Software Licensing Issues When Contracting With the Federal Government

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Topics to be covered

• Relevant definitions
• Federal government acquisition of commercial software
• Tailoring commercial license terms
• Incorporation of license agreement into the contract
• Marking requirements for software and technical data
• Sales through prime contractors and resellers
• Pricing commercial computer software
• Software licensing tips and best practices
FAR Definition – FAR 2.101(civilian agencies)

• “Commercial computer software” as any computer software that is a commercial item,

• Defines “computer software” as programs including instructions, rules, routines or statements, plus source code listings, algorithms, formulas etc., but not including computer databases or computer software documentation (owners’ or user’s manuals, instructions, etc.).

• Defines “commercial item” as an item (other than real property) meeting one of these requirements:

  (1) of a type customarily used by general public for nongovernmental purposes, and has been sold, leased, or licensed to the general public or has been offered for sale, lease, or license

  (2) any item evolved from (1) but not yet commercially available

  (3) any item that could meet (1) or (2) but for modifications of a type customarily available in the commercial marketplace, or minor modifications of a type not customarily available in the commercial marketplace yet made to meet specific federal Government requirements

  (4) any combination of items meeting the above requirements
Definition of “computer software” in DFARS 252.227-7013(a)(3) excludes data bases and computer software documentation like FAR definition.

Per DFARS 252.227-7014(a)(1), “commercial computer software” means software developed or regularly used for nongovernmental purposes which—

(i) Has been sold, leased, or licensed to the public;
(ii) Has been offered for sale, lease, or license to the public;
(iii) Has not been offered, sold, leased, or licensed to the public but will be available for commercial sale, lease, or license in time to satisfy the delivery requirements of this contract; or
(iv) Satisfies a criterion expressed in paragraph (a)(1)(i), (ii), or (iii) of this clause and would require only minor modification to meet the requirements of this contract.
Government preference for commercial software

- USG has a statutory preference for procuring commercial items that extends to commercial software (41 U.S.C. § 3307; 10 U.S.C. § 2377).
  - broadens vendor base to include primarily commercial companies that would be unwilling to do business with the government on a non-commercial basis
- USG benefits from greater efficiency, speed, competition, and cost-savings than government-specific acquisition procedures would allow
Acquisition of commercial software

Civilian Agencies
• Agencies shall acquire only those rights in technical data, and licenses for commercial software customarily provided to the public. FAR 12.211, 12.212.
  • If USG needs additional rights it must negotiate. FAR 12.212, 27.405-3
• CO can also use FAR 52.227-19, “Commercial Computer Software License,” which gives USG the same rights in commercial software as with noncommercial software provided with “Restricted Rights.

DoD
• Acquisition of commercial computer software and documentation should be subject to license rights that are customarily provided to the public unless inconsistent with federal procurement law or cannot meet government needs. DFARS 227.7202-1(a), 227.7202-3(a).
  • Rights granted to the government shall be specified in the contract or addendum thereto
Commercial Licenses: What to Include

• Companies should include an End User License Agreement (“EULA”) with their commercial software.
  • Placed inside the shrink wrap, is recognized to mean the user accepts the license upon breaking the wrap’s seal.

• The license agreement can be placed:
  • electronically into the start-up screen or splash screen;
  • in a README file; or
  • within the source code comments section (if providing source code).

• Watch out for FAR 52.227-19 in RFP (now common).
  • FAR 52.227-19 converts commercial license into restricted rights license (which allows software to be modified and provided to other contractors)
Commercial Licenses: What to Include

• They should include some form of notification about their applicability to Federal procurements. For example:

  Federal Acquisition: This provision applies to all acquisitions of this software by or for the Federal Government, whether by any prime contractor or subcontractor and whether under any procurement contract, grant, cooperative agreement, or other activity by or with the Federal Government. By accepting delivery of this software, the Government agrees this software qualifies as “commercial” computer software within the meaning of the acquisition regulations applicable to this procurement. The terms and conditions of this license shall pertain to the Government’s use and disclosure of the software, and shall supersede any conflicting contractual terms or conditions. If this license fails to meet the Government’s needs or is inconsistent in any respect with Federal law, the Government agrees to return this software, unused, to the seller.
Commercial Licenses: What to Include

- The reason for this language is because both the FAR and the DFARS alert contractors that commercial license provisions may be rejected if they are inconsistent with law or otherwise do not meet an agency’s needs.

- Consider DFARS 227.7202-1(a): “Commercial computer software shall be acquired under the licenses customarily provided to the public unless such licenses are inconsistent with federal procurement law or do not otherwise satisfy user needs.” The FAR has a comparable provision, 27.405-3(b).
License terms

• Therefore, tailoring commercial license terms is necessary to meet federal government requirements.
• Some terms are never enforceable with government customers
• Examples of problematic clauses:
  • Indemnification
  • Disputes/choice of law and forum
  • Definition of contracting parties
  • Order of precedence
  • Contractor assumption of control of legal proceedings
  • Automatic renewals of term-limited agreements
  • Future fees or penalties
  • Taxes
**Preempted Commercial License Terms**

- GSA proposed a list of common commercial supplier agreement terms that are “inconsistent or create ambiguity with Federal Law” *(see 81 Fed. Reg. 34,302)* and issued a Class Deviation to establish GSAR 552.212-4 and preempt conflicting terms in a commercial license such as:

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<td>Applicability</td>
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<td>Arbitration; equitable or injunctive relief</td>
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<td>6.</td>
<td>Additional terms</td>
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<td>7.</td>
<td>No automatic renewals</td>
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<td>8.</td>
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<td>Taxes or Surcharges</td>
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<td>11.</td>
<td>Non-Assignment</td>
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<td>12.</td>
<td>Confidential Information</td>
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Commercial License Complications

• Although DFARS 227.7202-3(a) states that the government “shall have only the rights specified in the license under which the commercial computer software . . . was obtained” – which suggests that the licenses automatically apply – but the next section of this regulation provides:

If the Government has a need for rights not conveyed under the license customarily provided to the public, the Government must negotiate with the contractor to determine if there are acceptable terms for transferring such rights. The specific rights granted to the Government shall be enumerated in the contract license agreement or an addendum thereto. 227.7202-3(b).
Commercial License Complications

• The government may thus take the position it needs to know what the license provisions are before it accepts the license, so that it may negotiate for different terms if necessary.

• However, there are difficulties with this position:
  
  • There is **no clear mechanism** in the regulations for notifying the government of these licenses in advance.

  • There often is a **lack of discipline at the subcontracting tiers** either to recognize the need to get a license to the government or to pursue transmitting that license through a higher-tier contractor or the prime.

  • There is a **disconnect in Indefinite Delivery/Indefinite Quantity ("IDIQ")** contracts between the time of the overarching contract award and the subsequent award of task orders, which may occur years later and in very different circumstances than originally contemplated by the base contract.
Commercial Licenses: Say What?

• There is no method or procedure for suppliers at any tier to provide commercial licenses to contracting officers.

  • None of the RFP clauses requiring contractors to identify rights in advance applies to commercial computer software. See, e.g., FAR 52.227-15; DFARS 252.227-7017.

  • Nor are there any counterparts to them in the regulations covering the acquisition of commercial computer software.

  • The DFARS only contemplates identifying the “standard” license rights in the DFARS for noncommercial software – such as “restricted” or “government purpose rights” – not commercial license rights, while the FAR similarly addresses restricted rights software.

• As a result, suppliers do not usually supply the government with a commercial license.
Commercial Licenses: Just Do It

• The Office of the Undersecretary of Defense for Acquisition, Technology & Logistics (“OSD”) recognized long ago that although contractors should alert the government to commercial licenses and the government should include them in contracts, this does not always occur.

• This point is made in in the well-respected document “Intellectual Property: Navigating Through Commercial Waters” (October 15, 2001) (“IP Guide”):

  For example, there is no clause establishing rights in commercial computer software. However, the DFARS establishes procedures for the early identification of restrictions on noncommercial technical data and computer software. Similar processes should be established for commercial technologies and other important IP concerns. IP Guide at 1-3 (emphases added).
Commercial Licenses: Just Do It

• Thus, as a best practice, prime contractors should use the -7017 form to inform the DOD of all commercial software that is being supplied by the prime.
  • Doing this and coupling it with including the EULA within the software code and the shrink wrap will maximize the contractor’s protection.

• Note, the FAR does not have a form that can be used: Accordingly, contractors should in their proposals clearly identify the commercial computer software that is being provided and include the terms of the license where practicable.
Marking

• Specific, prescribed marking language should be used for non-commercial software and technical data.

• **No prescribed legend for commercial** computer software and technical data (as opposed to non-commercial); rules are more flexible.
  
  • Follow best commercial practices
  
  • Include appropriate legends (e.g., copyright notices).

• Example:
  
  • If applicable, include a copyright legend – e.g., “Copyright © 2012 XYZ Company, all rights reserved.”
  
  • Second, a legend as simple as this: “Commercial Computer Software – Use Governed by Terms of a Commercial License Agreement [dated ____]”
Sales through primes and resellers

• Prime contractor may not use subcontract award as leverage for obtaining rights in subcontractor’s software or technical data.
  • FAR 52.227-11(k)(3), DFARS 252.227-7013(k)(4), DFARS 252.227-7014(k)(2)
• Instructions about use of license should be part of subcontract/reseller agreement.
• EULA should address potential sale to government and provide applicable language in the event of USG end users.
Pricing

- Misconception that if software is developed under a government contract, it cannot later be sold back to the government as a commercial item.
  - nothing in any definition of commercial software discusses who paid for its development
  - both the FAR and the DFARS contemplate circumstances where software is developed for the government and later becomes commercial
  - previously obtained USG rights remain (if USG paid for part of development), but this does not mean contractor can not charge government for subsequent additional software licenses
  - could be an exception if original contract contains a deferred ordering clause
Pricing Commercial Computer Software

• If software is commercial, then it can be priced commercially at a fair and reasonable price, independent of whatever the costs were to develop the software.

• This is reflected in FAR Part 15, which exempts commercial items from the requirement to provide certified cost or pricing data under Truthful Cost or Pricing Data.
  
  • Being exempted from having to provide cost or pricing data means that the government does not require any detailed cost information about the commercial item.

• FAR Part 15 provides that the government must use “price analysis” for commercial items. FAR 15.403-3(c)(1). Price analysis is defined as “the process of examining and evaluating a proposed price without evaluating its separate cost elements and proposed profit.” FAR 15.404-1(b)(1).
Pricing Commercial Computer Software: Negotiating Price

• Point out what the government did and did not acquire through its prior development payments to the contractor.

• Specifically, if the government acquired license rights in the software previously by virtue of paying for development of the software – in whole or in part at “the lowest practicable, segregable portion of the software . . . , e.g., a software subroutine that performs a specific function” (DFARS 227.7203-4(b)) – then the government retains whatever rights it acquired as a result of paying for that development.
Pricing Commercial Computer Software: Negotiating Price

• If the government subsequently acquired the software as commercial software, that acquisition would not extinguish any existing government rights.

• Those license rights would already have been paid for and vested under the government’s earlier development contract —this does not mean that the contractor cannot later charge the government a fair and reasonable price for the commercial software.

• The contractor is not charging the government again for the prior development; it is charging a price for the commercial item.
Practice tips

• Need a process in place for proactively managing your IP and software development.
• Carefully read the solicitation and note what flowdowns have been included.
• Don’t assume what is sufficient commercially is proper for a USG agreement.
  • Whenever you are permitted to use a commercial software license with a Government agency, remember, however, that the license cannot override the Government's statutory obligations including the Anti-Deficiency Act, the Prompt Payment Act, the Contract Disputes Act, or the Competition in Contracting Act
• Remember the USG has some flexibility in negotiating IP rights.
Practice tips (cont.)

• Always analyze whether software was developed or modified at the lowest practicable, segregable level (such as subroutines, modules, or algorithms).

• Remember that commercial software may be modified to meet USG requirements and still maintain its status as commercial software.
  • This encompasses modifications that do not significantly alter the essential nongovernmental function or purpose of the software or that are of a type customarily available in the commercial marketplace.

• Consider a company policy that prohibits employees from incorporating open-source programs into your proprietary programs.
  • Alternatively, you should consider using open-source code only with discrete, separate proprietary modules.
Mr. DeVecchio is recognized as a leading attorney in the field of Intellectual Property (“IP”) in government contracts. This practice encompasses the allocation of rights between the government and its contractors in technical data and computer software, patents, copyrights, and trade secrets. His work and reputation have spanned 37 years of counseling, teaching, writing, and litigation on these subjects.

Mr. DeVecchio’s representations include defending against government data and software rights challenges before the Armed Services Board of Contract Appeals and litigating data and software misappropriation disputes between prime and subcontractors. Mr. DeVecchio has been called as a testifying expert in Federal court on IP in government contracts; his writings have been cited in judicial decisions; he teaches nationwide on the subject; and he is asked to speak annually on current IP developments at the largest industry event, the West Government Contracts “Year in Review Conference,” attended by some 2000 people.

He has been a guest instructor at the University of Virginia and The George Washington University Law School Government Contracts Program. Mr. DeVecchio is recognized as a leader in the field of intellectual property rights in government contracts; he has testified as an expert, and teaches nationwide, on the subject. He also conducts seminars on diverse subjects including claims and terminations and has developed and appeared in a series of training videos used by more than 100 companies addressing Labor Charging, Materials Charging, and Procurement Integrity.
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Tina’s litigation experience includes government contracts claims litigation in federal courts and before boards of contract appeals, bid protests before the Government Accountability Office and the Court of Federal Claims, and complex disputes in federal courts, including civil fraud and False Claims Act litigation. She has extensive experience with class action defense and multidistrict litigation.
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In his personal capacity, Richard also serves on the Adjunct Faculty at The George Washington (GW) University Law School, and is co-author of IP and Technology in Government Contracts: Procurement and Partnering at the Federal and State Level (2015-2016 Edition).

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