

# Demystifying IP/Data Rights in Government Contracts

*Virtual Class Series 2023*

## *Session 3: FAR Data Rights and Commercial Software*

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# Roadmap

- Data Rights Under the FAR
- Rights in Commercial Computer Software

# Today's Goals

- Understand how rights in technical data and computer software are allocated under the FAR
- Understand how the USG licenses commercial computer software

# DATA RIGHTS UNDER THE FAR (FAR 52.227-14)

# The FAR Data Rights Allocation Approach

- FAR 52.227-14 applies to all data **except** commercial computer software
- The only standard license recognized in the basic clause is unlimited rights (defined substantially as we discussed last month)
- The Government receives unlimited rights in:
  - Data first produced in performance of the contract
  - Form, fit, and function data delivered under the contract
  - OMIT data delivered under the contract
  - **All other data delivered under the contract** (except as otherwise provided by Alternates II and III)
- Thus, unlike the DFARS “deliver subject to a restrictive license” approach for protectable data, the FAR uses a withholding model
  - The contractor ordinarily does not deliver protectable data
  - Instead, deliver form, fit, and function data as a substitute

# Form, Fit, and Function Data

- As to Technical Data

- Data sufficient to enable physical and functional interchangeability
- Data identifying source, size, configuration, mating and attachment characteristics, functional characteristics, and performance requirements

- As to Computer Software

- Data identifying source, functional characteristics, and performance requirements
- Excludes source code, algorithms, processes, formulas, and flow charts

# Copyright Assertions

## Data First Produced Under Contract

- The contractor is generally permitted to assert copyright to the extent the data are being published in a professional journal or the like
- Any other assertion of copyright requires the contracting officer's permission
- Alternate IV eliminates any requirement to seek the contracting officer's permission prior to asserting copyright

# Government's Copyright License Data First Produced Under Contract

- As to technical data: Reproduce, prepare derivative works, distribute to the public, perform publicly, and display publicly
- As to computer software: Excludes the right to distribute do the public



# Limited Rights Technical Data

- Data other than computer software that embody trade secrets or are commercial or **financial** and confidential or privileged, to the extent that such data pertain to items, components, or processes developed at private expense, **including minor modifications**
- Can only be used and disclosed within the Government, except for manufacturing purposes (*e.g.*, no “built in” disclosures to third parties)
- Additional rights may be negotiated and incorporated into the contract (SNLR-like)
- *Contract must include Alternate II to deliver technical data subject to limited rights*
  - **Critical** if you are going to deliver commercial item technical data

# Restricted Computer Software

- Computer software developed at private expense and that is trade secret, commercial or **financial** and confidential or privileged, or is **copyrighted** computer software, **including minor modifications**
- Rights are *broader* than restricted rights under the DFARS
  - Use/copy for use on the computer for which the software is acquired
  - Use/copy for use with a backup or replacement computer
  - Copied for safekeeping/backup
  - Modified, adapted, or combined with other software
  - Disclosed to support service Contractors for those same purposes

## Restricted Computer Software (cont'd)

- Additional rights may be negotiated and incorporated into the contract (SNLR-like)
- *Contract must include Alternate III to deliver computer software subject to restricted rights*
  - Remember, this **does not apply** to commercial computer software

# COMMERCIAL COMPUTER SOFTWARE

# The Basics

- Computer Software + Commercial Item
- Per FAR 12.212 and 27.405-3 and DFARS 227.7202-1, the Government generally uses the licensor's standard commercial software license, unless:
  - It doesn't meet the Government's needs; or
  - It is inconsistent with federal law
- Incorporate the license into the contract (just as you would an SNLR)
- No clause required – FAR 52.227-19 is a “fallback” commercial license, not a mandatory clause (consider pushing back if you see it in a solicitation because of its breadth)

# Common Commercial EULA “Red Flags”

- Click-wrap/browse-wrap licenses
- Terms that implicate the Anti-Deficiency Act
  - Open ended indemnification by the licensee
  - Automatic renewals
- Dispute/Remedy Terms
  - Choice of law/forum
  - Injunctive relief for licensee breach
  - Immediate, unilateral termination by licensor for licensee breach
  - Control of defense by licensor

# What Happens to “Red Flags”

- GSA final rule (Feb. 22, 2018) requires use of new clauses to “mitigate risk” of terms inconsistent with federal law:
  - GSAM 552.212-4 (Contract Terms and Conditions – Commercial Items): Used in lieu of FAR 52.212-4 for the acquisition of commercial items that will contain commercial supplier agreements
  - GSAM 552.2323-39 (Unenforceability of Unauthorized Obligations): Used in lieu of FAR 52.232-39 when prescribed by FAR 32.706-3
  - GSAM 552.232-78 (Commercial Supplier Agreement – Unenforceable Clauses): Used when not using the policies and procedures in FAR Part 12
- Other Options
  - “USG End User” Clauses
  - Riders/Addenda
  - Separate forms for “true” commercial and Government commercial licenses
  - Case-by-case revisions and negotiations

# Commercial Software Licensing Cases

*CiyaSoft Corp.*, ASBCA Nos. 59519, 59913

- CiyaSoft develops and licenses machine translation software (CiyaTran™)
- Army required such software, and ultimately made a sole-source award for 20 licenses



# Commercial Software Licensing Cases

## *CiyaSoft Corp., ASBCA Nos. 59519, 59913*

English Dari Software, FFP, Single User Software Licenses

SOLICITATION/CONTRACT/ORDER FOR COMMERCIAL ITEMS OFFEROR TO COMPLETE BLOCKS 12, 17, 23, 24, & 30				1. REQUISITION NUMBER	PAGE 1 OF
2. CONTRACT NO. W91B4L010-P-1475		3. AWARD/EFFECTIVE DATE 08/18/2010	4. ORDER NUMBER	5. SOLICITATION NUMBER	6. SOLICITATION ISSUE DATE
9. ISSUED BY			10. THIS ACQUISITION IS		8. OFFER DUE DATE/ LOCAL TIME
11. DELIVERY FOR FOB DESTINATION UNLESS BLOCK IS MARKED			12. DISCOUNT TERMS		13b. RATING
15. DELIVER TO SSG Lesly A. Richardson, Kandahar Airfield (KAF) KAF-RCC, APO, AE 09355 Ref: Contract No. W91B4L-10-P-1475			16. ADMINISTERED BY		14. METHOD OF SOLICITATION
17a. CONTRACTOR/OFFEROR CiyaSoft Corporation			18a. PAYMENT WILL BE MADE BY		17b. CHECK IF REMITTANCE IS DIFFERENT AND PUT SUCH ADDRESS IN OFFER
17c. TELEPHONE NO.			18b. SUBMIT INVOICES TO ADDRESS SHOWN IN BLOCK 18a UNLESS BLOCK BELOW IS CHECKED		18c. SEE ADDENDUM
19. ITEM NO.	20. SCHEDULE OF SUPPLIES/SERVICES	21. QUANTITY	22. UNIT	23. UNIT PRICE	24. AMOUNT
	English Dari Software, FFP, Single User Software Licenses	20		\$4,840.00	\$96,800.00
(Use Reverse and/or Attach Additional Sheets as Necessary)					
25. ACCOUNTING AND APPROPRIATION DATA				26. TOTAL AWARD AMOUNT (For Govt. Use Only)	
27a. SOLICITATION INCORPORATES BY REFERENCE FAR 52.212-1, 52.212-4, FAR 52.212-3 AND 52.212-5 ARE ATTACHED. ADDENDA				27b. CONTRACT/PURCHASE ORDER INCORPORATES BY REFERENCE FAR 52.212-4, FAR 52.212-5 IS ATTACHED. ADDENDA	
28. CONTRACTOR IS REQUIRED TO SIGN THIS DOCUMENT AND RETURN COPIES TO ISSUING OFFICE. CONTRACTOR AGREES TO FURNISH AND DELIVER ALL ITEMS SET FORTH OR OTHERWISE IDENTIFIED ABOVE AND ON ANY ADDITIONAL SHEETS SUBJECT TO THE TERMS AND CONDITIONS SPECIFIED				29. AWARD OF CONTRACT: REF. _____ OFFER DATED _____ YOUR OFFER ON SOLICITATION (BLOCK 5), INCLUDING ANY ADDITIONS OR CHANGES WHICH ARE SET FORTH HEREIN, IS ACCEPTED AS TO ITEMS:	
30a. SIGNATURE OF OFFEROR/CONTRACTOR			31a. UNITED STATES OF AMERICA (SIGNATURE OF CONTRACTING OFFICER)		
30b. NAME AND TITLE OF SIGNER (Type or print)		30c. DATE SIGNED	31b. NAME OF CONTRACTING OFFICER (Type or print)		31c. DATE SIGNED
			SSG Lesly A. Richardson		

# Commercial Software Licensing Cases

## *CiyaSoft Corp.*, ASBCA Nos. 59519, 59913

- CiyaSoft modified its standard EULA (and its code)
- Shift 20 CDs, with written installation instructions, and 20 unique IDs, to Afghanistan
- Updated EULA was presented in three different ways:
  - Long form in the shipment box
  - Physically in shrink-wrap
  - Digitally as click-wrap
- But the EULA was not incorporated into the contract

# Commercial Software Licensing Cases

## *CiyaSoft Corp.*, ASBCA Nos. 59519, 59913

- CiyaSoft detects what appear to be various breaches of the updated EULA
- CiyaSoft submits two claims, both of which are denied, and appeals the denials to the ASBCA
- Was the Government bound by the updated EULA?
  - Yes: the Government generally accepts the standard commercial license unless it is inconsistent with federal law and/or does not satisfy the Government's needs
  - The KO was on "inquiry notice" of the EULA's terms
    - The Army should have asked for the license, but did not
    - The Army never objected to the license when they got it

# Commercial Software Licensing Cases

## *CiyaSoft Corp.*, ASBCA Nos. 59519, 59913

- The Board's holding is general:
  - “[T]he 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.”
  - “We find the license agreement appellant provided to the government did not differ materially from that which appellant customarily provided to other purchasers of its software.”

# Commercial Software Licensing Cases

## *CiyaSoft Corp.*, ASBCA Nos. 59519, 59913

- What's going on now:
  - Summary judgment denied as to meaning of “single user” (specific individual vs. single computer)
  - Summary judgment granted in favor of CiyaSoft on issue of mitigation of damages

# Commercial Software Licensing Cases

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

- Bitmanagement typically licenses its “BS Contact Geo” three-dimensional visualization software using a seat license model, with each licensed copy including both a desktop version and a browser plug-in version
- Planet 9 Studios is a Bitmanagement reseller in the United States
- In 2006, the Navy recognized a need for three-dimensional visualization software and approached Planet 9, who recommended BS Contact Geo
- The Navy licensed BS Contact Geo through Planet 9 on three occasions, totaling 119 copies

# Commercial Software Licensing Cases

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

- The first license was for testing purposes
  - The Navy informed Planet 9 that Bitmanagement’s standard licensing scheme, which required the end user to contact Bitmanagement for a license key, was incompatible with the Navy’s secure intranet
  - Bitmanagement provided two license keys and a “silent installer for BS Contact Geo intended for bulk installations” to the Navy through Planet 9
- Several years later, the Navy was “experiencing issues managing their individual seat licenses” and wanted to “revisit the discussion of a floating license scheme”
- Bitmanagement offered several options, and the Navy expressed a preference for server tracking using the Navy’s existing floating license tracking application (Flexera), which monitored the number of simultaneous users of Flexera-enabled programs

# Commercial Software Licensing Cases

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

- The Navy indicated that it intended to “utiliz[e] the software application AdminStudio by Flexera in conjunction with BS Contact Geo” from the Navy’s server “to track the use of the 20 licenses across a broad spectrum of the Navy Marine Corps Intranet (NMCI) realm (versus having those 20 licenses mapped to individual PCs)”
- Bitmanagement confirmed this understanding, and the Navy executed a purchase order with Planet 9 for the additional software instances
- The Navy initially encountered incompatibility between the BS Contact Geo installer and Flexera; Bitmanagement provided a new installer file to solve the problem
- The Navy was quite clear about its intention to deploy BS Contact Geo across the entire NMCI (350,000+ computers)
- Flexera was only enabled to monitor the desktop version and was not monitoring the browser-based version



# Commercial Software Licensing Cases

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

- Bitmanagement sued the Government in the Court of Federal Claims alleging copyright infringement under 28 U.S.C. § 1498(b) resulting from the NMCI-wide deployment of the BS Contact Geo software against the <120 licenses that the Navy had purchased
- The COFC found:
  - Bitmanagement had established *prima facie* copyright infringement;
  - No express contract permitted the Navy to install BS Contact Geo across the entire NMCI; but
  - An implied license permitted the Navy to install BS Contact Geo across the entire NMCI, thus excusing the infringement
    - Bitmanagement always understood that the Navy wanted to deploy BS Contact Geo across the entire NMCI
    - Bitmanagement helped the Navy achieve this (*e.g.*, by providing a license file that was not tied to an individual machine; by providing a silent installer file; by modifying the software for Flexera compatibility)
- Only the implied license question was appealed to the Federal Circuit

# Commercial Software Licensing Cases

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

- The Federal Circuit affirmed the existence of the implied license
  - It was appropriate for the COFC to look at the totality of the parties' course of conduct to decide whether an implied license existed
  - It was plausible for the COFC to conclude that there had been a “meeting of the minds” as to the implied license
  - The express contracts between the Navy and Planet 9, on the one hand, and between Planet 9 and Bitmanagement, on the other hand, do not preclude the existence of the implied license
    - “Bitmanagement and the Navy were intentional in their decision not to enter into an express contractual relationship”
    - No express agreement covers the topic of the implied license (e.g., the NMCI-wide installation of BS Contact Geo)
    - The express contracts are ambiguous about how Flexera would be used

# Commercial Software Licensing Cases

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

- The Federal Circuit concluded that the COFC stopped too early by failing to address the full terms of the implied license, which included a requirement that the Navy use Flexera to monitor usage of BS Contact Geo
- The relevant question is whether the Flexera term was a **condition** or **covenant**
  - A licensee's failure to abide by a covenant limits the licensor to a breach of contract action
  - A licensee's failure to abide by a condition means that the rights subject to the condition have not been conferred, and opens the door to claims of copyright infringement
  - Terms of a license are presumed to be covenants, unless it is clear that they are intended to be conditions
- Even though the COFC didn't address the condition vs. covenant question, the record was sufficient for the COFC to find, as a matter of law, that the Flexera term was a condition
  - "This is one of those rare circumstances where 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.*"
- Thus, the Navy's failure to use Flexera to monitor the browser-based version of BS Contact Geo violated a condition, negating the implied license upon which the COFC had relied to excuse the Government's copyright infringement

# Commercial Software Licensing Cases

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

- The Federal Circuit remanded to the COFC for a determination of damages
- In a footnote, the majority explained the measure of damages to which Bitmanagement would be entitled, noting that Bitmanagement “is not entitled to recover the cost of a seat license for each installation[,]” but rather “the Navy’s actual usage of BS Contact Geo in excess of the limited usage contemplated by the parties’ implied license[,]” which “should take the form of a hypothetical negotiation” with any ambiguity resolved against the Government
- Eventual damages award = \$154,400 (and an award of costs last week)

# Commercial Software Licensing Cases

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

- The existence of an express software license may not be the end of the inquiry
  - Courts can find an implied software license from the parties' dealings
  - At least to the extent that the terms of the alleged implied license are not covered by the express license
  - It may be easier to find the implied license where the express license came through a reseller
- Draft limitations on your software licenses as conditions, not covenants, to preserve your ability to assert copyright infringement

# Commercial Software Licensing Cases

## *Avue Technologies Corp., CBCA Nos. 6360, 6627*

- Avue’s ADS software “allows government agencies ‘to automate federal job classification’ by interacting with a database”
- Avue licenses ADS commercially on an annual subscription basis
- Avue does not hold its own GSA Schedule contract; rather, Avue engaged Carahsoft as an authorized reseller of ADS subscriptions under Carahsoft’s FSS contract
  - ADS was added to Carahsoft’s FSS contract in May 2012
  - A “template” version of ADS’s master subscription agreement (MSA) was “incorporated” into the FSS contract at the same time
  - The MSA grants subscribers a limited license to use “ADS Material”

# Commercial Software Licensing Cases

## *Avue Technologies Corp., CBCA Nos. 6360, 6627*

- In September 2015, FDA placed an order for a subscription to ADS under Carahsoft's FSS contract
- In March 2018, ADS submitted a claim for \$41.4m to the FDA alleging misappropriation of proprietary ADS data in violation of the MSA
- In June 2019, ADS submitted a substantially identical claim to the GSA
- Both claims were denied; ADS appealed both denials to the CBCA

# Commercial Software Licensing Cases

## *Avue Technologies Corp.*, CBCA Nos. 6360, 6627

- The CBCA, *sua sponte*, raised a question of jurisdiction: Is Avue’s claim that the FDA breached the MSA “a claim under a procurement contract within our limited jurisdiction under the Contract Disputes Act (CDA)”
- The CBCA noted that “[t]his is the first case of which we are aware in which a software licensor that is not the prime contractor has brought a claim under the license before a board of contract appeals”
  - The Board has heard “pass through” claims brought by prime contractors
  - The Board recognized the ability of an aggrieved software licensor to sue for copyright infringement at the Court of Federal Claims
  - But the Board could not find any case addressing the question of whether a software license agreement, standing alone, is a contract for “the procurement of services” within the meaning of the CDA



# Commercial Software Licensing Cases

## *Avue Technologies Corp.*, CBCA Nos. 6360, 6627

- The Board assumed that the MSA is binding on the Government
  - The Board did not expressly hold that there was privity of contract between Avue and the Government
  - Instead, the Board noted that the MSA “appears to contain commercially significant promises that might be deemed contractual”
- But not all contracts fall within the scope of the CDA – to fall within the CDA, a contract must be for “the acquisition by purchase, lease or barter, of property or services for the *direct benefit or use* of the Federal Government”
- The MSA “lacks core aspects of a CDA procurement contract”
  - It defines what rights can be procured, but the actual procurement occurs under Carahsoft’s FSS contract, not the MSA
  - The MSA itself does not obligate Avue to furnish any property or services, but must instead be incorporated into a separate contract
  - No payment is made directly to Avue under the MSA
- Nor is the MSA “related to” a procurement contract
  - “No court or board of which we are aware has held that a party other than the prime contractor can establish CDA jurisdiction by relying on a separate agreement that relates to a CDA procurement contract. We will not be the first.”
- Federal Circuit appeal is pending

# Commercial Software Licensing Cases

## *Avue Technologies Corp.*, CBCA Nos. 6360, 6627

- This decision is notable for companies that license their software to the Government through resellers (a common practice)
- For such companies to protect themselves, they should consider alternative approaches and alternative remedies
  - Pursue a sponsored claim through the prime contractor/reseller (requires ensuring that the terms of the reseller agreement permit or require the reseller to sponsor claims)
  - Pursue a claim for copyright infringement at the Court of Federal Claims (remember *Bitmanagement's* discussion of conditions vs. covenants)
  - Invoke the Tucker Act as an independent jurisdictional basis for a breach of contract claim before the Court of Federal Claims

# Presenters



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Scott helps clients identify, protect, manage, and enforce their intellectual property rights. His practice focuses on the complex intellectual property issues confronted by government contractors, including patent rights and rights in technical data and computer software, with emphasis on the aerospace, defense, and intelligence sectors.



**Ralph C. Nash, Jr.**

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Professor Ralph C. Nash, Jr. founded the academic discipline of government contracts law with the late John Cibinic. He was Professor Emeritus of Law of The George Washington University, Washington, D.C., and founded the Government Contracts Program. Professor Nash is currently a consultant for government agencies, private corporations, and law firms on government contract matters. He is active in the Public Contracts Section of the American Bar Association, is a member of the Procurement Round Table, and is a Fellow and serves on the Board of Advisors of the National Contract Management Association.