



WILMER CUTLER PICKERING HALE AND DORR LLP

So You Want to Do Business with the Federal Government?

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Federal Government Acquisition of Computer Software



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Agenda

1. Key Drivers of Government Software Rights
2. Commercial Software Licensing
3. Civilian Agency Non-commercial Software Rights
4. Defense Agency Non-commercial Software Rights
5. Subcontracting Considerations
6. Important Tricks and Traps to Remember
7. Questions and Answers

1. Key Drivers of Government Software Rights



Key Drivers of Government Software Rights

- Software vs. articles of supply
- Types of contracting instruments
- Commercial vs. non-commercial software
- Civilian vs. defense agency customers
- First produced vs. pre-existing
- Developed with government vs. private funds
- SBIR vs. non-SBIR engagements



Software Distinguished From Items of Supply

- Software is licensed as intellectual property
- Government normally receives license rights, not ownership
- Contractor ownership means that the contractor retains rights to use, modify, disseminate its software, subject to:
 - Export control
 - National security considerations
- Government rights are not exclusive unless expressly provided
- License rights are distinct from delivery obligations
 - Allocation of rights does not mean software must be delivered
 - Deliverables must be specified in a contract



Types of Contracting Instruments

- **Covered by FAR and DFARS licensing regimes**
 - **Procurement (acquisition) contract:** Acquisition of goods or services by an executive agency with appropriated funds, for the agency’s own use
- **Not covered by FAR and DFARS licensing regimes**
 - **Grant:** Award of funds to non-federal entity for a public purpose, without significant agency involvement
 - **Cooperative Agreement:** Award of funds to non-federal entity for a public purpose, with significant agency involvement
 - **Other Transaction Agreement (OTA):** Special engagements involving “non-traditional” contractors for experimental and prototype work
 - **Cooperative R&D Agreement (CRADA):** Collaborations with federal agencies; no federal funding



Commercial vs. Non-commercial Items

- Streamlined contracting for commercial items
- Strong preference for standard commercial software terms
- FAR 2.101 defines commercial items:
 - Any item...of a type customarily used by the general public or by non-governmental entities for purposes other than governmental purposes, and—
 - Sold, leased, or licensed to the general public
 - Offered for sale, lease, or license to the general public
 - Items evolved from such items, that will be commercially available in time to satisfy government requirements
 - Items requiring modifications of a type customarily available in the commercial marketplace
 - Items requiring “minor modifications” not of a type customarily available in the commercial marketplace made to meet government requirements



Civilian vs. Defense Agencies

- Non-defense civilian agencies implement software licensing through the FAR
 - FAR part 27
 - FAR clauses 52.227-xx
- Defense agencies implement their own software licensing regime through the DFARS
 - DFARS part 227
 - DFARS clauses 252.227-xxxx
 - Defense agencies ordering through civilian agency contracts should impose DFARS requirements in their agreements



SBIR vs. Non-SBIR Software Rights

- SBIR: Small Business Innovation Research program
 - Same rules apply to STTR: Small Business Technology Transfer program awards
- Funding channel for small business research
- Eligible for special favorable software license terms
- Must have 500 or fewer employees and be more than 50% directly owned and controlled by:
 - One or more individual citizens or permanent residents
 - Other eligible small business concerns
 - Multiple venture capital operating companies, hedge funds, private equity firms, or a combination, for opportunities open to such applicants
 - Joint venture comprised of eligible participants

2. Commercial Software Licensing



FAR Commercial Software Licensing

– FAR 12.212

- Commercial computer software or documentation shall be acquired under licenses customarily provided to the public to the extent consistent with Federal law and otherwise satisfy the Government's needs
- Generally, offerors and contractors shall not be required to—
 - (1) Furnish technical information related to commercial computer software or documentation that is not customarily provided to the public; or
 - (2) Relinquish to, or otherwise provide, the Government rights to use, modify, reproduce, release, perform, display, or disclose commercial computer software or documentation except as mutually agreed to by the parties
- The Government has only the rights specified in the license
- There is a non-mandatory clause 52.227-19 that provides a minimum bundle of rights



DFARS Commercial Software Licensing

- DFARS 227.7203-3 and 7203-4
 - Government rights to use, modify, reproduce, release, perform, display, or disclose computer software or documentation shall be identified in a license agreement
 - The Government shall have only the rights specified in the license agreement
 - Any additional rights must be negotiated and enumerated in the license agreement
 - There is no DFARS clause for commercial computer software or commercial computer software documentation



Incorporating Commercial License Terms

- Pursuant to FAR 1.602, contracting officers are the only personnel authorized to enter into contracts and may bind the government only to the extent of the authority delegated to them
 - Is clickthrough accepted by other government personnel binding?
- [CiyaSoft Corp., ASBCA Nos. 59913 \(June 27, 2018\)](#): “the government can be bound by the terms of a commercial software license it has neither negotiated nor seen prior to the receipt of the software, so long as the terms are consistent with those customarily provided by the vendor to other purchasers and do not otherwise violate federal law.” **However**, DoD had not requested an opportunity to review the referenced license prior to award, had not objected to the license upon its receipt, and did not include in the contract the standard Commercial Computer Software License clause from [FAR 52.227-19](#) or any specific DoD rights to use the software (as required by [FAR 27.405-3](#))
- GSA – terms are incorporated into contract via mod



Exceptions to Commercial Terms

- GSAR 552.212-4 identifies 15 common commercial terms which are unenforceable against the government, including:
 - *Applicability*: Terms are part of an underlying government contract
 - *End user*: Contract binds agency, not individual government employees
 - *Law and disputes*: No state law remedies – federal law governs
 - **Continued performance**: Contractor may not stop performing even during dispute; pursue rights under the Contract Disputes Act
 - *Arbitration; equitable or injunctive relief*: No binding arbitration or equitable or injunctive relief unless expressly authorized
 - *Updating terms*: No material unilateral revisions by contractor
 - **No automatic renewals**
 - *Indemnification*: Federal agencies generally cannot indemnify a contractor
 - *Defense of claims*: Only DOJ can defend the government, even if the contractor may be liable
 - *Audits*: Additional charges must be invoiced and subject to dispute procedure; contractor-requested audits at contractor expense
 - *Taxes or surcharges*: Pass-through of taxes or surcharges governed by underlying contract and subject to government review
 - *Non-assignment*: Assignment only with Government approval
 - *Confidential information*: Terms and price list are not confidential













Country of Origin (COO) Requirements

- Buy America Act (BAA) does not apply to commercial item IT products
- Trade Agreements Act applies to purchases above threshold (currently \$180,000)
 - All end products must be from TAA-eligible countries
 - “Designated Country” List at FAR 25.003
 - Multiple Award Schedule contracts and ID/IQs are presumed to exceed the TAA threshold
 - Does not apply to small business set-asides
- TAA test: “substantial transformation”
 - Software: focus on where “software build” occurs (e.g. source code compiling, testing, production) - Malaysian source code compiled into object code in the US qualified as US end product
 - SaaS: where the contractor was “established” – incorporated or headquartered



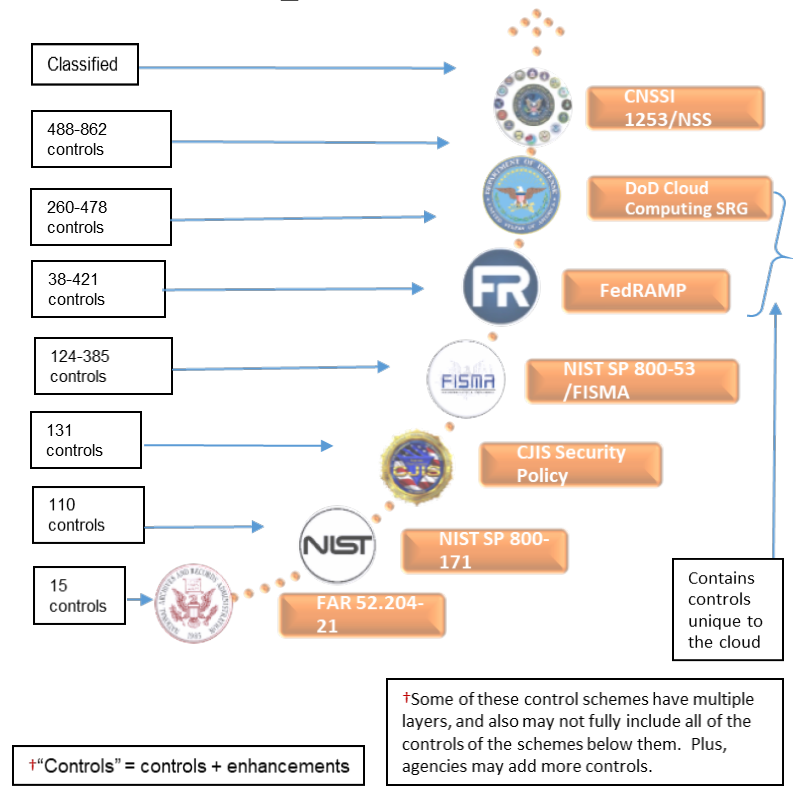
Commercial Cybersecurity Certifications & Standards

<ul style="list-style-type: none"> Information Security Management System Controls specified in ISO 27002 Specific controls not mandated (varies) 	<ul style="list-style-type: none"> Information security for cloud computing Cloud guidance for 37 controls in ISO 27002 7 cloud-specific controls 	<ul style="list-style-type: none"> Implements ISO 27002 controls applicable to Personally Identifiable Information (PII) Used by CSPs who are acting as PII processors 	<ul style="list-style-type: none"> Applies to payment card processors Storage, processing or transmittal of cardholder or sensitive authentication data 	<ul style="list-style-type: none"> Auditing standard for service organizations SOC (1-3) reports are internal control reports that assess risk for outsourced services
<p>ISO 27001</p> 	<p>ISO 27017</p> 	<p>ISO 27018</p> 	<p>PCI DSS</p> 	<p>SSAE 18</p> 
<ul style="list-style-type: none"> 3-tiered provider assurance program Cloud Controls Matrix Consensus Assessment Initiative Questionnaire 	<ul style="list-style-type: none"> Cybersecurity for financial institutions Assessment Tool Inherent Risk Profile Cybersecurity Maturity 	<ul style="list-style-type: none"> Applies if trading in EU or processing personal data of EU residents Breach notifications are mandatory Tiered fines (up to 4%) 	<ul style="list-style-type: none"> Center for Internet Security (CIS) Controls are a popular set of 20 security controls CIS Benchmarks – compare security to consensus standard 	<ul style="list-style-type: none"> Apply to Public Key Infrastructure tech Framework for auditors to assess controls of certification authorities
<p>CSA STAR</p> 	<p>FFIEC</p> 	<p>GDPR</p> 	<p>CIS</p> 	<p>WEBTRUST</p> 



Federal Cybersecurity Controls Landscape[†]

- Federal Government follows escalating # of controls; depends on system and information type
- More controls are required at each higher level of security/customer type
- Some security control regimes require Assessment and Authorization (A&A) or Authorization to Operate (ATO)
- State and Local governments often follow Federal Government
- State & local governments have own security controls (e.g., no offshore data storage and/or non-U.S. citizens)
- NIST Cybersecurity Framework (CSF) provides guidance for private industry to Identify, Protect, Detect, Respond & Recover (108 subcategories/controls)





Department of Defense Procurement Standards and Certifications

- Regulations (e.g., DFARS 252.204-7012) require compliance with NIST SP 800-171
- Cybersecurity Maturity Model Certification (CMMC) launching into the DoD acquisition process in 2020
- Legal impacts to Defense Industrial Base (DIB) include:
 - Bid protest
 - Supply chain security liability
 - False Claims Act (FCA)



Legal Risks of Non-compliance

- Liability under the Federal and State versions of the False Claims Act (FCA)
- *Universal Health Servs. Inc. v. United States et al. ex rel. Escobar*, 136 S. Ct. 1989 (2016):
 - “[L]iability can attach when the defendant submits a claim for payment that *makes specific representations* about the goods or services provided, but *knowingly fails to disclose* the defendant’s noncompliance with a [*material*] statutory, regulatory, or contractual requirement.”
- *United States ex rel. Markus v. Aerojet Rocketdyne Holdings, Inc.*, 2019 WL 2024595 (E.D. Ca. May 8, 2019) – denied motion to dismiss allegations that Aerojet impliedly, but falsely, certified to the government that it was in compliance with DoD's cybersecurity rules (as well as NASA rules)



Legal Risks of Non-compliance

- *United States, et. al., ex. rel. James Glenn v. Cisco Systems, Inc.* (W.D.N.Y. July 31, 2019) – Cisco settled for \$8.6M allegations it sold video surveillance systems with known vulnerabilities to federal and state government agencies
- Materiality factors include:
 - A contractor expressly certifying compliance;
 - The government requiring compliance as a condition of payment; and
 - Noncompliance that goes “to the very essence of the bargain” between the government and the contractor.
- **FCA liability includes three times the payment for the service—plus up to \$21,916 in penalties per claim ≈ hundreds of millions in damages & penalties + significant reputational damage**
- Even if no FCA liability attaches, failure to comply could result in suspension or debarment

*3. Civilian Agency
Non-commercial
Software Rights*



FAR 52.227-14

- Data first produced in contract performance
 - Contractor retains ownership
 - Contractor grants to the Government, and others acting on its behalf, a **paid-up, nonexclusive, irrevocable, worldwide license** in copyrighted computer software to reproduce, prepare derivative works, and perform publicly and display publicly (but not to distribute copies to the public) by or on behalf of the Government
 - Prior, express written permission of the Contracting Officer is required to assert copyright
 - No permission required for asserting copyright in published scientific and technical articles based on or containing data first produced in contract performance



FAR 52.227-14

- Data not first produced in performance
 - The Contractor shall not, without the prior written permission of the Contracting Officer, incorporate in data delivered under this contract any data not first produced in the performance of this contract unless the Contractor—
 - (i) Identifies the data; and
 - (ii) Grants to the Government, or acquires on its behalf, a [paid-up, nonexclusive, irrevocable, worldwide] license ... or, **if such data are restricted computer software**, the Government shall acquire a [restricted rights] license or [a license as] provided in a collateral agreement.
 - “Restricted computer software”: Computer software developed at private expense and that is a trade secret, is commercial or financial and confidential or privileged, or is copyrighted computer software, including minor modifications of the computer software



FAR 52.227-14

- Right to withhold: Contractor may withhold from delivery restricted computer software, unless the items are:
 - First produced in the performance of the contract;
 - Form, fit, and function data delivered under the contract; and
 - Manuals or instructional and training material for items delivered under the contract.



Restricted Rights Notice (DEC 2007)

- (a) This computer software is submitted with restricted rights under Government Contract No. _____ (and subcontract _____, if appropriate). It may not be used, reproduced, or disclosed by the Government except as provided in paragraph (b) of this notice or as otherwise expressly stated in the contract.
- (b) This computer software may be—(1) Used or copied for use with the computer(s) for which it was acquired, including use at any Government installation to which the computer(s) may be transferred; (2) Used or copied for use with a backup computer if any computer for which it was acquired is inoperative; (3) Reproduced for safekeeping (archives) or backup purposes; (4) Modified, adapted, or combined with other computer software, provided that the modified, adapted, or combined portions of the derivative software incorporating any of the delivered, restricted computer software shall be subject to the same restricted rights; (5) Disclosed to and reproduced for use by support service Contractors or their subcontractors in accordance with paragraphs (b)(1) through (4) of this notice; and (6) Used or copied for use with a replacement computer.
- (c) Notwithstanding the foregoing, if this computer software is copyrighted computer software, it is licensed to the Government with the minimum rights set forth in paragraph (b) of this notice.
- (d) Any other rights or limitations regarding the use, duplication, or disclosure of this computer software are to be expressly stated in, or incorporated in, the contract.
- (e) This notice shall be marked on any reproduction of this computer software, in whole or in part.



SBIR Rights Notice (DEC 2007)

- *These SBIR data are furnished with SBIR rights under Contract No. _____ (and subcontract _____, if appropriate).*
- *For a period of 4 years, unless extended in accordance with FAR 27.409(h), after acceptance of all items to be delivered under this contract, the Government will use these data for Government purposes only, and they shall not be disclosed outside the Government (including disclosure for procurement purposes) during such period without permission of the Contractor, except that, subject to the foregoing use and disclosure prohibitions, these data may be disclosed for use by support Contractors.*
- *After the protection period, the Government has a paid-up license to use, and to authorize others to use on its behalf, these data for Government purposes, but is relieved of all disclosure prohibitions and assumes no liability for unauthorized use of these data by third parties.*
- *This notice shall be affixed to any reproductions of these data, in whole or in part.*

*4. Defense Agency
Non-commercial Software
Rights*



Defense Department Software Rights Framework

- General non-commercial software rights clause DFARS 252.227-7014
- Government license rights are based on the source of funds for software development
 - Exclusively private, exclusively government or mixed funding
 - Private expense means any source other than direct government payment
 - Independent R&D is private expense
- “Development”
 - When reasonable persons skilled in the art would conclude that software “can reasonably be expected to perform its intended purpose”
- Granularity in determining source of funds
 - Look to “lowest practicable segregable portion” of the software or documentation (e.g., a software sub-routine that performs a specific function)



DFARS Software Rights

Funding Source for Development	DFARS Government Software Rights
Exclusively private funding	Restricted rights
Exclusively government funding	Unlimited rights
Mixed private and government funding	Government purpose rights
SBIR program funding	SBIR data rights
Any source	Specifically negotiated rights



1 DFARS Restricted Rights

- Exclusively private expense
- Restricted rights software
 - Use a computer program with one computer at one time
 - Transfer a computer program to another Government agency
 - Copies of the computer software required for safekeeping (archive), backup, or modification
 - Modify, subject to same restrictions
 - Contractors under NDA limits, for diagnosis, correcting deficiencies, interoperability, emergency repair or overhaul, or urgent tactical needs (no decompilation, disassembly, or reverse engineering)



2 *DFARS Unlimited Rights*

- Government gets unlimited rights in –
 - Software developed exclusively with Government funds
 - Documentation required to be delivered by contract
 - Corrections to Government-furnished software or documentation
 - Software or documentation otherwise publicly available
 - Software or documentation obtained with unlimited rights under another contract or as a result of negotiations
 - Software or documentation for which restrictions have expired
- Unlimited rights in software
 - Government may use, modify, reproduce, release, perform, display, or disclose software or documentation in whole or in part, in any manner and for any purpose whatsoever, and to have or authorize others to do so



3 DFARS Government Purpose Rights

- Mixed government and private expense
- Government purpose rights
 - Use, modify, reproduce, release, perform, display, or disclose within the Government, and release outside the Government for United States government purposes
 - “Government purpose” means any activity in which the Government is a party, including competitive procurement, but not including commercial purposes
- Conditions
 - Reverts to unlimited rights after 5 years, unless otherwise agreed
 - Disclosures outside government subject to NDA limitations



4 *DFARS SBIR Software Rights*

- DFARS SBIR software rights are temporary Restricted Rights
- Government receives SBIR data rights in –
 - “Software generated under an SBIR/STTR award, during the period commencing with contract award and ending upon the date five years after completion of the project from which such data were generated”
 - Except software in which the Government has unlimited rights
- Government rights revert to unlimited rights



5 DFARS Specifically Negotiated Rights

- Government software rights may be modified by mutual agreement
- So long as government gets at least restricted rights
- Negotiated terms can be “identified in a license agreement made part of this contract”

Special License Rights

The Government's rights to use, modify, reproduce, release, perform, display, or disclose this software are restricted by Contract No. _____ (Insert contract number)_____, License No. _____ (Insert license identifier)_____. Any reproduction of computer software, computer software documentation, or portions thereof marked with this legend must also reproduce the markings.



Contractor Data Rights Assertion

- Rights must be asserted to effectuate the proper data rights
- Government can challenge assertions

Software to be furnished with restrictions	Basis for assertion	Asserted rights category	Name of person asserting restrictions
XYZ software	Developed exclusively at private expense	Restricted rights	XYZ, Inc.
Vendor commercial software	Commercial software	Commercial license terms	XYZ, Inc.
“XYZ-for-Gov” plug-in	Mixed funding	Government purpose rights	XYZ, Inc.

5. Subcontracting Considerations



Subcontracting Under FAR Contracts

- FAR 52.227-14(h)
 - The Contractor shall obtain from its subcontractors all data and rights therein necessary to fulfill the Contractor's obligations to the Government under this contract
 - If a subcontractor refuses to accept terms affording the Government those rights, the Contractor shall promptly notify the Contracting Officer of the refusal and shall not proceed with the subcontract award without authorization in writing from the Contracting Officer



Subcontracting Under DFARS Contracts

- DFARS 252.227-7014(k)
 - DFARS clause must be flowed down to subcontractors at all tiers
 - No other clause shall be used to enlarge or diminish the Government's, the Contractor's, or a higher tier subcontractor's rights in a subcontractor's software
 - Higher-tier contractors prohibited from using their power to award contracts as economic leverage to obtain rights in software from subcontractors
 - Higher-tier contractor shall ensure that subcontractor rights are recognized and protected in the DFARS identification, assertion, and delivery processes

6. Important Tricks and Traps to Remember



Important Tricks and Traps to Remember

- FAR & DFARS regimes are not self-executing– contractors must assert restrictions on license terms
- License, not ownership
- Allocating rights does not mean delivery is required
- Use commercial license terms when possible
 - Implement FED/SLED EULA rider or government version reflecting unacceptable terms
- License must specify what is being licensed
 - Per seat, named-user, concurrent
- Implement cybersecurity standards
- Assess source of funding at granular level
- Use required markings – deviations may be challenged

7. Questions and Answers