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Decision

Matter of: PTC Inc.

File: B-416863

Date: December 20, 2018

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DIGEST

Proposed award of a sole-source contract for software license reactivation to the original software developer is unobjectionable where the agency reasonably determined that its large existing inventory of licenses for older versions of the software could be reactivated and standardized to a single version at a significantly lower cost than purchasing new licenses for other similar software, and where the record reflects that this cost differential was not likely to be recovered through competition.

DECISION

PTC, Inc., of Needham, Massachusetts, challenges a notice of intent to award a sole-source contract to Siemens Government Technologies, Inc., of Arlington, Virginia, issued by the Department of the Air Force for product lifecycle management (PLM) software. The protester alleges that the agency's justification and approval (J&A) supporting the proposed sole-source contract is not consistent with the cited regulatory authority, and is based on a flawed cost analysis.

We deny the protest.

BACKGROUND

PLM software is commercial, off-the-shelf (COTS) software designed to allow users to manage engineering, manufacturing, and design information about products, throughout the process of designing, manufacturing, using, and ultimately disposing of the product (called the “lifecycle” of a product). Agency Report (AR), Tab 2, Contracting Officer’s Statement of Facts (COSF) at 2. For example, PLM software could be used to compare an existing landing gear material’s life expectancy and strength to new landing gear materials, and then analyze the differences to make an informed decision about the downstream effects of a possible change in materials. Id. There are a number of vendors offering COTS PLM software suites, including Siemens’s PLM offering “Teamcenter” and PTC’s PLM offering “Windchill.” AR, Tab 4, Market Research Report 2014, at 18-19.

The Air Force began investigating PLM predecessor products¹ in 2000. AR, Tab 1, Memorandum of Law (MOL) at 2. Between 2000 and 2011 the Air Force purchased a significant number of software licenses for PLM software or PLM predecessor software under various contracts.² Id. In 2014, the Air Force initiated an effort to acquire or develop a standardized enterprise-wide PLM solution and conducted market research concerning available PLM options. AR, Tab 4, Market Research Report 2014. In January of 2015, the Air Force estimated that the total cost of purchasing all new software licenses and deploying a standardized PLM solution would be approximately \$324 million. COSF at 4-5. Due to concerns about the affordability of such a solution, senior Air Force acquisition management encouraged the PLM program management team to investigate alternative methods of acquisition. MOL at 3.

The PLM team identified two potential alternative strategies that would reuse software licenses already owned by the Department of Defense at a lower projected cost. Specifically, the PLM team proposed that: (1) the Air Force could reuse a significant number of Teamcenter licenses which it already owned and which were, in some cases, already in use; or (2) it could attempt to reuse a number of PTC Windchill licenses, which the Department of the Army owned. MOL at 3-4. The agency performed a cost, schedule, and risk assessment of the two systems, ultimately recommending that the Air Force attempt to reuse its existing Teamcenter licenses. AR, Tab 11, Materiel Solution Implementation Plan (Build Zero). The factors underlying this conclusion were

¹ For example, the Teamcenter software suite was previously branded as “Program Data Management” software rather than PLM software. COSF at 4.

² The Teamcenter licenses were purchased at various Air Force installations under a variety of uncoordinated contracts, but the two largest such contracts were a 2003 contract with Intergraph Corporation, and a 2006 contract with Lockheed Martin Corporation. MOL at 2-3.

that: the Air Force already owned at least 21,000 Teamcenter perpetual licenses³ from previous competitive acquisitions, of which more than 6,000 were currently in use; insufficient funding was available for new licenses; minimal data migration or training would be required; there was no anticipated additional hardware or infrastructure cost; and the Air Force would avoid conflicting governance structures for the Air Force and the Army. COSF at 5-6.

In September of 2016, the National Center for Manufacturing Sciences issued a cooperative agreement, to which the Air Force and Siemens were also parties. See AR, Tab 12, National Center for Manufacturing Sciences Final Report, at 1, 7. The cooperative agreement resulted in a pilot effort to establish whether the Air Force's existing Teamcenter licenses could fully meet technical needs of the Air Force with respect to the entire weapon system lifecycle.⁴ MOL 4-5. The results of the pilot suggested that a PLM solution using the Air Force's existing licenses could potentially be used throughout the weapon system lifecycle, which increased the number of Air Force activities that might ultimately have a need for PLM software, and accordingly increased the potential number of licenses the Air Force would ultimately require. MOL at 5.

In December of 2017, the Air Force met with Siemens, and learned for the first time that, in addition to the more than 21,000 currently active perpetual licenses, the Air Force additionally had purchased (through various contracts) a significant number of additional perpetual licenses that were inactive, for a total of 59,375 Teamcenter licenses in all. MOL at 5. Siemens provided a rough estimated price to reactivate the inactive licenses, and update all existing licenses to a standard version of the Teamcenter software. Id.

The Air Force concluded that it did not have an immediate need for 59,375 PLM licenses, but noted that at least 50 Air Force program offices have expressed interest in PLM software, so the Air Force estimates that its long-term need may potentially exceed

³ In this context, a perpetual license in software is a license to use a specific version of software indefinitely, even after the software in question is considered obsolete by its developers. COSF at 17 n.2. The agency notes that a familiar example of a perpetual license is the license offered for the Microsoft Windows operating system prior to Windows 10: one might purchase a license for Windows 98 or Windows 7 and continue to use that version of Windows long after its developer, Microsoft, has moved on to development of a later version of Windows. See Id. Relevant to this protest, a perpetual license is different from a subscription license in software, which is merely a license to use the software so long as one continues to pay subscription fees, after which point the purchaser is left with no license to use the software.

⁴ Previously, the Air Force had primarily used PLM software for monitoring weapon system sustainment, and was uncertain if PLM software would be effective if used earlier in the product lifecycle. COSF at 7.

59,375 PLM licenses. MOL at 6. The Air Force also realized that a reuse solution involving the reactivation of the additional inactive licenses could only be pursued in cooperation with Siemens, as only Siemens could reactivate the licenses in question. Id. In January of 2018, the agency requested additional pricing information from Siemens and received a more detailed estimate of what Siemens would charge to reactivate and standardize the existing Teamcenter licenses, as well as to provide maintenance for a ten-year period on an indefinite-delivery, indefinite-quantity (IDIQ) basis. COSF at 9; AR, Tab 7b, Siemens Presentation, January 2018.

In April 2018, the agency conducted additional market research, including examining the General Services Administration's (GSA) supply schedule prices for licenses in various competing products. COSF at 9-11; AR Tab 19, Market Research Report Addendum, April 2018. On the basis of its market research and that cost comparison, the agency prepared a J&A to support a sole-source award to Siemens. AR, Tab 18, Justification and Approval. The J&A relied on the authority provided by 10 U.S.C. § 2304(c)(1) as implemented by Federal Acquisition Regulation (FAR) § 6.302-1(a)(2), which permits the use of other than full and open competition where supplies or services are only available from one responsible source and no other supplies or services will satisfy agency requirements. J&A at 4. More specifically, the J&A relied on FAR § 6.302-1(a)(2)(iii). Under this section of the FAR, in the case of a follow-on contract for the continued provision of highly specialized services, an agency may find that services are only available from the original source when it is likely that award to any other source would result in, among other things, substantial duplication of cost to the government that is not expected to be recovered through competition. Id. In this case, the J&A prepared by the Air Force notes that the reactivation of the agency's inactive Siemens licenses was a highly specialized service because no entity other than Siemens was capable of performing the required service. Id.

The J&A noted that the estimated cost for Siemens to reactivate and standardize the licenses, and provide ten years of maintenance, was \$24.6 million. J&A at 3. By contrast, the estimated cost for equivalent new perpetual licenses⁵ and maintenance from PTC, the lowest-priced provider of an alternative PLM product, was \$104.7 million based on GSA supply schedule prices. J&A at 5. The J&A noted that, while the agency would expect vendors to offer licenses at prices below the prices listed on their GSA schedules during a competitive acquisition, such reductions were unlikely to overcome an estimated \$80 million cost gap. Id. The J&A additionally estimated that conducting a competitive acquisition would cost the agency approximately \$1 million, which added to the anticipated unrecoverable cost duplication. Id.

On July 25, 2018, the agency sent Siemens a request for a proposal for an IDIQ contract with a base ordering period of 5 years and an option for an additional 5-year

⁵ The agency used perpetual license prices as its point of comparison, rather than subscription license prices, because the licenses currently owned by the agency and the licenses it seeks to procure are perpetual licenses. COSF at 10-11.

ordering period, to reactivate and standardize all 59,375 existing licenses and provide maintenance and support for those licenses. COSF at 14. The proposed contract had a maximum ordering value of \$24.6 million. Id.

Various negotiations between the agency and Siemens followed, culminating in the publication of a notice of intent to award a sole-source contract (NOI) on September 13, 2018. AR, Tab 21, Notice of Intent to Award Sole-Source Contract. A redacted version of the J&A was published along with the NOI. See AR, Tab 21, Notice of Intent to Award Sole-Source Contract, at 3. While specific price information was removed from the public version of the J&A, the redacted version made it clear that the nature of the transaction was the reactivation of 59,373 Teamcenter licenses, and that the primary basis for the sole-source award was a significant duplication of costs that the agency did not expect to recover through competition if it were to instead purchase new licenses. See Id. at 5, 6-7.

Additionally, the NOI invited all interested sources to respond in writing with clear and convincing evidence to support their ability to provide timely and effective services within 7 days of publication. Id. The protester filed a timely response to the notice with the agency, which described the protester's PLM product and its capabilities. PTC's Response to NOI. This protest followed.

DISCUSSION

The protester challenges the J&A supporting the NOI on several bases. Specifically, the protester contends that this sole-source procurement is not a follow-on contract for highly specialized services, that the sole-source procurement is not authorized on alternative grounds, and that the agency's underlying cost analysis is flawed in several respects.⁶ Protest at 19-22; Protester's Comments at 39-42.

The Competition in Contracting Act (CICA) requires agencies to obtain full and open competition in their procurements through the use of competitive procedures. 10 U.S.C. § 2304(a)(1)(A). However, CICA permits an exception to the use of competitive

⁶ The protest included several additional arguments. While we do not specifically address all of the protester's arguments, we have considered them and conclude that they do not provide a basis to sustain the protest. For example, the protester argues that the agency is pursuing a brand-name procurement without having justified the necessity for the brand restriction as required by regulation. Protest at 32-33 (citing FAR § 6.302-1(c)(ii)(B)). However, the justification provided for the agency's intent to sole-source is entirely predicated on the agency's intent to reactivate and standardize its existing inventory of software licenses, which happen to be licenses for Siemens Teamcenter branded software. See J&A at 5-8. In this case, the agency's rationale for awarding a sole-source contract to Siemens applies with equal force to the brand-name requirement, even assuming this procurement is appropriately characterized as a brand-name-only procurement.

procedures where the supplies or services required by an agency are available from only one responsible source, and no other type of supplies or services will satisfy agency requirements. See 10 U.S.C. § 2304(c)(1); FAR § 6.302-1(a)(2). As relevant here, for purposes of applying this exception, CICA and the FAR provide that in the case of a follow-on contract for the continued development or production of a major system or highly specialized equipment, or the continued provision of highly specialized services, such property or services may be deemed to be available only from the original source and may be procured through procedures other than competitive procedures when it is likely that award to a source other than the original source would result in: (1) substantial duplication of costs to the United States which is not expected to be recovered through competition; or (2) unacceptable delays in fulfilling the agency's needs. See 10 U.S.C. § 2304(d)(1)(B); FAR § 6.302-1(a)(ii).

When using noncompetitive procedures pursuant to 10 U.S.C. § 2304(c)(1), such as here, agencies must execute a written J&A with sufficient facts and rationale to support the use of the cited authority. 10 U.S.C. § 2304(f)(1)(A), (B); FAR §§ 6.302-1(d)(1), 6.303-1, 6.303-2, 6.304. Our review of an agency's decision to conduct a sole-source procurement focuses on the adequacy of the rationale and conclusions set forth in the J&A; where a J&A sets forth a reasonable basis for the agency's actions, we will not object to the award. Chapman Law Firm Co., LPA, B-296847, Sept. 28, 2005, 2005 CPD ¶ 175 at 3.

Follow-On Contract for Highly Specialized Services

The protester argues that the agency's J&A is unreasonable because the proposed sole-source contract is not a follow-on contract for the continued provision of highly specialized services. The protester notes that the contracts the agency identifies as predecessor contracts were not contracts with Siemens, but rather with various resellers of Siemens products, and that all such contracts concluded more than five years previously. Comments at 9-19. Accordingly, the protester contends that a contract with an entirely different party, proposed multiple years after the expiration of the original contracts cannot be a follow-on contract for the continued provision of services in the sense contemplated by the FAR.⁷ Id.

Additionally, the protester argues that labelling the transaction as a procurement of highly specialized services mischaracterizes the nature of what is being procured.

⁷ The protester additionally contends that the contracts in question were for an entirely different software product, and therefore were additionally distinct. Protest at 20-22. The agency disputes this characterization of the transaction, noting that the prior contracts were for Siemens Teamcenter software, albeit for prior versions of that software, and it is those specific licenses which are being reactivated in the current procurement. MOL at 11. Recognizing that software suites certainly change significantly over time, we believe the record supports the agency's characterization of the transaction for reasons described in this decision.

Comments at 20-24. The protester argues that the agency's requirement is for COTS PLM software, not for the service of software license reactivation. Id. The protester contends that characterizing the transaction in this way is akin to characterizing the service provided by a rental car company as the service of executing a rental agreement rather than the provision of a rental car. Id. at 5.

In response, the agency notes that the FAR does not define a "follow-on contract," but notes that this contract follows a series of contracts for Siemens Teamcenter software, which collectively represent a significant agency investment in that software. MOL at 11-13. Additionally, the agency contends that, because Siemens is the only source for the reactivation services the agency is seeking, the transaction is appropriately characterized as a procurement of highly specialized services. Id. Therefore, because the agency is procuring these services from the original source of those services, this procurement is appropriately characterized as a follow-on contract. Id.

Our review of the record leads us to conclude that this procurement is not a follow-on contract for the continued provision of highly specialized services. First, the previous contracts were, in relevant part, contracts for the purchase of software licenses not for the service of reactivating such licenses, so it is unclear in what way the reactivation services to be procured here represent a continued provision of highly specialized services as required by FAR 6.302-1(a)(2)(iii). See, e.g., AR, Tab 8, 2006 Contract with Lockheed Martin Corporation. Second, the prior contracts were with parties other than Siemens and occurred many years in the past. Id. The Air Force has not identified any authority supporting its reading of this FAR provision to allow a follow-on contract to be awarded to an entity entirely different from the original contract awardee. Additionally, the agency cites only a single decision supporting the notion that a significant break in time between the original contract and a purported follow-on is justifiable, which is inapposite.⁸ See Information Ventures, Inc., B-246605, Mar. 23, 1992, 92-1 CPD ¶ 302. If the agency's reading of the clause were correct, virtually any subsequent purchase of services from an original equipment manufacturer could be appropriately characterized as a follow-on contract for the continued provision of services, regardless of the original contracting parties, the passage of time, or the fact that the original contracts were for the purchase of goods. This is an untenable reading of the regulatory text.

For these reasons, we conclude that the agency erred in characterizing this requirement as a follow-on contract for the continued provision of highly specialized services. However, our decisions have concluded that we will not disturb an agency's decision to

⁸ Our Office concluded in that decision that the agency did not err in deciding that a contractor who had already performed 65 percent of the needed work under a prior contract years earlier was the only source capable of meeting the agency's needs within the required time, not that the contract in question was a follow-on contract for the provision of highly specialized services. Information Ventures, Inc., B-246605, Mar. 23, 1992, 92-1 CPD ¶ 302 at 4.

seek a sole-source procurement simply because an agency cites an inapplicable exception to the requirement for full and open competition, if the record adequately supports the application of a different exception. See SEMCOR, Inc.; HJ Ford Associates, Inc., B-279794, *et al.*, July 23, 1998, 98-2 CPD ¶ 43 at 9-12; Information Ventures, Inc., *supra*, at 4 n.4; see also FN America B-415261, B-415261.2, Dec. 12, 2017, 2017 CPD ¶ 380 at 9-11. In this connection, we note that CICA and the FAR do not contemplate that an agency may only find supplies to be available from one responsible source in the specific circumstances identified in sub-subparagraphs 6.302-1(a)(2)(i)-(iii). See FAR § 6.302-1(a)(2) and 10 U.S.C. § 2304(c)(1). Rather, those circumstances are non-exhaustive examples of scenarios in which an agency may reasonably find that only one responsible source exists. In prior decisions, we have found no basis to disturb sole-source decisions in which the agency relied directly on 10 U.S.C. § 2304(c)(1) and subparagraph 6.302-1(a)(2) alone, rather than on any of the sub-subparagraphs.

For example, in other cases, we have found that an agency's reasonable need for standardization or interoperability with existing agency equipment or software can be an independent basis for a sole-source award. See, e.g., Brinkmann Instruments, Inc., B-309946, B-309946.2, Oct. 15, 2007, 2007 CPD ¶ 188 at 2-3 (sole-source acquisition of autotitrators was reasonable where the agency sought to simplify training by fielding a single standard model of autotitrator, even though competing autotitrators would otherwise meet the agency's needs); Advanced Med. Sys., Inc., B-259010, Jan. 17, 1995, 1995 WL 29832 at 1-2 (agency's need to standardize fetal monitors in order to maximize patient care was reasonable); Sperry Marine, Inc., B-245654, Jan. 27, 1992, 92-1 CPD ¶ 111 (sole-source acquisition of particular radar system was reasonable where agency needed to utilize the same radar system it had already deployed at training school); C&S Antennas, Incorporated, B-224549, Feb. 13, 1987, 87-1 CPD ¶ 161 (the necessity that the desired item manufactured by one source be compatible and interchangeable with existing equipment may justify restricting the competition to a single source of supply).

One of the core concepts underlying a standardization or interoperability rationale is that, in order to use an alternative product, the agency would have to replace existing equipment or software, and that replacement would be impractical or prohibitively costly. See, e.g., Midwest Dynamometer & Engineering Co., B-257323, Sept. 2, 1994, 94-2 CPD ¶ 91 (sole-source acquisition of dynamometers was reasonable because no other dynamometer was compatible with the agency's existing software); Navistar Marine Instrument Corp., B-262221, Nov. 20, 1995, 95-2 CPD ¶ 232 (sole-source acquisition of barometers were reasonable where other barometers would not physically fit in the agency's existing instrument panels). We have specifically concluded that, even where an alternative product would otherwise meet the agency's requirements or is cheaper than the standard item, the agency may nonetheless award a sole-source for the standard item, where the costs of repurchase of the agency's existing inventory would not be overcome by the alternative product's price advantage. FN America, LLC, *supra*, at 9-11 (sole-source acquisition of rifle was reasonable where the agency needed to field a single standard model of combat rifle, even where competing rifle was

cheaper and would otherwise meet the agency's needs, because repurchase of existing rifles neutralized the cost advantage of the competing rifle).

Here, the agency has estimated that its previous investment for 59,370 perpetual licenses in various versions of Teamcenter software was worth approximately \$100 million. J&A at 4; COSF at 19. The agency has employed the software as part of its operations, trained its staff in the use of the software, and currently uses at least 6,000 of those licenses. See J&A at 4-5; COSF at 5-7. Additionally, as part of its sole-source justification, the agency notes that one of its goals is to standardize its processes using a single software version throughout the Air Force. See J&A at 3-5, 7. Furthermore, the agency's decision to award a sole-source contract to Siemens was primarily driven by the expected cost duplication of standardizing on a PLM solution other than the one for which the agency already owned a significant quantity of licenses. Id.

The protester argues, in response, that the agency is not standardizing its intended use based on a PLM software suite it already owns, but rather is merely purchasing new and different software. Protest at 20-26; Comments at 41-42. Relatedly, the protester argues that unmaintained software licenses older than five years have "little to no residual value" in its industry, and therefore it is inappropriate to consider the Air Force's existing software investment as analogous to valuable inventory. Protest at 22-23. Rather, the protester suggests that the Air Force's prior investments are, in essence, an irrelevant sunk cost. Protest at 25. Additionally, the protester notes that the Air Force proposes to standardize its licenses by upgrading them to the latest version of the Teamcenter software, to include swapping out certain software modules, and that the licenses the agency owns in some cases are not even in PLM software, but instead in older "Program Data Management" software. Comments at 14-17.

First, we do not agree that the Air Force's existing perpetual licenses have no residual value. Over 6,000 of those licenses are currently in use, assisting the Air Force in accomplishing its mission. See J&A at 4-5. While the licenses are for older versions of the Teamcenter software, the licenses are perpetual, so the Air Force could elect to continue using the software at no additional cost indefinitely, which is precisely the approach Air Force appears to have taken over the previous decade. These older licenses, therefore, certainly have a meaningful residual value to the Air Force.

Furthermore, Siemens' proposed upgrade pricing for the licenses represents a dramatic discount from its published GSA schedule pricing for new perpetual licenses, especially when considered as a separate line-item from the software maintenance portions of the contract. Specifically, Siemens' overall price for the reactivation of the licenses and ongoing maintenance represented an 83 percent discount from its schedule prices for new licenses and equivalent maintenance. Compare J&A at 3 with J&A at 5. Looking solely at the pricing for reactivating and upgrading the licenses, however, the discount increases to approximately 94 percent. Id.

Additionally, the record reflects that the agency reasonably believed it was receiving this discount from Siemens because it owned and was upgrading a significant number of

existing software licenses, and that it would not have necessarily received a similar discount for the purchase of new software licenses. MOL at 14-16. For example, Siemens noted during their discussions with the Air Force that they were offering such steep discounts specifically to allow the Air Force to preserve its prior investments in the software.⁹ See AR, Tab 7a, Siemens Presentation, December 2017. The record, therefore, suggests that Siemens also views the older licenses as having some significant residual value. Accordingly, we find the protester's argument that the Air Force's existing licenses are valueless, and therefore inappropriately considered in the J&A, to be unpersuasive.

Similarly, we are unpersuaded by the protester's argument that the Air Force is, in effect, purchasing an entirely new product, such that standardization is not an appropriate supporting rationale. It is worth noting that our decisions have not focused exclusively on the agency's investment in the products themselves when considering standardization as a supporting rationale for a sole-source award. Our decisions have also considered the agency's investments in training related to those products, and other benefits resulting from having a single, standard solution. See, e.g., Brinkmann Instruments, Inc., supra, at 2-3; Advanced Med. Sys., Inc., supra; Sperry Marine, Inc., supra, at 3-4. In this case, for example, in addition to the identified product-related cost savings, the J&A also indicates that, because Teamcenter is already in use in the Air Force, minimal data migration, reconfiguration, or retraining will be needed to utilize a standardized version, which will reduce the agency's costs in other ways.¹⁰ These benefits of standardization would not be removed by virtue of the Air Force standardizing on the latest version of the Teamcenter software.

Additionally, the Air Force currently owns 59,370 Teamcenter licenses, and, as the protester notes, those licenses are for various versions of the software suite, some of which are older than others. Comments at 14-15. This means, logically, that to pursue a standard solution based on reactivating the existing licenses, some number of licenses would necessarily need to be upgraded, even if the Air Force were attempting merely to standardize on one of its existing licensed versions rather than on the latest version. In the absence of any articulated price advantage for standardizing on a

⁹ As an additional example, the agency notes that in 2012 the Department of the Army received a significant discount to reactivate and upgrade approximately 22,000 of the Army's older perpetual licenses in PTC's Windchill software in a brand-name-only procurement very similar to the instant procurement. See AR, Tab 24, Army Contract W52P1J-12-0016-0001. This reinforces the reasonableness of the agency's view that vendors may offer significant discounts in the license upgrade context.

¹⁰ For example, the contracting officer notes that switching to an alternative software package, such as PTC's Windchill, would require the purchase and operation of certain additional third-party software in order to successfully migrate the Air Force's existing data. COSF at 22-23.

specific older version rather than the current version,¹¹ which is not alleged, it is not irrational, on these facts, for the agency to seek to standardize on the most current version of the software.

In sum, given the Air Force's significant investment of money and time in its existing Teamcenter licenses and workflow, and the equally significant expected duplication of cost and effort to migrate to another solution, we believe that the agency was correct in concluding that there was only one responsible source that could allow the Air Force to recoup its investment by reactivating and standardizing its existing Teamcenter licenses.

Cost Analysis

The protester also challenges the agency's cost comparison, alleging that it is flawed in several respects, and that the agency's J&A is accordingly unreasonable because the agency cannot credibly show that switching to another solution would result in cost duplication.¹² Comments at 24-32. First, the protester contends that the agency's price comparison is irrational because it relied on PTC's GSA schedule pricing for a perpetual license, which it no longer offers to new customers.¹³ Protest at 16-17. Specifically,

¹¹ When dealing with a physical item, rather than a software license, standardizing on a new item would likely defeat any cost savings, as it would entail a significant additional cost to replace existing inventory. In this case, however, it is precisely the value assigned to the agency's existing inventory of licenses by Siemens that results in an upgrade cost that is lower than the expected cost to purchase entirely new licenses. No party has suggested that any vendor other than Siemens would be able or willing to provide trade-in value for the Air Force's existing license inventory in this manner.

¹² The protester additionally challenges other aspects of the agency's market research. For example, the protester contends that the agency did not adequately consider whether PTC's Windchill could potentially meet the agency's needs. Protest at 31-32. However, the agency does not meaningfully contest that PTC Windchill, as a technical matter, could meet, or be modified to meet, the agency's technical needs. The overriding rationale of the J&A was related to the costs, both direct and indirect, of migrating to a new software solution. See J&A at 3-5. Accordingly, this decision addresses the protester's arguments related to the agency's cost analysis.

¹³ We note that PTC has offered conflicting statements about precisely when it ceased to offer perpetual licenses to new customers. Initially, PTC suggested it had added its subscription license pricing to its GSA schedule and removed pricing for its perpetual license product from the GSA schedule both in February of 2017. Declaration of PTC Account Executive at 2. In a later declaration, the protester noted that the perpetual license had not in fact been removed from its GSA schedule, and its subscription license offering was only added in October of 2017. Supp. Declaration of PTC Account Executive at 1. The protester has not indicated on what date precisely PTC's perpetual license offering was "generally discontinued in the U.S. market." Id.

PTC alleges that it only offers subscription licenses to new customers, which the agency did not consider. Id. PTC contends that the agency's error demonstrates a lack of market research, and was prejudicial to PTC because subscription software licenses typically offer lower and more flexible up-front costs than perpetual licenses for the same product. Id. The protester also notes that relying on GSA schedule prices as a point of comparison is irrational, because GSA schedule prices represent ceiling prices from which large discounts may be expected during competition. Comments at 25-29.

The agency responds by noting that it compared perpetual license costs because it owned and was proposing to purchase perpetual licenses and wanted to compare equal licenses.¹⁴ COSF at 21-22. In response to the protest, the agency prepared an alternative cost comparison using PTC's schedule prices for its subscription products as a point of comparison.¹⁵ Id. The agency argues that, while this revised analysis resulted in an approximately \$30 million reduction in the agency's estimate of the cost of using PTC's product (for a revised total cost of \$72.5 million), that cost was still roughly three-times the cost of the proposed reactivation through Siemens. Id. The agency also estimates that there would likely be additional costs of switching to PTC's product as a result of a need to purchase certain additional modules not found on PTC's GSA Schedule. Id. Finally, the agency notes that the J&A expressly contemplated that competition would likely result in discounts from GSA schedule prices, but that the agency thought it was unlikely that discounts of the required magnitude would be offered. See J&A at 5.

As a preliminary matter, we note that, contrary to the protester's contention, a perpetual license and a subscription license in a software product are not necessarily equivalent products. To use a familiar example, a perpetual license is analogous to the purchase of a car, while a subscription license is more like a lease or rental of a car. The perpetual license, like buying a car, may have additional upfront costs, but the agency may also continue to use it for the rest of its useful life. See COSF at 17 n.2; Protest at 16-17. This is unlike a subscription license, which, like a leased car, is no longer

¹⁴ The agency additionally notes that PTC's GSA schedule does not include subscription licenses for all required services, which would have complicated any cross-comparison based on subscription licenses. COSF at 21-22.

¹⁵ The protester contends that we should disregard the agency's subsequent analysis because it was prepared after the protest was filed, and was flawed in various respects. Comments at 29-32. However, other than objecting to its reliance on GSA schedule pricing, the protester does not identify any specific flaws in the agency's analysis that would disturb the calculations. Id. Nor does the protester offer any alternative pricing information. Accordingly, because the cost analysis appears to credibly reflect PTC's GSA schedule pricing, we will consider the agency's post hoc price analysis as contextual information for the narrow purpose of assessing whether the protester was prejudiced by the agency's decision to use the protester's perpetual license pricing rather than its subscription license pricing in the J&A.

available after the end of the subscription term. While we agree with the protester that older software, like older cars, depreciates significantly over time, there remains significant use value in ownership of perpetual software licenses as evidenced by the Air Force's current ongoing use of many older Teamcenter perpetual licenses. See J&A at 4. Therefore, the fact that PTC no longer offers perpetual licenses does not necessarily support the protester's broader claim that the agency was irrational in concluding that only Siemens could offer the services that the agency required on the terms it was seeking. Furthermore, it is not clear that the agency was unreasonable in assuming that an item currently offered for sale on PTC's GSA schedule was, in fact, available for purchase.¹⁶

But assuming for the sake of argument that a subscription license in PLM software would meet the agency's needs and that the Air Force erred in considering PTC's perpetual license prices, the Air Force's subsequent analysis suggests that there would still be significant cost duplication that would not be recovered through competition. Specifically, the agency estimates that PTC's subscription solution would cost roughly three times as much as the Siemens reactivation solution, for a total added cost of \$48 million. COSF at 21-22. While an estimated three-fold price difference is certainly less than the originally estimated four-fold price difference, it remains a very significant difference in price. It is accordingly unclear that the protester was prejudiced by the agency's error, if error it was, in relying on PTC's GSA schedule to assess the scope of PTC's product offerings.

This leads to the protester's final objection--that the agency erred in relying on GSA schedule prices as the basis of its cost comparison. Comments at 25-29. Here, the J&A conceded that competition would likely result in discounts from the GSA schedule prices, but concluded that it was unlikely discounts of the required magnitude would be offered. J&A at 5. The protester argues that this conclusion is unreasonable and speculative, and contends, if given an opportunity to compete, it would "aggressively" offer discounts. Comments at 27. Notably, however, the protester does not offer any concrete suggestion concerning the scope of those discounts, either in its response to the NOI, or subsequently in the course of this protest. See, e.g., PTC Response to NOI.

On these facts, we do not believe that the agency was unreasonable in concluding that it was unlikely to receive a sufficiently significant discount from the GSA schedule prices

¹⁶ This is especially true where, as discussed above, the protester has not established when the item in question ceased to be available for purchase. Compare Declaration of PTC Account Executive at 2 (suggesting that in February 2017, PTC had added its subscription license product to the GSA schedule and removed pricing for its perpetual license product) with Supp. Declaration of PTC Account Executive at 1 (indicating that PTC had not, in fact, removed its perpetual license pricing from the GSA schedule, and that it had added its subscription license product to the GSA schedule in October of 2017, but providing no indication of when PTC ceased to offer its perpetual license product to new customers).

to eliminate the anticipated cost duplication. This is equally true whether one is contemplating the 77 percent (or approximately \$80 million) discount from PTC's perpetual license pricing that would be necessary to eliminate the cost differential, or the 66 percent (or approximately \$48 million) discount that would be necessary from PTC's subscription license pricing. While the agency received a steep discount from Siemens, as discussed above, the agency reasonably believed it was receiving this discount solely by virtue of its large existing inventory of Siemens Teamcenter licenses. Accordingly, the agency's conclusion that it would be unlikely to receive discounts of that magnitude for new license purchases appears reasonable.

In addition, there is no specific evidence in the record supporting the protester's argument that the agency could expect discounts of that magnitude. Despite the fact that the published J&A makes clear that the primary driver of the agency's decision to seek a sole-source contract was cost duplication that would result from pursuing a new license purchase rather than reactivating existing licenses, the protester's response to the NOI did not provide any concrete pricing information. See AR, Tab 21, Notice of Intent to Award Sole-Source Contract; PTC Response to NOI. Likewise, in the course of this protest, the protester has not indicated what discounts, as a historical matter, it might have given to enterprise customers in the past, what its best customer pricing might be, or even clearly affirmed that it believed it could offer a discount that would eliminate the agency's expected cost duplication. See, e.g., Comments at 27.

In short, the protester has offered no concrete evidence suggesting that the agency was unreasonable in concluding that it could not expect such steep reductions from the GSA schedule prices for new licenses. Because we believe the agency's initial conclusion was reasonable, and the protester has not offered specific evidence that would rebut that conclusion, we cannot conclude that the agency was unreasonable in its view that procuring from a source other than Siemens would result in substantial duplication of cost that would not be recovered through competition. See, e.g., C&S Antennas, Inc., supra at 4-5 (protester's self-serving statements alone are insufficient to indicate agency conclusions are unreasonable); CETENAGROUP, B-310797, B-310797.3, Feb 14, 2008, 2008 CPD ¶ 53 at 5 (general assertions that protester would lower price by unspecified amount inadequate to rebut significant price differential).

The protest is denied.

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