in trouble."

With its contribution to open source, Red Hat has maintained a certain respect among developers. But part of the attraction to IBM is the company's close relationship with the US military. The headline of a 2012 blog post boasts of "Red Hat's Decade of Collaboration with Government and Open Source Community."

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The authors cite a 2003 study that presented DOD-wide guidance on open source software, "which implicitly permitted its acquisition, development, and use."

The blog post states that at this time Red Hat released the first version of Red Hat Enterprise Linux and that, "The Army deployed Red Hat's operating system in its Blue Force Tracker system, which lived in jeeps and tanks on the battlefield." It goes on to cite Major General Nicholas Justice, "the man responsible for Blue Force Tracker," saying later: "When we rolled into Baghdad, we did it using open source."

Retired general Hugh Shelton joined the Board of Directors of Red Hat Corporation in April 2003 and was elected that board's chairman in 2010. Shelton served as chairman of the Joint Chiefs of Staff from 1997 to 2001.

A June 26 article in the *Herald Sun* states: "Red Hat leaders have been talking to defense officials about its JEDI cloud-services contract and think the company is 'extremely well-positioned' to supply the project's back-end workings, Red Hat Chief Financial Office Eric Shander said in a recent interview."

IBM is pushing for the DOD to adopt a hybrid cloud approach, utilizing multiple providers rather than a single vendor. In acquiring Red Hat they obtain control of the operating system that will run on whatever cloud infrastructure is ultimately selected, together with orchestration tools that make cloud deployments easier. If they can't get the whole \$10 billion JEDI cake, they at least have a possibility of a slice, together with more lucrative contracts down the road.



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