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CONSIDERATION-FREE, IMPLIED-IN-FACT SOFTWARE LICENSING UNDER
BITMANAGEMENT SOFTWARE GMBH v. UNITED STATES

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ABSTRACT

This article studies *Bitmanagement Software GmbH v. United States* and provides practical implications on legal issues surrounding an implied-in-fact software license. In *Bitmanagement*, Bitmanagement Software GmbH, a German software company, alleged that the U.S. Navy infringed its copyright. The Navy purchased 119 copies of Bitmanagement's software from 2006 to 2012, but it eventually made over 429,604 copies without Bitmanagement's consent. *Bitmanagement Software* is educational to the software industry. A software company utilizing an intermediary to conduct business with potential purchasers should learn Bitmanagement's mistakes. Three practical concerns require attention. First, a software company must respond to its customer carefully without triggering any implied-in-fact license to use software. Otherwise, flexible customer services, such as informal email communications, may result in unintentional authorization of mass software installations. Second, determination of an implied-in-fact license turns on whether a factfinder concentrates on certain information exchanged between the parties. However, authorizing an intermediary to form a contractual relationship with a user may prevent such an implied-in-fact license particularly when the contract between the intermediary and user specifies authorized uses of software and the number of permitted copies. Lastly, while an implied-in-fact license without consideration between the parties can be found, the copyright owner may revoke the implied-in-fact license because of disappearance of consideration.

Keywords: Copyright, License, Implied-in-fact Contract, Software, Computer Program



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I. INTRODUCTION

A copyright owner may sue for copyright infringement.¹ However, one valid defense is that accused copying “falls within the scope of a valid license.”² A valid license may be formed by an explicit agreement between the parties or an agreement implied by the parties’ conducts.³ In addition, use of a copyrighted work under a creative commons license may also constitute an authorized use.⁴ Nonetheless, use beyond the scope of a license is still a form of copyright infringement.⁵

When copyright infringement is established, a court may grant to the plaintiff an injunction that enjoins the defendant from using the infringing work, which may disrupt the defendant’s business.⁶ On the other hand, if such a dispute is characterized as a contract issue, the defendant may worry only about the amount of monetary damages owed to the plaintiff.⁷ Thus, a defense based on a copyright licensing agreement is valuable to an accused copyright infringer.

If no written copyright license exists, a defendant may contend that there has been an implied-in-fact license of the copyrighted work.⁸ An implied-in-fact contract is governed by state law.⁹ However, federal courts and commentators have recognized

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¹ See *Great Minds v. Off. Depot, Inc.*, 945 F.3d 1106, 1110 (9th Cir. 2019).

² *Id.*

³ See *Foad Consulting Grp., Inc. v. Azzalino*, 270 F.3d 821, 825-26 (9th Cir. 2001).

⁴ See *Jacobsen v. Katzer*, 535 F.3d 1373, 1380 (Fed. Cir. 2008). “Creative commons” is a concept of providing free standardized licensing templates for creators to promote authorized uses without fees and to retain a right to collect royalties under certain conditions.; see Lynn M. Forsythe & Deborah J. Kemp, *Creative Commons: For the Common Good?*, 30 U. LA VERNE L. REV. 346, 355-59 (2009). Creative commons licensing may occur when a user begins to use a work without first acquiring an oral or written permission from the author; see Carmit Soliman, *Remixing Sharing: Sharing Platforms as a Tool for Advancement of UGC Sharing*, 22 ALB. L.J. SCI. & TECH. 279, 344-47 (2012).

⁵ See *Great Minds v. Fedex Off. & Print Servs., Inc.*, 886 F.3d 91, 95 (2d Cir. 2018).

⁶ See *TD Bank N.A. v. Hill*, 928 F.3d 259, 278-79 (3d Cir. 2019); see also Pamela Samuelson, *Withholding Injunctions in Copyright Cases: Impacts of eBay*, 63 WM. & MARY L. REV. 773, 814 (2022).

⁷ See *Chicago United Indus., Ltd. v. City of Chicago*, 445 F.3d 940, 945 (7th Cir. 2006) (“The normal remedy for breach of contract is an award of damages[.]”).

⁸ See *Atkins v. Fischer*, 331 F.3d 988, 992 (D.C. Cir. 2003) (“Because the existence of an implied license is an affirmative defense to infringement, the alleged infringers have the burden of establishing an implied license.”); see also Christopher M. Newman, “*What Exactly Are You Implying?*”: *The Elusive Nature of the Implied Copyright License*, 32 CARDOZO ARTS & ENT. L.J. 501, 507-08 (2014) [hereinafter, Newman, “*What Exactly Are You Implying?*”].

⁹ See Christopher M. Newman, *A License Is Not A “Contract Not to Sue”: Disentangling Property and Contract in the Law of Copyright Licenses*, 98 IOWA L. REV. 1101, 1103 (2013); see also *Lasica v. Am. Online, Inc.*, No. CV 15-4230-GW(FFMX), 2015 WL 12791494, at *2 (C.D. Cal. Oct. 8, 2015) (“To

Effects Associates, Inc. v. Cohen, decided by the Ninth Circuit, as federal common law governing implied-in-fact copyright licenses.¹⁰ In *Effects Associates*, the Ninth Circuit found that the plaintiff “created a work at [the] defendant’s request and handed it over, intending that [the] defendant copy and distribute it.”¹¹ Therefore, the Ninth Circuit held that the plaintiff impliedly granted to the defendant a nonexclusive license to incorporate the copyrighted work into the infringing work.¹²

Recently, in *Bitmanagement Software GmbH v. United States*, the Federal Circuit clarified that *Effects Associates* is “not the exclusive inquiry” for determining an implied-in-fact license.¹³ *Bitmanagement Software* is particularly concerned with software licensing.¹⁴ There, Bitmanagement Software GmbH (Bitmanagement), a German software company, alleged that the U.S. Navy infringed its copyright.¹⁵ The Navy purchased 119 copies of the plaintiff’s software from 2006 to 2012, but it eventually made over 429,604 copies without the plaintiff’s consent.¹⁶ Finally, the Federal Circuit found that Bitmanagement had granted to the Navy an implied-in-fact license to install the copyrighted software unlimitedly into computers across its network.¹⁷ The permission of mass installations was implied primarily through communications between the parties about the Navy’s request for a server-based license program.¹⁸

Fortunately, the Federal Circuit also held that the Navy violated a condition of the implied-in-fact license and, therefore, infringed Bitmanagement’s copyright.¹⁹ Then, the Federal Circuit remanded the case to the United States Court of Federal Claims (Claims Court) for determining damages.²⁰ Ultimately, in November 2022, Bitmanagement won \$154,400 for the Navy’s copyright infringement, though much less than the \$155,400,000 it originally requested.²¹

interpret the License, the Court must ‘rely on state law to provide the canons of contractual construction, but only to the extent such rules do not interfere with federal copyright law or policy.’” (Citations omitted).

¹⁰ *Effects Associates, Inc. v. Cohen*, 908 F.2d 555 (9th Cir.1990); *see, e.g.*, *Nelson-Salabes, Inc. v. Morningside Dev., LLC*, 284 F.3d 505, 514 (4th Cir. 2002) (“Although this Court has not heretofore specifically addressed the question of what circumstances might create an implied nonexclusive license, several of our sister circuits have examined the issue. In so doing, they have utilized versions of the three-part test created by the Ninth Circuit in its decision in *Effects Associates, Inc. v. Cohen*, 908 F.2d 555 (9th Cir. 1990).”). *See also* Yafit Lev-Aretz, *Second Level Agreements*, 45 AKRON L. REV. 137, 180 (2012); Craig P. Bloom, *Hangover Effect: May I See Your Tattoo, Please*, 31 CARDOZO ARTS & ENT. L.J. 435, 459-60 (2013); Abigail R. Simon, Notes, *Contracting in the Dark: Casting Light on the Shadows of Second Level Agreements*, 5 WM. & MARY BUS. L. REV. 305, 319-20 (2014).

¹¹ *Effects Associates, Inc.*, 908 F.2d at 558.

¹² *Id.* at 559.

¹³ *See Bitmanagement Software GmbH v. United States*, 989 F.3d 938, 947 (Fed. Cir. 2021).

¹⁴ *See id.* at 940.

¹⁵ *See Bitmanagement Software GmbH v. United States*, 144 Fed. Cl. 646, 647-48 (2019).

¹⁶ *See Bitmanagement Software GmbH*, 989 F.3d at 952 (Newman, J., concurring).

¹⁷ *See id.* at 948.

¹⁸ *See infra* Part III.E.

¹⁹ *See id.* at 949-51.

²⁰ *See id.* at 951.

²¹ *See Bitmanagement Software GmbH v. United States*, No. 16-840C, 2022 WL 17077251, at *2 (Fed. Cl. Nov. 1, 2022); *see also* Richard Currie, *Software Company Wins \$154k for US Navy’s Licensing Breach*, THE REGISTER (Nov. 22, 2022), https://www.theregister.com/2022/11/22/navy_copyright_bitmanagement/.

Bitmanagement Software is educational to the software industry. A software company utilizing an intermediary to conduct business with potential purchasers should learn Bitmanagement's mistakes. In addition, the Federal Circuit has created a precedent that an implied-in-fact software license may lack of consideration as long as it is nonexclusive. Some practical concerns need attention. Therefore, this article studies *Bitmanagement Software* and provides practical implications on legal issues surrounding an implied-in-fact software license. Next, Part II illustrates determination of an implied-in-fact license in a requestor/creator context. Specifically, Part II discusses *Effects Associates* and circuit court cases thereafter to show how the *Effects Associates* test was created and applied. Part III analyzes *Bitmanagement Software* by describing relevant facts and the Federal Circuit's reasoning. Part IV points out three practical concerns drawn from *Bitmanagement Software*: uncertain determination of an implied-in-fact license, software licensing through an intermediary, and a right to revoke.

II. IMPLIED-IN-FACT COPYRIGHT LICENSES UNDER *EFFECT ASSOCIATES, INC. V. COHEN*

A. *Implied-in-Fact, Nonexclusive Licenses*

In 1990, the Ninth Circuit in *Effects Associates* first clarified that a nonexclusive license is not required to be in writing as opposed to all transfers of copyright ownership.²² In addition, the Ninth Circuit embraced the legal proposition suggested by Melville B. Nimmer & David Nimmer that “[a] nonexclusive license may be granted orally, or may even be implied from conduct.”²³

There, the defendant, a film director, asked the plaintiff to create special effects footage to enhance certain action sequences in a film.²⁴ The plaintiff agreed orally, but did not mention copyright ownership of the footage.²⁵ Later, the defendant was not satisfied with the plaintiff's creations, so he paid the plaintiff less than what he promised.²⁶ Although the plaintiff demanded a full payment, the defendant refused.²⁷ Consequently, after the defendant's film incorporated with the plaintiff's footage was distributed, the plaintiff sued the defendant for copyright infringement.²⁸

The Ninth Circuit held that the plaintiff “impliedly granted nonexclusive license to [the defendant] and his production company to incorporate the special effects footage into [the infringing film] and to [a film distributor] to distribute the film.”²⁹ The Ninth Circuit found that the plaintiff created the footage at the defendant's request, gave it

²² See *Effects Associates, Inc.*, 908 F.2d at 558; see also Matthew J. Astle, *Will Congress Kill the Podcasting Star?*, 19 HARV. J.L. & TECH. 161, 183 (2005).

²³ *Effects Associates, Inc.*, 908 F.2d at 558 (quoting MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 10.03[A], at 10-36 (1989)) (alteration in original).

²⁴ See *id.* at 555-56.

²⁵ See *id.* at 556.

²⁶ See *id.*

²⁷ See *id.*

²⁸ See *Effects Associates, Inc.*, 908 F.2d at 556.

²⁹ *Id.* at 559.

to the defendant, and intended the defendant to copy and distribute it.³⁰ Thus, the Ninth Circuit opined that the holding otherwise “would mean that plaintiff’s contribution to the film was ‘of minimal value,’ a conclusion that can’t be squared with the fact that [the defendant] paid [the plaintiff] almost \$56,000 for this footage.”³¹

Noticeably, in 1984, the Ninth Circuit in *Oddo v. Ries* had encountered a similar case.³² There, the plaintiff (Oddo) and defendant (Ries) formed a partnership to create and publish a book.³³ The plaintiff wrote a manuscript for publication, while the defendant managed the publication project.³⁴ The plaintiff provided a manuscript by revising his previous magazine articles.³⁵ But, the defendant was not satisfied with the plaintiff’s writing and later hired another person to complete the plaintiff’s manuscript.³⁶ Finally, the defendant published a book containing a substantial portion of the plaintiff’s original manuscript.³⁷

The plaintiff alleged that the defendant infringed on his copyright of the magazine articles, but the *Oddo* court disagreed partially.³⁸ While identifying the completed manuscript and the published book together as the disputed infringing works, the *Oddo* court found that only the book infringed the copyright.³⁹

The *Oddo* court recognized the manuscript and the book as derivative works of the plaintiff’s articles and stated that they “necessarily infringe[d] the copyrights in the articles unless [the plaintiff] granted permission to use the articles.”⁴⁰ Regarding the manuscript, the *Oddo* court held that the plaintiff prepared “a manuscript based on his preexisting articles as part of his partnership duties” and, therefore, “impliedly gave the partnership a license to use the articles insofar as they were incorporated in the manuscript[.]”⁴¹ The *Oddo* court reasoned that “without such a license, the plaintiff’s contribution to the partnership venture would have been of minimal value.”⁴²

Contrarily, the *Oddo* court refused to extend the implied license to “the right to use the articles in any work other than the manuscript itself.”⁴³ Thus, by determining that “the book is a work distinct from the manuscript,” the *Oddo* court concluded that the defendant “exceeded the scope of the partnership’s license when he used the articles in the book.”⁴⁴ Ultimately, the *Oddo* court held that without being “otherwise licensed to use the articles in the book,” the defendant infringed the plaintiff’s copyright in the articles.⁴⁵

Nonetheless, the *Effects Associates* decision misread the *Oddo* decision by stating:

³⁰ *See id.* at 558.

³¹ *Id.* at 559.

³² *See id.* at 558 (analyzing *Oddo v. Ries*, 743 F.2d 630 (9th Cir. 1984)).

³³ *See Oddo*, 743 F.2d at 632.

³⁴ *See id.*

³⁵ *See id.*

³⁶ *See id.*

³⁷ *See id.*

³⁸ *See Oddo*, 743 F.2d at 633-34.

³⁹ *See id.* at 634.

⁴⁰ *Id.*

⁴¹ *Id.*

⁴² *Id.*

⁴³ *Oddo*, 743 F.2d at 634.

⁴⁴ *Id.*

⁴⁵ *Id.*

[I]n preparing and handing over to Ries a manuscript intended for publication that, if published, would infringe Oddo’s copyright, Oddo ‘impliedly gave the partnership a license to use the articles insofar as they were incorporated in the manuscript, for without such a license, Oddo’s contribution to the partnership venture would have been of minimal value.’⁴⁶

That is, the *Effects Associates* court extended the implied license in *Oddo* from use in the manuscript to use in the book.⁴⁷

B. A Tripartite Test

In 1996, the Seventh Circuit in *I.A.E., Inc. v. Shaver* first characterized *Effects Associates* as a rule providing that:

[A]n implied nonexclusive license has been granted when (1) a person (the licensee) requests the creation of a work, (2) the creator (the licensor) makes that particular work and delivers it to the licensee who requested it, and (3) the licensor intends that the licensee-requestor copy and distribute his work.⁴⁸

Since then, several circuit courts have adopted *Effects Associates* as a tripartite test for determining an implied nonexclusive license.⁴⁹

In 1997, the Fifth Circuit in *Lulirama Ltd., Inc. v. Axxess Broadcast Services., Inc.* followed the *I.A.E.* court’s interpretation of *Effects Associates*.⁵⁰ In 2002, the Fourth Circuit in *Nelson-Salabes, Inc. v. Morningside Dev., LLC*, adopted the *I.A.E.* court’s three-prong test and called it “the *Effects Associates* test.”⁵¹ The Fourth Circuit further acknowledged that the third prong (or the “copy and distribute” prong) “mean[s] that the creator of a protected work must intend that its copyrighted drawings be used on the project for which they were created, independent of the creator’s [future] involvement.”⁵² In 2003, the D.C. Circuit in *Atkins v. Fischer* applied the *I.A.E.* court’s

⁴⁶ *Effects Associates, Inc.*, 908 F.2d at 558 (quoting *Oddo*, 743 F.2d at 634).

⁴⁷ See Newman, “What Exactly Are You Implying?”, *supra* note 8, at 509 n.35 (“This license, however, extended only to publication of the manuscript as Oddo had prepared it, and did not permit Ries to publish a version completed by someone else.”).

⁴⁸ *I.A.E., Inc. v. Shaver*, 74 F.3d 768, 776 (7th Cir. 1996).

⁴⁹ See, e.g., Justin Hughes, *Actors as Authors in American Copyright Law*, 51 CONN. L. REV. 1, 56 (2019); Kenneth R. L. Parker, *Gray Works: How the Failure of Copyright Law to Keep Pace with Technological Advancement in the Digital Age Has Created a Class of Works Whose Protection Is Uncertain . . . and What Can Be Done About It*, 21 J. INTELL. PROP. L. 265, 275 (2014). The Eighth and Tenth Circuits have not toughed an implied license question. See, e.g., *Griner v. King*, No. 21-CV-4024 CJW-MAR, 2022 WL 4282215, at *11 (N.D. Iowa Aug. 9, 2022); *Oliver v. Meow Wolf, Inc.*, No. CV 20-237 KK/SCY, 2022 WL 4132706, at *14 (D.N.M. Sept. 12, 2022).

⁵⁰ See *Lulirama Ltd., Inc. v. Axxess Broad. Servs., Inc.*, 128 F.3d 872, 879 (5th Cir. 1997).

⁵¹ See *Nelson-Salabes, Inc. v. Morningside Dev., LLC*, 284 F.3d 505, 514-15 (4th Cir. 2002).

⁵² *Id.* at 515.

three-prong test through the *Lulirama* decision.⁵³ In 2006, the Third Circuit in *National Association for Stock Car Auto Racing, Inc. v. Scharle* accepted the *I.A.E.* court's approach through the *Atkins* decision, but stated that "the private hopes of the creator are not relevant" in reaching its decision that the defendant impliedly granted to the plaintiff to use and display the trophy designed by the defendant even though the plaintiff did not credit the defendant as the creator of the trophy as the defendant wished.⁵⁴

On the other hand, the First Circuit in *Photographic Illustrators Corp. v. Orgill, Inc.* accepted some scholars' view that "implied licenses can sometimes be found if one or more of these elements is lacking."⁵⁵ The First Circuit observed that only the Second and Seventh Circuits seemed to treat "the three elements (request, delivery, and intent) [as] absolute requirements for establishing an implied license between the owner and a licensee."⁵⁶ Therefore, the First Circuit rejected an approach that the three-prong test "must be applied literally and inflexibly[.]"⁵⁷

In 2021, the Federal Circuit in *Bitmanagement Software* also expressed that the *Effects Associates* test is not absolute in determining an implied license.⁵⁸ Rather, the Federal Circuit held that "it is appropriate to consider the totality of the parties' course of conduct to decide whether an implied-in-fact license exists."⁵⁹ Thus, the Federal Circuit found the existence of an implied license in *Bitmanagement* without applying the *Effects Associates* test.⁶⁰

C. Implied-in-Fact Software Licensing in a Requestor/Creator Scenario

Courts have applied *Effects Associates* to find an implied-in-fact license of software in a requestor/creator scenario. For example, in *MacLean Associates, Inc. v. Wm. M. Mercer-Meidinger-Hansen, Inc.*, the copyrighted software, JEMSystem, was designed for evaluating job performance and authored by Mr. MacLean during his contract with Mercer for providing services to the New York Stock Exchange (NYSE).⁶¹ Applying *Effects Associates*, the Third Circuit held that the alleged infringer, Mercer, had a limited implied-in-fact license to "use JEMSystem in furtherance of its business relationship with its client, the NYSE."⁶² But, the Third Circuit disagreed that Mercer had an implied-in-fact license to use JEMSystem in its later-developed software.⁶³ The primary reason for this findings was that both parties "knew that Mr. MacLean was developing JEMSystem solely for the NYSE account."⁶⁴

⁵³ See *Atkins*, 331 F.3d at 991-92.

⁵⁴ *Nat'l Ass'n for Stock Car Auto Racing, Inc. v. Scharle*, 184 F. App'x 270, 275 (3d Cir. 2006).

⁵⁵ *Photographic Illustrators Corp. v. Orgill, Inc.*, 953 F.3d 56, 62 (1st Cir. 2020).

⁵⁶ *Id.*

⁵⁷ *Id.*

⁵⁸ See *Bitmanagement Software GmbH*, 989 F.3d at 947.

⁵⁹ *Id.*

⁶⁰ See *id.* at 948.

⁶¹ See *MacLean Assocs., Inc. v. Wm. M. Mercer-Meidinger-Hansen, Inc.*, 952 F.2d 769, 773-74 (3d Cir. 1991).

⁶² See *id.* at 779.

⁶³ See *id.* at 778-79.

⁶⁴ *Id.* at 779.

Another example is *Asset Marketing Systems, Inc. v. Gagnon*, where the Ninth Circuit held that the plaintiff (Gagnon) had impliedly granted to the defendant (AMS) “an unlimited, nonexclusive license to retain, use, and modify” copyrighted computer programs.⁶⁵ Applying *Effects Associates*, the Ninth Circuit found that Gagnon created and modified the programs under AMS’s requests.⁶⁶ The Ninth Circuit also took Gagnon’s admission that the programs were created specifically for AMS which paid for Gagnon’s work and related costs.⁶⁷ Second, the Ninth Circuit recognized that Gagnon delivered the programs by storing their source codes in AMS’s computers.⁶⁸

For the third prong of the *Effects Associates* test, the Ninth Circuit held that it “is not limited to copying and distribution; instead we look at the protected right at issue—here, whether Gagnon intended that AMS use, retain, and modify the programs.”⁶⁹ To determine “the relevant intent,” the Ninth Circuit looked into “the licensor’s objective intent at the time of the creation and delivery of the software as manifested by the parties’ conduct.”⁷⁰ Specifically, the Ninth Circuit considered three factors:

- (1) whether the parties were engaged in a short-term discrete transaction as opposed to an ongoing relationship;
- (2) whether the creator utilized written contracts ... providing that copyrighted materials could only be used with the creator’s future involvement or express permission; and
- (3) whether the creator’s conduct during the creation or delivery of the copyrighted material indicated that use of the material without the creator’s involvement or consent was permissible.⁷¹

Regarding factor one, while acknowledging that Gagnon had continuously provided AMS with computer-related technical support and customized software applications, the Ninth Circuit noted that “[t]he relationship of the parties indicates neither an intent to grant nor deny a license without Gagnon’s future involvement.”⁷² To evaluate factor two, the Ninth Circuit reviewed a Technical Services Agreement (TSA) signed by the parties, a later-unexecuted Outside Vendor Agreement (OVA) submitted by Gagnon, and Gagnon’s letter objecting to AMS’s amendment to the OVA.⁷³ The Ninth Circuit opined that since Gagnon was well paid for his software customization, AMS should not have expected to pay license fees for continued use after the services.⁷⁴ Lastly, for factor three, the Ninth Circuit found that Gagnon did not intend to retain sole control of software primarily because Gagnon “delivered the

⁶⁵ See *Asset Mktg. Sys., Inc.*, 542 F.3d at 757.

⁶⁶ See *id.* at 755.

⁶⁷ See *id.*

⁶⁸ See *id.*

⁶⁹ *Id.*

⁷⁰ *Asset Mktg. Sys., Inc.*, 542 F.3d at 756.

⁷¹ *Id.* (quoting *John G. Danielson, Inc. v. Winchester–Conant Props., Inc.*, 322 F.3d 26, 41 (1st Cir. 2003)) (quoting *Nelson–Salabes, Inc.*, 284 F.3d at 516).

⁷² *Id.*

⁷³ See *id.*

⁷⁴ See *id.*

software without any caveats or limitations on AMS's use of the programs[.]”⁷⁵ For instance, AMS staff had access to source codes stored in AMS computers.⁷⁶

Ultimately, the Ninth Circuit required that “Gagnon had to express an intent to retain control over the programs and limit AMS’s license if he intended to do so.”⁷⁷ Because Gagnon demanded software license fees only after AMS notified him of termination of his services to AMS, the Ninth Circuit stated that Gagnon’s post-termination statements concerning software licensing could not “negate all other objective manifestations of intent to grant AMS an unlimited license.”⁷⁸ Therefore, the Ninth Circuit held that “Gagnon granted AMS an unlimited, nonexclusive license to retain, use, and modify the software.”⁷⁹

III. ANALYSIS OF *BITMANAGEMENT SOFTWARE GMBH V. UNITED STATES*

A. Copyrighted Software

Bitmanagement, a German company co-founded by Peter Schickel and Alex Koerfer, developed BS Contact Geo (BS), a computer program first released in 2006.⁸⁰ BS was utilized to visualize geographic information acquired through other hardware or software products.⁸¹ BS can create a terrain or city model where a user may position a virtual object with geographic coordinates.⁸²

Bitmanagement’s standard licensing for BS was PC (personal computer) or seat based, meaning that a user must acquire a license for each computer.⁸³ To facilitate the licensing, BS included both a desktop executable file (EXE version) and a web browser plugin file (OCX version).⁸⁴ The EXE version initiated BS as a standalone application in a computer.⁸⁵ The OCX version allowed use of BS on Internet, while three-dimensional data came from an on-line source.⁸⁶

Bitmanagement did not license BS directly in the United States.⁸⁷ Rather, Bitmanagement entered into a Finder’s Fee Agreement (FFA) with Planet 9 Studios, Inc. (Planet 9) that supported Bitmanagement’s sales activities.⁸⁸ Under the FFA, Planet 9 did not represent Bitmanagement in any legal or other transaction, nor did it make any statement on behalf of Bitmanagement.⁸⁹

⁷⁵ See *Asset Mktg. Sys., Inc.*, 542 F.3d at 757.

⁷⁶ See *id.*

⁷⁷ *Id.*

⁷⁸ *Id.* at 751, 757.

⁷⁹ *Asset Mktg. Sys., Inc.*, 542 F.3d at 757.

⁸⁰ See *Bitmanagement Software GmbH*, 989 F.3d at 941.

⁸¹ See *id.*

⁸² See *id.*

⁸³ See *id.*

⁸⁴ See *id.*

⁸⁵ See *Bitmanagement Software GmbH*, 989 F.3d at 941; see also *Bitmanagement Software GmbH*, 144 Fed. Cl. at 648.

⁸⁶ *Id.*

⁸⁷ See *id.*

⁸⁸ See *id.*

⁸⁹ See *id.*

B. U.S. Navy's Previous Purchase of BS Contact Geo

1. 2006 and 2008 Purchases

In 2006, the Navy started to develop SPIDERS 3D, a web-based platform through which engineers and technicians in the Naval Facilities Engineering Command (NAVFAC) can configure the Navy's installations, bases, and facilities in a virtual reality environment.⁹⁰ Since SPIDERS 3D needed particular software to visualize those Naval facilities, Alex Viana, a NAVFAC deputy program manager, contacted David Colleen, Planet 9's CEO, and learned BS.⁹¹ Consequently, in September 2006, the Navy purchased one PC license of BS version 7.000 from Planet 9 to test whether BS fits SPIDERS 3D.⁹²

SPIDERS 3D was implemented within NAVFAC's internal network and only accessible to individuals with a Department of Defense Common Access Card or NAVFAC-sponsored access permissions.⁹³ But, to initiate BS on a specific computer, an end user had to acquire a license key from Bitmanagement.⁹⁴ This licensing practice did not comply with the Navy's secure intranet.⁹⁵ Thus, Viana informed Colleen of the security concern.⁹⁶

Colleen passed Viana's question to Bitmanagement.⁹⁷ In November 2006, Schickel, on behalf of Bitmanagement, expressed that they would seek to meet the Navy's need.⁹⁸ Later, Viana requested a non-PC-specific version of BS which includes a license key because the Navy had not decided which computer would be used for testing BS.⁹⁹ Bitmanagement responded by, through Planet 9, providing Navy BS with two non-PC-specific license keys.¹⁰⁰ Finally, after working with Navy to fix technical issues about the deployment of BS, in May 2007, Bitmanagement supplied a "silent installer" version of BS, so that the Navy could do bulky installation of BS into remote computers through the intranet or Internet.¹⁰¹

In 2008, the Navy purchased 100 seat licenses of BS.¹⁰² The purchase order between the Navy and Planet 9 specified version 7.038 of BS Contact VRML and X3D (a predecessor to BS Contact Geo version 8.001, allegedly infringed software), but Bitmanagement delivered version 7.204 of BS.¹⁰³ By 2010, the Navy had not initiated 20 licenses from its 2008 purchase.¹⁰⁴

⁹⁰ See *Bitmanagement Software GmbH*, 989 F.3d at 941

⁹¹ See *id.*

⁹² See *id.* at 942.

⁹³ See *id.* at 941.

⁹⁴ See *id.* at 942.

⁹⁵ See *Bitmanagement Software GmbH*, 989 F.3d at 942.

⁹⁶ See *id.*

⁹⁷ See *id.*

⁹⁸ See *id.*

⁹⁹ See *id.*

¹⁰⁰ See *Bitmanagement Software GmbH*, 989 F.3d at 942.

¹⁰¹ See *id.* at 942; see also *Bitmanagement Software GmbH*, 144 Fed. Cl. at 650.

¹⁰² See *id.*

¹⁰³ See *id.* at 940, 942.

¹⁰⁴ See *id.* at 942; see also *Bitmanagement Software GmbH*, 144 Fed. Cl. at 650.

2. 2012 Purchase

In 2011, the Navy began to consider another purchase of BS.¹⁰⁵ In April, Planet 9 informed Bitmanagement of the Navy's negative experience of managing individual seat licenses and request of a floating license scheme.¹⁰⁶ Then, Bitmanagement offered three options: (1) no limitation in the software at all; (2) BS Contact client tracking; (3) server tracking.¹⁰⁷

In June, Viana contacted Colleen and showed an interest in Option 3 (server tracking) using a 24/7 server in the domain/sub-domain to maintain a counter that will notify the user when the total number of BS licenses is reached.¹⁰⁸ Additionally, Viana mentioned that the NAVFAC had used a floating license server tracking application, Flexera, and wished to utilize Flexera to track the number of BS users.¹⁰⁹

When reporting Viana's request of Option 3 to Bitmanagement, Colleen suggested that 20 remaining seat licenses from the 2008 purchase could be implemented through a floating license server to see if Option 3 works.¹¹⁰ Bitmanagement agreed with Colleen's idea.¹¹¹

In November, Viana contacted Schickel and asked for managing the 20 remaining seat licenses via the center of the Navy Marine Corps Intranet (NMCT).¹¹² The purposes of the central management included better understanding of the user demand and preparation for future growing licenses.¹¹³ With that, Viana expected more expense due to the Navy purchasing BS licenses.¹¹⁴ Viana also mentioned that NAVFAC was preparing a draft agreement concerning server-based floating licenses.¹¹⁵ In response, Schickel expressed their willingness of reviewing the draft agreement.¹¹⁶

Thereafter, there were other emails sent from Viana to Schickel and Koerfer respectively, the emails emphasizing the Navy's intention of updating the 20 uninstalled seat licenses with version 7.215 of BS and implementing these licenses under server-based floating licenses for tracking users' demands.¹¹⁷ In response, Koerfer, on behalf of Bitmanagement, noted that they understood the Navy's need and that their proposed user agreement covered the Navy's desired licenses.¹¹⁸ Later, both parties exchanged the proposed agreement which, however, had never been executed.¹¹⁹

¹⁰⁵ See *Bitmanagement Software GmBH*, 989 F.3d at 942-43.

¹⁰⁶ See *id.* at 943.

¹⁰⁷ See *id.*

¹⁰⁸ See *id.*

¹⁰⁹ See *id.*

¹¹⁰ See *Bitmanagement Software GmBH*, 989 F.3d at 943.

¹¹¹ See *id.*

¹¹² See *id.*

¹¹³ See *id.*

¹¹⁴ See *id.*

¹¹⁵ See *Bitmanagement Software GmBH*, 989 F.3d at 943.

¹¹⁶ See *id.*

¹¹⁷ See *id.* at 943-44.

¹¹⁸ See *id.* at 944.

¹¹⁹ See *id.*

In 2012, Planet 9 confirmed that Bitmanagement agreed with the Navy's floating license scheme for both undeployed and further-purchased licenses.¹²⁰ In January, Planet 9 proposed to Viana a license option concerning the 20 uninstalled licenses and additional 18 new licenses, where these licenses would be BS version 7.215.¹²¹ In May, the Navy ordered 18 licenses of BS version 7.215 intended to be implemented through Flexera software's FlexWrap utility in the NAVFAC.¹²² The order included a contract line item requiring technical support.¹²³

After the Navy's May purchase order was executed, Bitmanagement delivered to the NAVFAC the requested BS licenses in June, but it updated these licenses from version 7.215 to version 8.001 without the Navy's consent.¹²⁴ The BS version 8.001 included a silent installer capability for bulky installation.¹²⁵ In July, the Navy contacted Bitmanagement for a problem that BS version 8.001 could not be managed through Flexera.¹²⁶ In response, Bitmanagement provided a new installation file, so that the FlexWrap utility would control the distribution or usage of BS version 8.001.¹²⁷ Bitmanagement also billed the hours of modifying the installation file under the purchase order of May 2012.¹²⁸

Meanwhile, Bitmanagement and Planet 9 sought to finalize an agreement concerning the 18 licenses purchased by the Navy.¹²⁹ In September, Bitmanagement sent Planet 9 a draft agreement.¹³⁰ Although the draft agreement was never signed, there was no dispute that they reached an agreement concerning authorization of Planet 9's reselling BS licenses to the Navy.¹³¹

Notably, in these three purchases, the Navy did not enter into a direct licensing relationship with Bitmanagement.¹³² Rather, the Navy contracted with Planet 9 to obtain BS licenses.¹³³

C. Alleged Copyright Infringement

Since the 2012 purchase, the Navy had regularly notified Bitmanagement of the status of its BS deployment including how they could use Flexera to monitor and record the deployment and usage of BS.¹³⁴ In July 2013, the Navy began to widely deploy BS version 8.001 to computers in the NMCI network.¹³⁵ The BS licenses remained in

¹²⁰ See *Bitmanagement Software GmbH*, 989 F.3d at 944.

¹²¹ See *id.*

¹²² See *id.*

¹²³ See *id.*

¹²⁴ See *id.*

¹²⁵ See *Bitmanagement Software GmbH*, 989 F.3d at 944.

¹²⁶ See *id.*

¹²⁷ See *id.*

¹²⁸ See *id.*

¹²⁹ See *id.*

¹³⁰ See *Bitmanagement Software GmbH*, 989 F.3d at 944.

¹³¹ See *id.*

¹³² See *Bitmanagement Software GmbH*, 144 Fed. Cl. at 649.

¹³³ See *id.*

¹³⁴ See *Bitmanagement Software GmbH*, 989 F.3d at 945.

¹³⁵ See *id.*

NMCI's computers until September 2016.¹³⁶ However, the Flexera software failed to monitor or control the usage of BS.¹³⁷ The Navy did not buy additional BS licenses.¹³⁸

D. Legal Issues

On July 15, 2016, Bitmanagement sued the U.S. Government in the Claims Court and accused the Navy of infringing its copyright of BS version 8.001.¹³⁹ In 2019, the Claims Court held that the Navy was not liable for copyright infringement because it had acquired an implied-in-fact license from Bitmanagement.¹⁴⁰ Specifically, the Claims Court found that “Bitmanagement authorized the Navy to deploy—i.e., copy—BS Contact Geo version 8.001 across the Navy’s NMCI network.”¹⁴¹

On appeal, Bitmanagement raised three issues.¹⁴² First, Bitmanagement challenged the Claims Court’s finding of an implied-in-fact license.¹⁴³ Second, Bitmanagement asserted that the implied license should be excluded as a matter of law.¹⁴⁴ Lastly, Bitmanagement argued the Claim Court failed to discuss whether the Navy complied with its promise to use Flexera to monitor the BS deployment.¹⁴⁵

The Federal Circuit disagreed with Bitmanagement on the first two issues because the circumstantial evidence supported that the challenged implied-in-fact license existed and was not excluded by express contracts between the parties.¹⁴⁶ So, the Federal Circuit affirmed the Claims Court’s finding of an implied-in-fact license.¹⁴⁷ However, the Federal Circuit concluded that the Navy failed to comply with the user-tracking requirement of the implied license and, therefore, infringed Bitmanagement’s copyright.¹⁴⁸ Ultimately, the Federal Circuit vacated the Claims Court’s decision and remanded for a determination of damages.¹⁴⁹

E. Finding of Implied-in-Fact Licensing

1. Governing Law

In determining whether an implied-in-fact license existed between Bitmanagement and the Navy, the Federal Circuit started with acknowledging that “[c]opyright licenses are a type of contract and, therefore, governed by common law

¹³⁶ *See id.*

¹³⁷ *See id.*

¹³⁸ *See id.*

¹³⁹ *See Bitmanagement Software GmBH*, 989 F.3d at 945.

¹⁴⁰ *See id.* at 940, 945-46.

¹⁴¹ *Id.* at 945 (quoting *Bitmanagement Software GmbH*, 144 Fed. Cl. at 656).

¹⁴² *See id.* at 946.

¹⁴³ *See id.*

¹⁴⁴ *See Bitmanagement Software GmBH*, 989 F.3d at 946.

¹⁴⁵ *See id.*

¹⁴⁶ *See id.* at 951.

¹⁴⁷ *See id.*

¹⁴⁸ *See id.*

¹⁴⁹ *See Bitmanagement Software GmBH*, 989 F.3d at 951.

contracting principles.”¹⁵⁰ By following common law rules applicable to implied-in-fact contracts, the Federal Circuit held that “an implied-in-fact license ‘is one founded upon *a meeting of the minds*, which, although not embodied in an express contract, is inferred, as a fact, from conduct of the parties showing, in the light of the surrounding circumstances, their tacit understanding.”¹⁵¹ Alternatively, the Federal Circuit specified that “[f]inding such a license ordinarily requires finding: ‘1) mutuality of intent to contract; 2) consideration; and, 3) lack of ambiguity in offer and acceptance.’”¹⁵² Importantly, the Federal Circuit noted that “[a]n implied nonexclusive copyright license may be found, however, *in the absence of consideration*.”¹⁵³

In addition, the Federal Circuit discussed Bitmanagement’s contention that the Claims Court should have applied *Effects Associates* to the issue of an implied-in-fact license.¹⁵⁴ The Federal Circuit began by following the Fourth Circuit’s *Nelson-Salabes* decision to define the *Effects Associates* standard as asking “whether ‘(1) a person (the licensee) requests the creation of a work, (2) the creator (the licensor) makes that particular work and delivers it to the licensee who requested it, and (3) the licensor intends that the licensee copy and distribute his work.’”¹⁵⁵ However, the Federal Circuit cautioned that these three factors “are not the exclusive inquiry used by the regional circuits[.]”¹⁵⁶

Next, the Federal Circuit pointed to the Fifth Circuit’s legal proposition in *Lulirama* stating that “[w]hen the totality of the parties’ conduct indicates an intent to grant such permission, the result is a legal nonexclusive license.”¹⁵⁷ The Federal Circuit also relied on its patent law decision “emphasiz[ing] the relevance of parties’ entire course of conduct to the determination of whether an implied-in-fact license exists.”¹⁵⁸ Therefore, the Federal Circuit held that “[t]he Claims Court did not legally err by considering Bitmanagement and the Navy’s entire course of conduct to find an implied-in-fact license.”¹⁵⁹

Furthermore, the Federal Circuit noted that *Effects Associates* is “simply too remote from the facts of this case to be useful.”¹⁶⁰ The Federal Circuit opined that *Effects Associates* involves “the context of movie footage created for incorporation into a specific film,” as opposed to the present case “where the copyrighted work at issue is

¹⁵⁰ *Id.* at 946 (citing Dep’t of Parks & Recreation for State of California v. Bazaar Del Mundo Inc., 448 F.3d 1118, 1130 (9th Cir. 2006)).

¹⁵¹ *Id.* at 946 (quoting *City of Cincinnati v. United States*, 153 F.3d 1375, 1377 (Fed. Cir. 1998)) (emphasis added); *see also City of Cincinnati*, 153 F.3d at 1377 (Fed. Cir. 1998) (“An implied-in-fact contract is one ‘founded upon a meeting of the minds, which, although not embodied in an express contract, is inferred, as a fact, from conduct of the parties showing, in the light of the surrounding circumstances, their tacit understanding.’” (quoting *Baltimore & O.R. Co. v. United States*, 261 U.S. 592, 597 (1923))).

¹⁵² *Bitmanagement Software GmbH*, 989 F.3d at 946 (quoting *City of El Centro v. United States*, 922 F.2d 816, 820 (Fed. Cir. 1990)).

¹⁵³ *Id.* (emphasis added) (citing *Avtec Sys., Inc. v. Peiffer*, 21 F.3d 568, 574 n.12 (4th Cir. 1994)).

¹⁵⁴ *See id.* at 947.

¹⁵⁵ *Id.* (quoting *Nelson-Salabes, Inc.*, 284 F.3d at 514)..

¹⁵⁶ *See id.*

¹⁵⁷ *Bitmanagement Software GmbH*, 989 F.3d at 947 (quoting *Lulirama Ltd., Inc.*, 128 F.3d at 879) (alternation in original).

¹⁵⁸ *Id.* (citing *Wang Lab’s, Inc. v. Mitsubishi Elecs. Am., Inc.*, 103 F.3d 1571, 1580 (Fed. Cir. 1997)).

¹⁵⁹ *Id.*

¹⁶⁰ *Id.*

a commercially available software product rather than one made for a specific end-user[.]”¹⁶¹ Thus, the Federal Circuit concluded that “it is appropriate to consider the totality of the parties’ course of conduct to decide whether an implied-in-fact license exists.”¹⁶²

2. Issue I: A Meeting of the Minds

Next, the Federal Circuit examined Bitmanagement’s assertion that the Claims Court’s finding of a “meeting of the minds” was not supported by the record.¹⁶³ However, the Federal Circuit disagreed with Bitmanagement.¹⁶⁴

The Federal Circuit stated that several email communications between Bitmanagement and the Navy supported that “Bitmanagement was not only aware that the Navy planned to install BS Contact Geo ‘across a broad spectrum of the NMCI realm’ but also that Bitmanagement authorized such installations.”¹⁶⁵ While acknowledging that the record may be read differently, the Federal Circuit held that it must defer to the Claims Court’s finding under the clear-error review for factual findings.¹⁶⁶ As a result, the Federal Circuit concluded that the record supported “the plausibility of the Claims Court’s finding of a meeting of the minds.”¹⁶⁷

Moreover, the Federal Circuit noted that its decision would not be altered despite the lawyer for the Government admitting that both parties mutually mistook the compatibility of Flexera with BS.¹⁶⁸ While feeling “dubious whether a meeting of the minds is possible when the parties involved so clearly did not understand the technology[.]” the Federal Circuit stated that “the Claims Court’s finding remains plausible.”¹⁶⁹ Thus, the Federal Circuit affirmed the Claims Court’s decision that an implied-in-fact license existed between the Navy and Bitmanagement.¹⁷⁰

3. Issue II: No Preclusion by Express Contracts

Finally, the Federal Circuit explained why it disagreed with Bitmanagement’s assertion that the disputed implied-in-fact license should have been precluded by two express contracts respectively between the Navy and Planet 9 and between Planet 9 and Bitmanagement.¹⁷¹

The Federal Circuit first acknowledged that “the existence of an express contract precludes the existence of an implied-in-fact contract dealing with the same subject

¹⁶¹ *Id.*

¹⁶² *Bitmanagement Software GmbH*, 989 F.3d at 947.

¹⁶³ *See id.*

¹⁶⁴ *See id.* at 947-48.

¹⁶⁵ *Id.* at 948 (quoting *Bitmanagement Software GmbH*, 144 Fed. Cl. at 657).

¹⁶⁶ *See id.*

¹⁶⁷ *See Bitmanagement Software GmbH*, 989 F.3d at 948.

¹⁶⁸ *See id.*

¹⁶⁹ *Id.*

¹⁷⁰ *See id.*

¹⁷¹ *See id.*

matter, unless the implied contract is entirely unrelated to the express contract.”¹⁷² However, the Federal Circuit cautioned that the preclusion rule “is less clearly applicable when the express contracts are not directly between the parties to the implied-in-fact contract.”¹⁷³ Therefore, the Federal Circuit concluded that “[w]hen such a disconnect exists, a court should apply the preclusion rule only when the totality of the specific facts and circumstances shows that such an agreement was precluded by the first contract.”¹⁷⁴

The Federal Circuit found that no express contract existed between Bitmanagement and the Navy because they intended to use Planet 9 as a non-agent intermediary for software purchases.¹⁷⁵ In addition, the Federal Circuit conceptualized the alleged implied-in-fact license as “the license to copy BS Contact Geo onto all Navy computers” and found that no alleged express agreements covered it.¹⁷⁶ Moreover, the Federal Circuit noted that the alleged express contracts did not reflect how the parties understood the operation of Flexera.¹⁷⁷ Thus, the Federal Circuit held that the disputed implied-in-fact license was not precluded.¹⁷⁸

F. Finding of Copyright Infringement

In responding to Bitmanagement’s assertion that the Navy infringed its copyright by not using Flexera as mandated by the implied-in-fact license, the Federal Circuit characterized the issue as asking whether the use of Flexera was a condition or covenant and held that it was a condition.¹⁷⁹

The Federal Circuit first pointed out that “a copyright owner who grants a license to his copyrighted material has waived his right to sue the licensee for copyright infringement and must instead pursue a claim for breach of contract.”¹⁸⁰ However, the Federal Circuit clarified that if “a license is limited in scope and the licensee acts outside the scope, the licensor can bring an action for copyright infringement.”¹⁸¹ To decide “[w]hether a licensee acts outside the scope of a contract by failing to comply with a term of the parties’ agreement[,]” the Federal Circuit specifically focused on “whether that term is a condition that limits the scope of the license or is merely a covenant.”¹⁸² Additionally, the Federal Circuit stated that “[t]erms of a license or contract are presumed to be covenants, rather than conditions, unless it is clear that a condition precedent was intended.”¹⁸³

¹⁷² See *Bitmanagement Software GmbH*, 989 F.3d at 949 (quoting *Seh Ahn Lee v. U.S.*, 895 F.3d 1363, 1370 (Fed. Cir. 2018)).

¹⁷³ *Id.* (citing *Peter v. United States*, 6 Cl. Ct. 768, 780 (1984)).

¹⁷⁴ *Id.*

¹⁷⁵ See *id.*

¹⁷⁶ See *id.*

¹⁷⁷ See *Bitmanagement Software GmbH*, 989 F.3d at 949.

¹⁷⁸ See *id.*

¹⁷⁹ See *id.* at 949-50.

¹⁸⁰ *Id.* at 950 (citing *Jacobsen*, 535 F.3d at 1380).

¹⁸¹ *Id.* (quoting *Jacobsen*, 535 F.3d at 1380).

¹⁸² See *Bitmanagement Software GmbH*, 989 F.3d at 950. (citing *Jacobsen*, 535 F.3d at 1380; MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 10.15[A][2] (2020)).

¹⁸³ *Id.* (citing *Mularz v. Greater Park City Co.*, 623 F.2d 139, 142 (10th Cir. 1980); *Graham v. James*, 144 F.3d 229, 237 (2d Cir. 1998)).

Although the Claims Court did not recognize using Flexera as a condition of the disputed implied-in-fact license, the Federal Circuit found that the record included enough factual findings for resolving the issue as a matter of law.¹⁸⁴ First, the Federal Circuit recognized that “the Flexera term of the implied license between Bitmanagement and the Navy can readily be understood from the parties’ entire course of dealings.”¹⁸⁵ As the Federal Circuit identified, the Claims Court found that “Bitmanagement agreed to this licensing scheme because Flexera would limit the number of simultaneous *users* of BS Contact Geo, regardless of how many copies were installed on Navy computers.”¹⁸⁶ This factual finding was interpreted by the Federal Circuit as indicating that “Flexera was a condition of the implied-in-fact license between Bitmanagement and the Navy.”¹⁸⁷

Secondly, the Federal Circuit opined that “the record as a whole reflects that the *only* feasible explanation for Bitmanagement allowing mass copying of its software, free of charge, was the use of Flexera *at the time of copying*.”¹⁸⁸ The Federal Circuit’s focus was the timing where use of Flexera was brought during the Navy’s evaluation for purchasing BS.¹⁸⁹ The Federal Circuit found that without Flexera’s tracking, “the Navy would have no basis to purchase more licenses and, consequently, Bitmanagement would have had no reason to enter into the implied-in-fact license.”¹⁹⁰

Finally, the Federal Circuit referred to the technical features of BS and examined whether Flexera would monitor the number of BS users.¹⁹¹ The Federal Circuit noted that a copy of BS comprised a desktop executable file (EXE version) and a web browser plugin file (OCX version).¹⁹² Additionally, the Federal Circuit accepted a stipulated fact that Flexera “did not monitor or control the use of the BS Contact Geo plugin.”¹⁹³ Consequently, while recognizing that whether Flexera monitored the EXE version was disputed, the Federal Circuit found that the condition of using Flexera was not met.¹⁹⁴ The Federal Circuit reasoned that “[the] condition could not have been met by monitoring only *half* of each copy.”¹⁹⁵

Therefore, although agreeing that the Navy had an implied-in-fact license to copy BS onto Navy’s computers, the Federal Circuit concluded that “the Navy’s failure to abide by the Flexera condition of that license renders its copying of the program copyright infringement.”¹⁹⁶

¹⁸⁴ See *Bitmanagement Software GmbH*, 144 Fed. Cl. at 657-59; *Bitmanagement Software GmbH*, 989 F.3d at 950.

¹⁸⁵ *Id.*

¹⁸⁶ *Bitmanagement Software GmbH*, 144 Fed. Cl. at 658 (emphasis in original).

¹⁸⁷ *Bitmanagement Software GmbH*, 989 F.3d at 950.

¹⁸⁸ *Id.* (emphasis in original).

¹⁸⁹ See *id.* at 950-51.

¹⁹⁰ *Id.* at 951.

¹⁹¹ See *id.*

¹⁹² See *Bitmanagement Software GmbH*, 989 F.3d at 951.

¹⁹³ *Id.*

¹⁹⁴ See *id.*

¹⁹⁵ *Id.* (emphasis in original).

¹⁹⁶ *Id.*

IV. PRACTICAL CONCERNS

The Navy successfully argued that Bitmanagement impliedly permitted it to deploy BS across the NMCI network. However, the Federal Circuit added one condition of using Flexera into the implied license scope and, therefore, found that the Navy infringed Bitmanagement’s copyright. It seems that the Federal Circuit sought to balance the interests of Bitmanagement and the Navy. Maybe it is because the Navy had a decent business relationship previously. Nonetheless, the Federal Circuit’s approach has left at least three practical concerns in the context of implied-in-fact licenses.

A. Problematic Determination of an Implied-in-Fact License

Determining an implied-in-fact license may be problematic because the outcome rests on which evidence a factfinder weighs more. *Bitmanagement Software* was not a unanimous decision as Judge Pauline Newman objected to the majority’s determination of an implied-in-fact license.¹⁹⁷ The majority agreed with the Claims Court’s finding that “Bitmanagement authorized the Navy to deploy—i.e., copy—[BS] across the Navy’s NMCI network.”¹⁹⁸ Contrarily, Judge Newman found “no license, implied or otherwise, for the Navy to make hundreds of thousands of copies of Bitmanagement’s commercial software product [BS].”¹⁹⁹

Judge Newman saw the record differently from the majority.²⁰⁰ While the majority focused on the email communications between Bitmanagement and the Navy, Judge Newman observed that all BS purchases were “implemented by Navy Purchase Orders” sent to Planet 9 “serving as domestic reseller, at the Navy’s request, for these purchases from a foreign supplier.”²⁰¹ That is, Judge Newman primarily considered the transactions between the Navy and Planet 9. As a result, Judge Newman observed that each purchased BS was accompanied by “a written seat license for each purchased copy.”²⁰² Specifically, Judge Newman pointed out that the Navy and Planet 9 reached a 2012 purchase agreement indicating that these BS copies should be “[e]nabled by NAVFAC using Flexera.”²⁰³

In addition, Judge Newman criticized that the Claims Court “erred in finding an implied license, for there plainly was no mutuality of intent, no consideration, and no lack of ambiguity.”²⁰⁴ First, Judge Newman considered the Navy’s admission at trial that there was “no understanding whereby Bitmanagement authorized or intended to authorize the Navy to conduct massive free copying of [BS].”²⁰⁵ Second, Judge Newman found that “both the Navy and Bitmanagement expected that any arrangement for

¹⁹⁷ See *Bitmanagement Software GmbH*, 989 F.3d at 952. (Newman, J., concurring).

¹⁹⁸ *Id.* at 945 (quoting *Bitmanagement Software GmbH*, 144 Fed. Cl. at 656).

¹⁹⁹ *Id.* at 952 (Newman, J., concurring).

²⁰⁰ See *id.* at 952-54 (Newman, J., concurring).

²⁰¹ *Id.* at 948, 953 (Newman, J., concurring).

²⁰² See *Bitmanagement Software GmbH*, 989 F.3d at 952. (Newman, J., concurring).

²⁰³ See *id.* at 952-53 (Newman, J., concurring).

²⁰⁴ *Id.* at 953 (Newman, J., concurring).

²⁰⁵ *Id.* (Newman, J., concurring).

enlarged Navy use would be the subject of future purchase and license agreements[.]”²⁰⁶

Furthermore, Judge Newman required “evidence of a meeting of the minds between the licensor and licensee such that it is fair to infer that the licensor intended to grant a nonexclusive license.”²⁰⁷ Among other things, Judge Newman eventually concluded that “there plainly was no mutual intent that Bitmanagement would abandon its commercial purpose and grant the Navy unlimited free licenses to copy and use [BS].”²⁰⁸ Rather, Judge Newman opined that “Bitmanagement did indeed hope for wide Navy installation, but not as a gift to the United States.”²⁰⁹

Clearly, Judge Newman downplayed the email communications between Bitmanagement and the Navy. Instead, Judge Newman highlighted the written agreement attached to each software license delivered by Planet 9 for the 2012 Purchase Order. Judge Newman’s approach may suggest an underestimated role of an intermediary in software licensing.

B. Software Licensing Through an Intermediary

The Claims Court in *Bitmanagement Software* found that “the Navy never had a direct contractual relationship with Bitmanagement” but “contracted with Planet 9 to obtain Bitmanagement’s products.”²¹⁰ The Claims Court also observed that although treating Planet 9 as its reseller, Bitmanagement had avoided Planet 9 from being “entitled to represent [Bitmanagement] in any legal or other transaction nor to make any binding or nonbinding statement on behalf of [Bitmanagement].”²¹¹

It is unclear why Bitmanagement intended not to form a direct licensing relationship with the Navy. However, if Bitmanagement had authorized its intermediary to enter into a written contract with the Navy, the unauthorized deployment of BS across the NMCI network would have easily constituted copyright infringement without looking into a possible implied-in-fact contract. This statement may be supported by the Claims Court’s decision in *4DD Holdings, LLC v. United States*.²¹²

1. 4DD Holdings, LLC v. United States

In *4DD Holdings*, the U.S. Government was alleged to infringe the plaintiff’s copyright by over-installing copies of TETRA, a software product the plaintiff, 4DD Holdings, LLC (4DD), created to “enable federation between databases.”²¹³ The

²⁰⁶ *Id.* (Newman, J., concurring).

²⁰⁷ See *Bitmanagement Software GmbH*, 989 F.3d at 953 (Newman, J., concurring) (quoting *Associated Press v. Meltwater U.S. Holdings, Inc.*, 931 F. Supp. 2d 537, 562 (S.D.N.Y. 2013)).

²⁰⁸ *Id.* at 954 (Newman, J., concurring).

²⁰⁹ *Id.* (Newman, J., concurring).

²¹⁰ *Bitmanagement Software GmbH*, 144 Fed. Cl. at 649.

²¹¹ *Id.* (alterations in original).

²¹² *4DD Holdings, LLC v. United States*, 159 Fed. Cl. 337 (2022).

²¹³ See *id.* at 340-41.

Government argued that it had an implied-in-fact license to make extra copies, but the Claims Court rejected that argument.²¹⁴

In 2013, the Government (likely through the Department of Defense (DoD)) and ImmixTechnology, Inc. (Immix), a plaintiff's reseller, entered into a licensing contract of TETRA.²¹⁵ Later, both parties executed a modified licensing contract that expressly includes the plaintiff's End User License Agreement (EULA).²¹⁶ The EULA prohibited the Government from making one than one backup copy.²¹⁷ Since the Government did not permit activation of TETRA's tracking feature, the plaintiff could not track copies of TETRA.²¹⁸ Eventually, the Government and Immix agreed that the former would use the plaintiff's license portal to track each download of TETRA.²¹⁹

In 2014, after finding that several unauthorized copies of TETRA had been made, the plaintiff informed the Government's representative of this issue.²²⁰ Meanwhile, the Government also learned of the over-installations of TETRA copies and required removal of unauthorized copies.²²¹ After that incident, the Government, through the Defense Health Agency (DHA), sought to negotiate with the plaintiff to resolve the over-installations issue.²²² During the negotiation, the Government continued to delete unauthorized TETRA copies.²²³

In 2015, the Government agreed to pay for extra copies unauthorized by the previous contract and entered into a new modified contract releasing the Government from "any and all liability under this contract for further equitable adjustments attributable to such facts and circumstances giving rise to this particular modification."²²⁴ However, since 2014, the Government had decided not to use TETRA.²²⁵ Finally, the last modified contract expired in March 2015.²²⁶ Later, the plaintiff sued the Government for copyright infringement for unauthorized copying of TETRA in August 2015.²²⁷

Before the Claims Court, the Government argued that it had an implied-in-fact license to "make backup copies and other copies that were essential for the use of TETRA."²²⁸ Contrarily, the plaintiff contended that an implied-in-fact license could not exist because there was an express written contract.²²⁹ The Claims Court agreed that "the EULA preclude[d] a finding of an implied-in-fact license."²³⁰

The Claims Court followed the Federal Circuit's rule in *Bitmanagement Software* stating that "[i]t is well established that the existence of an express contract precludes

²¹⁴ See *id.* at 346-47.

²¹⁵ See *id.* at 341; see also *4DD Holdings, LLC v. United States*, 143 Fed. Cl. 118, 122 (2019).

²¹⁶ See *4DD Holdings, LLC*, 159 Fed. Cl. at 341.

²¹⁷ See *id.*

²¹⁸ See *id.* at 341-42.

²¹⁹ See *id.* at 342.

²²⁰ See *id.*

²²¹ See *4DD Holdings, LLC*, 159 Fed. Cl. at 142.

²²² See *id.*

²²³ See *id.*

²²⁴ See *id.*

²²⁵ See *id.*

²²⁶ See *4DD Holdings, LLC*, 159 Fed. Cl. at 142.

²²⁷ See *id.*

²²⁸ See *id.* at 346 (quoting the defendant's motion).

²²⁹ See *id.* at 347.

²³⁰ *Id.*

the existence of an implied-in-fact contract dealing with the same subject matter, unless the implied contract is entirely unrelated to the express contract.”²³¹ While acknowledging Federal Circuit’s finding of an implied-in-fact license there, the Claims Court distinguished the present case from *Bitmanagement Software* in three aspects.²³²

First, the Claims Court observed that “the parties there did not have a contractual relationship, instead using an intermediary which could not bind Bitmanagement.”²³³ Although the parties here did not have an express contractual relationship, the Claims Court opined that the Government did have a contract with Immix, an authorized reseller of TETRA for the plaintiff, could bind the plaintiff.²³⁴ Second, the Claims Court stated that “the issue [there] was not expressly dealt with by the contract[,]” but the issue here, “copies of TETRA, was expressly dealt with in the EULA” requiring that “the [G]overnment could not copy TETRA beyond what was allowed in the EULA.”²³⁵ Third, the Claims Court pointed out that “the contract [there] was ambiguous with respect to how the parties understood that the software would be used.”²³⁶ Contrarily, the Claims Court found that here “the EULA [was] not ambiguous with respect to limitations on TETRA’s use” because it “specifically laid out the number of cores, seats, and copies the [G]overnment could make of the various software.”²³⁷

Finally, the Claims Court held that “[w]e see no reason to deviate from the baseline rule that an implied-in-fact license is inapplicable when there is an express contract that deals with the same issue.”²³⁸ The Government failed to prove an implied-in-fact license.²³⁹

2. A Lesson Learned from *Bitmanagement Software* and *4DD Holdings*

In *4DD Holdings*, 4DD did not directly license its software to the DoD.²⁴⁰ But, since 4DD’s reseller, Immix, and the DoD had entered into a contract that included 4DD’s EULA, the DoD was subject to those restrictions written in the contract, as the Claims Court recognized.²⁴¹ Therefore, because the contract expressly forbade the DoD from copying the licensed software, the Government could not prove that it had acquired an implied-in-fact license of making multiple copies.²⁴²

Unlike 4DD, Bitmanagement did not authorize its reseller (Planet 9) to directly form a contractual relationship with the Navy.²⁴³ Rather, Bitmanagement merely used

²³¹ *4DD Holdings, LLC*, 159 Fed. Cl at 347 (quoting *Bitmanagement Software GmbH*, 989 F.3d at 949 (internal quotation marks omitted)).

²³² *See id.*

²³³ *Id.*

²³⁴ *See id.*

²³⁵ *Id.*

²³⁶ *4DD Holdings, LLC*, 159 Fed. Cl at 347.

²³⁷ *Id.*

²³⁸ *Id.*

²³⁹ *See id.*

²⁴⁰ *See id.* at 341.

²⁴¹ *See 4DD Holdings, LLC*, 159 Fed. Cl at 341-43.

²⁴² *See id.* at 347.

²⁴³ *See Bitmanagement Software GmbH*, 144 Fed. Cl. at 649.

Planet 9 to exchange trading information with the Navy.²⁴⁴ Although Bitmanagement once sought to enter into a user agreement with the Navy concerning server-based licenses, that user agreement had never been executed.²⁴⁵ Such a reckless licensing practice led to a finding of an implied-in-fact license of unlimited installations of BS.²⁴⁶

Therefore, *Bitmanagement Software* and *4DD Holdings* together teach that a software company may avoid implied-in-fact authorization of unlimited copies by trusting its intermediary to form with a user a contractual relationship adopted the company's own user restrictions.

C. Irrevocability Issue

Whether an implied-in-fact license is revocable may be a concern for Bitmanagement. A general rule is that “[a] nonexclusive license may be irrevocable if supported by consideration,” as the Fifth Circuit held in *Lulirama*.²⁴⁷ In a requestor/creator scenario, a fact that the requestor had paid consideration will render a nonexclusive implied-in-fact license irrevocable.²⁴⁸

The main question is whether there was consideration between Bitmanagement and the Navy. The Restatement (Second) of Contracts has suggested that “[t]o constitute consideration, a performance or a return promise must be bargained for.”²⁴⁹ For instance, in *Mahavisno v. Compendia Bioscience, Inc.*, the district court found the disputed implied-in-fact license irrevocable.²⁵⁰ There, the plaintiff created a computer program and gave the program to the defendant with the intent that the program will be implemented in the defendant's own products.²⁵¹ According to the plaintiff's testimony, the defendant promised to give the plaintiff an ownership interest in the defendant.²⁵² In return, the plaintiff wrote the infringed computer program for the defendant.²⁵³ Thus, the district court held that “there was consideration and therefore Plaintiff could not unilaterally revoke that contract.”²⁵⁴

In *Bitmanagement Software*, the Federal Circuit adopted a legal proposition that “[a]n implied nonexclusive copyright license may be found, however, in the absence of consideration.”²⁵⁵ Maybe that is why the Federal Circuit did not look for any facts concerning consideration. However, there might be some statement close to consideration. As the Federal Circuit found, Alex Viana a NAVFAC deputy program manager, told Alex Koerfer, Bitmanagement's co-founder, in an email dated November 24, 2011, that:

²⁴⁴ See *Bitmanagement Software GmbH*, 989 F.3d at 941-44.

²⁴⁵ See *id.* at 943-44.

²⁴⁶ See *id.* at 948-49.

²⁴⁷ *Lulirama Ltd., Inc.*, 128 F.3d at 882.

²⁴⁸ See *Asset Mktg. Sys., Inc.*, 542 F.3d at 757 (“Furthermore, because AMS paid consideration, this license is irrevocable.”).

²⁴⁹ RESTATEMENT (SECOND) OF CONTRACTS § 71(1) (1981).

²⁵⁰ See *Mahavisno v. Compendia Bioscience, Inc.*, 164 F. Supp. 3d 964, 971 (E.D. Mich. 2016).

²⁵¹ See *id.* at 969.

²⁵² See *id.* at 971.

²⁵³ See *id.*

²⁵⁴ See *id.*

²⁵⁵ *Bitmanagement Software GmbH*, 989 F.3d at 946 (citing *Avtec Sys., Inc.*, 21 F.3d at 574 n.12).

We currently have 20 PC licenses of BS Contact Geo version 7.215 which we have not deployed and are requesting to manage from our Navy server. This will be accomplished by utilizing the software application AdminStudio by Flexera in conjunction with BS Contact Geo from our server. This will allow us to track the use of the 20 licenses across a broad spectrum of the NMCI realm (versus having those 20 licenses mapped to individual PCs). Once we have successfully implemented this approach, *we will* be able to document (through the AdminStudio) the usage of the 20 BS Contact Geo licenses and *enable us to justify the purchase of additional BS Contact Geo licenses in the future.*²⁵⁶

By indicating that the implementation of remaining 20 PC licenses by Flexera would help “justify the purchase of additional BS Contact Geo licenses in the future,” the Navy merely gave Bitmanagement a hope that the Navy will purchase more licenses. As the Sixth Circuit in *In re Ward* interpreted, “[i]f there is no reliance or expectation that a particular promise or performance by a contracting party will take place, the consideration—in the language of the Restatement of Contracts—is not ‘bargained for’[.]”²⁵⁷ Because the Navy did not express how many licenses they intend to acquire, Bitmanagement would not have expected that the Navy will purchase additional licenses.

Therefore, there was no consideration between Bitmanagement and the Navy even though Bitmanagement might have impliedly permitted the Navy to install BS copies into the Navy’s computers. Bitmanagement has a right to revoke the court-determined implied-in-fact license.

V. CONCLUSION

The Federal Circuit’s ruling in *Bitmanagement Software* is fact-specific, depending on the course of conducts between Bitmanagement and the Navy. However, under *Bitmanagement Software*, a software company must respond to its customer carefully without triggering any implied-in-fact license to use software. Otherwise, flexible customer services, such as informal email communications, may result in unwilling authorization of mass software installations.

Bitmanagement Software also indicates that determination of an implied-in-fact license turns on whether a factfinder concentrates on certain information exchanged between the parties. However, authorizing an intermediary to form a contractual relationship with a user may prevent a finding of an implied-in-fact license particularly, considering *ADD Holdings*, when the contract between the intermediary and user specifies authorized methods of using software and the number of permitted copies.

Finally, *Bitmanagement Software* has expanded the universe of the *Effects Associates* test. Although acknowledging that determination of an implied-in-fact license is no exception to the common law contract principles, the Federal Circuit went

²⁵⁶ *Id.* at 944 (emphasis added).

²⁵⁷ *In re Ward*, 857 F.2d 1082, 1088 (6th Cir. 1988).

further to uphold the disputed implied-in-fact license even without finding consideration between the parties. Nonetheless, since there is no consideration, a copyright owner may revoke the implied-in-fact license and gain control of distribution of its software.