

Avoiding Problems and Surprises When Contracting With The United States Government¹

Charles R. “Rod” Marvin, Jr.
Cohen Mohr LLP
Washington, DC

I. A Different World – Selling in the Federal Government Marketplace²

A. Finding U.S. Government Business Opportunities

The agencies of the United States government (“government”) obtain the resources to accomplish their missions through the use of various types of contract instruments. To obtain most of the goods and services they require, most federal agencies rely primarily upon “standard” procurement contracts solicited, awarded, and administered under the Federal Acquisition Regulation (“FAR”)³ and the agencies’ supplemental regulations, e.g., the Defense Federal Acquisition Regulation Supplement (“DFARS”).⁴ In addition to their authority under the FAR, some federal agencies also have statutory authority to conduct programs and procurements using procedures that depart, sometimes significantly, from the requirements of the FAR. For example, when specifically authorized by statute to do so, federal agencies may use Cooperative Agreements to foster basic and applied research in a wide range of pursuits.⁵ Under certain circumstances, federal laboratories may also participate in Cooperative Research and Development Agreements (“CRADAs”) with non-federal entities, including commercial companies.⁶ CRADAs are instruments designed to facilitate the transfer of technology from the Government into the commercial sector.⁷

To support research and the development of mission-critical goods and services, some federal agencies, such as the Department of Defense (“DOD”), the Department of Energy (“DOE”), and the Department of Homeland Security (“DHS”), also have broad and flexible authority to utilize instruments called “Other Transactions.”⁸ These instruments allow DOD, DOE, and DHS to tailor the contract provisions governing the contractor’s effort in a manner that can preserve a contractor’s control over the dissemination and use

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² The material in Section I of this document is drawn primarily from the booklet, *Caveat Venditor, Weighing Opportunities and Risks in the Federal Marketplace*, by Charles R. Marvin, Jr., Paul A. Debolt, Timothy A. DiGuiseppe, and Charles Wilkins. The document as a whole is derived from materials I generated to support a presentation I made at a conference hosted by the Institute of Continuing Legal Education, University of Michigan, in October 2009.

³ 48 C.F.R. Parts 1-53.

⁴ 48 C.F.R. Parts 200-299.

⁵ See 10 USC § 2358 (authorizing the use of cooperative agreements by the Department of Defense for research and development).

⁶ See 15 USC § 3710a.

⁷ *Id.*

⁸ See, e.g., 10 USC § 2371 (authorizing use of Other Transaction Agreements by the Department of Defense for mission-related research).

*Charles R. "Rod" Marvin, Jr.
Cohen Mohr LLP*

of not only the intellectual property the contractor brings to the effort, but also the intellectual property that is developed under the effort. For contractors who have been reluctant to enter the federal marketplace due to the risks associated with the use or refinement of their intellectual property in the performance of a government contract under the FAR, the use of these specialized instruments, where appropriate, can mitigate, or even eliminate those risks.

Under laws governing the procurement of goods and services by the federal government, all non-classified government business opportunities of an amount greater than \$25,000 are listed at a single location on the Internet called the Government-wide Point of Entry (GPE) (<http://www.fbo.gov>). Commonly called the FedBizOpps website, the GPE includes synopses of solicitations, proposed contract actions, and other information relating to government contracting opportunities. Using buttons, check boxes, and drop-down menus, one can search for government business opportunities by:

- type of notice (e.g., Synopsis, Presolicitation, or Modification), by agency (e.g., DHS - Border and Transportation Security, Department of Veterans Affairs, or Department of Energy)
- procurement classification code (e.g., 12 - Fire Control Equipment, 30 - Mechanical Power Transmission Equipment, or 70 - General Purpose Information Technology Equipment), and
- North American Industry Classification System (NAICS) code (e.g., 325 - Chemical Manufacturing; 517 - Telecommunications; and 927 - Space Research and Technology).

The FedBizOpps home page also allows a prospective offeror to access a list of subcontracting opportunities. On the bottom of the page, under "Additional Resources," click on "SUB - Net (Subcontracting Opportunities)" for a link to the U.S. Small Business Administration Subcontracting Network (<http://web.sba.gov/subnet>). From that site, a prospective offeror can research solicitations for subcontracting opportunities, or explore links to the SBA's Subcontracting Opportunities Directory - a listing derived from small business subcontracting plans submitted by federal government prime contractors.

In addition to the FedBizOpps site, most agencies, such as the Defense Advanced Research Projects Agency ("DARPA") have their own websites. DARPA's website, for example, gives potential offerors specific guidance with respect to DARPA solicitation and award procedures, describes its Small Business Innovative Research and Small Business Technology Transfer programs, and provides agency contact information. Simply go to <http://www.darpa.mil>, then click on "Opportunities" and then click on "Solicitations."

Finding a good business opportunity is only the beginning of an analytical process that should support a decision concerning whether entry into the federal marketplace is advisable. The characteristics of the federal marketplace can differ substantially from those of the commercial market. A number of factors and risks associated with the solicitation and award process, the type of contract, accounting and administration requirements, and termination provisions must be considered.

B. Some Unique Aspects of the Federal Contracting Environment

Types of Solicitations. The federal government contracts for billions of dollars worth of goods and services every year, seeking everything from pencils to building maintenance to research and development to jet fighters. To obtain information from offerors concerning the characteristics and prices of the goods and services it needs, the federal government uses two primary solicitation approaches: sealed bidding and competitive proposals.

o Sealed Bid Acquisitions

Sealed bidding must be used in a federal procurement when 1) there is sufficient time for the solicitation, submission, and evaluation of sealed bids; 2) the government expects to award the contract on the basis of price and other price-related factors; 3) discussions with the responding offerors about their bids will not be necessary; and 4) the government reasonably expects to receive more than one sealed bid.⁹ If the government decides that the use of sealed bidding is appropriate, it will issue an Invitation for Bids ("IFB"). For most sealed bidding procurements, the IFB is prepared in a standard manner.¹⁰ Among other things, the IFB provides instructions to bidders, specifies the work being solicited and the schedule of performance, identifies the time and place for the submission of bids, identifies any representations or certifications required from bidders, and states the evaluation factors that will be used to select the awardee. Additional requirements can be identified through express provisions included in the IFB, or through the incorporation by reference of specific regulatory provisions.

Unless the time for bid opening specified in the IFB is extended by prior public notice, the bids will be opened publicly at the time and place identified for submission. With very few exceptions, bids arriving at the designated place after the time designated for the receipt of bids will not be opened, but will be deemed ineligible for award and returned to the bidder. In unclassified procurements, at the time specified for bid opening, the bid opening officer will open publicly all bids received before that time, read the bids aloud to persons present (if practicable), and record the bids on an Abstract of Offers prepared in accordance with the applicable regulations.¹¹ Persons present at the bid opening may examine the bids to the extent that such review does not unduly interfere with the conduct of government business.¹² In classified procurements, bidders with the appropriate security clearance may attend bid opening.

An offeror must exercise great care in the preparation of its response to an IFB. Often, in addition to technical performance requirements, the IFB will identify a host of specific requirements, including requirements relating to delivery, packaging, and modifications or withdrawals of bids. These provisions should be addressed in the solicitation and should be carefully considered by the contractor. Any deviation from the material aspects of the solicitation can render a bid non-responsive, and thus, ineligible for award.¹³

⁹ FAR 6.401(a).

¹⁰ See FAR 14.201-1.

¹¹ See FAR 14.402-1(a); 14.403.

¹² See FAR 14.402-1(c).

¹³ See FAR 14.301(a); 14.404-2.

After reviewing the bids for conformance to the requirements of the IFB, the contracting officer will award the contract "to that responsible bidder whose bid, conforming to the invitation, will be the most advantageous to the Government, considering only price and the price-related factors ... included in the invitation."¹⁴

o **Competitive Negotiated Acquisitions**

Competitive negotiation procedures may be used when the conditions for using sealed bidding are not present.¹⁵ An agency commences a competitive negotiated acquisition by issuing a Request for Proposals ("RFP"). Like an IFB, an RFP is normally issued using a standard format.¹⁶ As a minimum, the RFP must contain a description of the government's requirements, the proposed terms and conditions that will apply to the contract, the information that the offeror is required to provide in its proposal, and the factors and subfactors (and their relative importance) that will be used to evaluate the proposal.¹⁷ The RFP will also state the time and place for receipt of proposals. With few exceptions, a proposal received after the time specified in the RFP ordinarily will not be considered for award.¹⁸

To determine whether to submit a proposal in response to the RFP, a prospective offeror should read the RFP carefully to ensure that it understands not only the requirements the RFP identifies, but also the risks it assigns to the contractor. Not all of the provisions affecting the contractor's requirements and risks, however, may be readily apparent simply by reviewing the RFP. For example, both Sections H and I contain contract requirements. While Section H will usually describe those requirements in clauses presented in full text within the RFP, Section I of the RFP will include a series of contract clauses - some of which are included in full text, while other clauses are incorporated by reference. At a minimum, a prospective offeror should find and read the complete text of all of these clauses to assess fully the responsibilities and risks (i.e., the potential business exposure) that will be borne by the awardee in the performance of the contract.

An offeror may seek to modify objectionable RFP provisions in its proposal if the solicitation authorizes offerors to propose alternate terms and conditions,¹⁹ or during discussions with the contracting officer. If, however, the RFP announces the government's intention to award without discussion, the offeror will only have a limited opportunity to clarify aspects of its proposal and will not be permitted to revise it.²⁰

After proposals are received, the government will evaluate and score the proposals using the evaluation criteria stated in the RFP to assess the technical merit of the proposal, the past performance of the offeror, and the reasonableness of the price or cost proposed.²¹ Depending upon the procedure specified in the RFP, the government may award the

¹⁴ FAR 14.408-1(a)(3).

¹⁵ FAR 6.401(b).

¹⁶ FAR 15.204-1(a).

¹⁷ FAR 15.203(a).

¹⁸ See FAR 15.208.

¹⁹ See FAR 15.203(a)(2)(i).

²⁰ See FAR 15.306(a)(2). As a practice note, rather than taking exception to the terms of an RFP in one's proposal, a more prudent, and possibly more effective strategy would include the provision of comments to the government with respect to the draft RFP, submission of questions concerning the terms of the RFP, and attendance at any proposal conferences. Indeed, FAR 15.201 encourages the exchange of information among all parties at the earliest possible date.

²¹ See FAR 15.305.

contract on the basis of initial proposals, or establish a competitive range and conduct discussions with the offerors whose proposals are within that range.

If the government chooses to award a contract without discussions, it is restricted to seeking minor clarifications of an offeror's proposal.²² Offerors cannot make revisions to their proposals as a result of any such clarifications. Consequently, under these circumstances, offerors should ensure that their proposals include the most competitive terms and prices possible. If, after reviewing proposals submitted in response to an RFP, the government determines that discussions are advisable, notwithstanding its prior statement in the RFP that it would award a contract without discussions, it can do so, but must document the contract file with its rationale, establish a competitive range, and proceed accordingly.²³

If the government establishes a competitive range, it must include in the competitive range all of the most highly rated proposals, unless the RFP stated that the government might limit the number of proposals in the competitive range for efficiency.²⁴ The government will conduct discussions, i.e., negotiations, with each offeror whose proposal is placed in the competitive range. The purpose of these discussions is "to maximize the Government's ability to obtain best value, based on the requirement and the evaluation factors set forth in the solicitation."²⁵ To do so, the government will engage in bargaining with the offeror that can vary widely in scope across procurements, but in any particular procurement might include negotiations over technical requirements, terms and conditions, price, schedule, and even the type of contract to be awarded.²⁶ When establishing its goals for these discussions, an offeror should consider not only its desired maximum outcome, but also the likely positions of its competitors who are engaging in discussions in the same procurement. Otherwise, an offeror might very well "win the battle" on terms and conditions, but "lose the war" by not being selected for award.

When the government has concluded its discussions, it will issue a Request for Final Proposal Revisions (formerly known as a "call for Best and Final Offers" ("BAFO")) and set a time for receipt of any such revisions.²⁷ An offeror's final proposal revision (or BAFO) is its chance to make whatever revisions it deems advisable, after due consideration of its discussions with the government, in an effort to maximize the competitiveness of its proposal, perhaps by refining its performance approach (technical, schedule) and/or its price (if a fixed price contract is contemplated) or its proposed cost (for a cost reimbursement contract).

After reviewing the offerors' final proposal revisions, the government's Source Selection Authority ("SSA"), will choose as the awardee, that offeror whose proposal, in the SSA's independent judgment, provides the *best value* to the government, i.e., the greatest overall benefit in response to the requirement, "based on a comparative assessment of proposals against all source selection criteria in the solicitation."²⁸

²² FAR 15.306(a).

²³ FAR 15.306(a)(3).

²⁴ See FAR 15.306(c).

²⁵ FAR 15.306(d)(2).

²⁶ FAR 15.306(d).

²⁷ FAR 15.307.

²⁸ FAR 15.308; see also FAR 2.101 (definition of *best value*); 15.002(b).

○ **Sole Source Acquisitions**

In very limited circumstances, the government may use its authority under the procurement statutes²⁹ to award a contract in fulfillment of its needs without using full and open competition. Those circumstances include situations in which there is only one responsible source and no other supplies or services will satisfy agency requirements; situations presenting unusual and compelling urgency; maintenance or expansion of the industrial base to facilitate mobilization; when required to implement an international agreement (e.g., foreign military sales); when authorized or required by statute (e.g., government printing and binding); and situations involving national security.³⁰

Sole source acquisitions are conducted using a Request for Proposal that has been modified to remove portions and requirements that are inapplicable to an acquisition involving only one offeror.³¹

Unsolicited Proposals. The federal government encourages the submission of new and innovative ideas in response to its advertised needs and ongoing programs.³² Offerors who believe that there is a governmental need for research and development or some other product or service they can offer in support of an agency's mission need not await the issuance of a solicitation by the government. Instead, such offerors may provide a proposal to the government for its consideration. Such proposals are called "Unsolicited Proposals" and are received, evaluated, accepted or rejected, and, to the extent appropriate, protected from disclosure outside the government in accordance with specific regulations.

Under the FAR,³³ to be considered valid, an unsolicited proposal must be innovative and unique, independently originated and developed by the offeror, prepared without government supervision, endorsement, direction, or direct involvement, and include enough detail to permit the government to determine whether government support would further the agency's research and development or other mission responsibilities.³⁴

An offeror submitting an unsolicited proposal must ensure that it contains the information required by the FAR: address and type of organization (profit, nonprofit, educational, small business) of the offeror, contact information for technical and business personnel, identification of proprietary data, names of other agencies (federal, state, and local) receiving the proposal, date of submission, signature of the offeror's authorized representative, and technical information describing the proposed effort (short title and abstract, detailed description of the scope and method of work and the manner in which the work will benefit the agency), support required from the agency, type of contract desired, duration of the effort, and a brief description of the organization (its past experience and performance, and the facilities it will use to accomplish the effort).³⁵

Upon receipt of an unsolicited proposal, the agency will review it to determine if it is complete and meets the regulatory requirements. If submitted with the required

²⁹ See 41 U.S.C. § 253(c); 10 U.S.C. § 2304(c).

³⁰ See FAR Subpart 6.3.

³¹ FAR 15.002(a).

³² FAR 15.602.

³³ See FAR Subpart 15.6.

³⁴ FAR 15.603(c).

³⁵ FAR 15.605.

information, the proposal will be evaluated further. If the proposal is deficient, the offeror will be notified promptly of its rejection and the proposed disposition of the proposal.³⁶

When an agency evaluates an unsolicited proposal, it will consider the following factors: whether the concepts, methods, or approaches demonstrated by the proposal are unique, innovative and meritorious; the overall scientific, technical or socioeconomic merits of the proposal; whether the proposal would contribute to the agency's mission; the match between the offeror's capabilities and the requirements of the proposal; and the realism of the proposed cost.³⁷ If a proposal receives a favorable evaluation, the agency will then determine whether the proposed effort is available to the government from another source, whether the proposal closely resembles a pending competitive acquisition requirement, and whether the proposal relates sufficiently to the agency's mission.³⁸ If any such negative factors are present, the proposal may be rejected, notwithstanding a favorable technical evaluation.³⁹

Information contained in an unsolicited proposal is protected from misuse by the government. Unless the information is available from an unrestricted source, government employees may not use any data, concept, idea, or other part of an unsolicited proposal as the basis of all or part of a solicitation or negotiation with any other firm without the permission of the offeror.⁴⁰ If the proposal contains information that the offeror considers to be proprietary, the offeror must clearly identify that information using the legends and other methods described in the FAR⁴¹ to ensure that the protections provided by federal statutes and the FAR against improper disclosure of the proprietary information are applied.⁴²

Types of Contracts. Depending upon the nature of the goods or services being procured, the contract types and terms under which the items are procured can vary widely. Most federal procurement contracts fall into the general categories of fixed price or cost reimbursement contracts. Within each of these categories, several variants exist which, when analyzed, blur the boundaries between the general categories of fixed-price and cost-reimbursement contracts.

Fixed-price contracts are used when the risk of performance is minimal or can be predicted with an acceptable degree of certainty.⁴³ Within the general category of fixed-price contracts, one finds firm-fixed-price contracts, fixed-price contracts with economic price adjustment, fixed-price incentive contracts, fixed-price contracts with either prospective or retroactive price re-determination, and firm-fixed-price, level-of-effort term contracts. Essentially, fixed-price contracts other than firm-fixed-price contracts are designed to allow some sort of adjustment of the price based upon the occurrence of specific conditions and bounded within a specific range of variation. Otherwise, under a fixed-price contract, the contractor ordinarily bears the full risk of fluctuations in the cost of performance.

³⁶ See FAR 15.606-1.

³⁷ FAR 15.606-2(a).

³⁸ FAR 15.607(a)(1)-(4).

³⁹ FAR 15.607(a).

⁴⁰ FAR 15.608(a).

⁴¹ See FAR 15.609.

⁴² See FAR 15.608(b).

⁴³ FAR 16.103(b).

Cost-reimbursement contracts are used when the uncertainties of contract performance do not permit the estimation of costs with the accuracy necessary to support a firm-fixed-price contract.⁴⁴ Under a cost-reimbursement contract, the government ordinarily bears the risk of fluctuations on the cost of performance. Essentially, contracts other than “pure” cost contracts are designed to mitigate the government’s cost risks by providing different levels and types of incentives for the contractor to control the costs incurred in the performance of the contract. Within the general category of cost-reimbursement contracts, one finds cost contracts, cost-sharing contracts, cost-plus-incentive-fee contracts, cost-plus-award-fee contracts, and cost-plus-fixed-fee contracts.

In addition to the variations in contract types derived from pricing differences, indefinite delivery contracts are used when uncertainties exist with respect to the level and timing of the agency’s needs. The category of indefinite delivery contracts includes definite-quantity contracts, requirements contracts, and indefinite-quantity contracts. These contracts may be used when the exact times or exact quantities of future deliveries are not known at the time of award.⁴⁵

Each of these contract types differs, sometimes substantially, in the administrative requirements and burdens, allocations of risk, and profit potential. Analysis of the advantages and disadvantages of the contract type specified in the solicitation, and the likelihood of influencing the contract type to the advantage of the offeror, should be an important part of the overall business case supporting a prospective offeror’s bid/no bid decision. The next portion of this section addresses other areas presenting risk to the prospective offeror and the methods used to identify, assess, and manage those risks.

C. Assessing and Managing the Risks in a Specific Procurement

In addition to identifying the work to be accomplished and the roles of the respective parties, one of the core functions of any contract is the allocation of the risks of performance between the parties. As described above, some of the risks of performance are allocated through the use of a particular contract type. Unlike most commercial contracts, a government contract routinely contains provisions that must be “flowed down” into any subcontracts awarded by the prime contractor for the work. Consequently, a government contract allocates the risks of performance not only between the government and the prime contractor, but also between the prime contractor and its subcontractors, and sometimes even its suppliers.

Obviously, how well the contractor identifies, allocates, and manages the risks of a project can mean the difference between successful performance and financial success or failure. In federal procurements, project risks can arise in much the same manner as they do in the commercial context: ambiguities in the interpretation of the technical requirements, inaccurate or incomplete assessment of the contractor’s own technical capabilities, erroneous assumptions concerning the availability of needed resources, inadequate assessment of possible inefficiencies during performance, and failure to identify or track the effects of changes in the requirements during the course of contract performance.

In addition to these risks, the federal marketplace has a few risks that are somewhat unique. For example, in the commercial context, directions to the contractor changing the

⁴⁴ FAR 16.301-2.

⁴⁵ FAR 16.501-2(a).

work that are issued by persons who the contractor reasonably believes are authorized by the owner to order such changes can usually be enforced against the owner. Under these circumstances, the contractor will be able to recover its added costs and time required for performance caused by that directive. In the federal government contract environment, however, such directives may only be enforced against the government when they are issued by a person with actual authority to issue the order, and the risk of error in the determination of either the existence or scope of that person's authority is on the contractor. Should the contractor proceed to change the work on the direction of a person later determined to lack the authority to issue the order, the contractor might not be able to recover its added costs of performance or to obtain an extension to the performance schedule for the additional time required to perform the changed work. Consequently, a government contractor must ensure who in the government's project management office has the authority to issue change orders or other directives, and should always insist that any such orders or directives are issued in writing. Usually, the government will identify those individuals with authority to issue direction to the contractor in the contract document itself. Contractors should be careful to note any limitations on the authority of any such individuals, including individuals identified as contracting officers.

Understand the Technical Requirements. A contractor's identification, allocation, and management of the risk of performance begins with its initial review of the solicitation. To identify potential risks, contractors should evaluate very carefully every element of the government's description, usually called the Scope of Work or Statement of Work ("SOW"), of the equipment, supplies, or services it desires. It is essential at this stage of analysis that the contractor assess whether any of the terms or requirements of the SOW can be interpreted reasonably in more than one way. If there is an obvious ambiguity, the contractor is under a duty to identify that ambiguity to the government and seek a clarification before award. Failure to do so can result in the enforcement of the government's interpretation of the provision to the detriment of the contractor. A contractor should address such issues proactively by attending bidders' conferences, providing comments on a draft RFP when possible, submitting questions for response by the procurement office to clarify provisions of the RFP, and, if these issues persist into the competition, by raising such issues in discussions and obtaining written resolutions that are incorporated into the contract itself.

The contractor should also ensure that it understands the standards and regulations that are incorporated into the SOW and how those standards and regulations will be applied to the work. Although some of these requirements may be stated in full in the SOW; others might be incorporated only by reference. These standards and regulations can affect not only the method by which the contractor may perform the contract, but the acceptance by the government of the contractor's product or service at the conclusion of the effort. Ideally, these requirements should be clearly identified and understood by both parties prior to award.

For example, some SOWs issued initially by the government have simply required the contractor to evaluate and comply with all applicable requirements addressed in the agency's internal regulations, the Code of Federal Regulations (CFR), and all applicable State Regulations. Faced with such a provision, the contractor should request that the government identify with specificity the applicable requirements and the person or entity responsible for their interpretation during the project. Once identified, each of the referenced requirements must be reviewed in detail for ambiguities and the incorporation

of additional requirements in the same manner as the contractor's review of the SOW. In addition, all sources of requirements identified by the SOW should be reviewed by the contractor's technical personnel to assess their effect upon the contractor's capability to perform, as well as its estimates of the cost and time required for performance. Any questions concerning the technical requirements should be addressed fully and in writing with an authorized representative of the government before submitting a proposal.

Match the Requirements to Your Capabilities. Other areas that contractors should cover in their assessment of the SOW requirements include: performance areas where the contractor lacks experience; whether the technology required for performance is sufficiently developed for that application; and whether entities other than the contracting office will have some role in determining whether the contractor has met the terms of the contract. Although a contractor might be able to obtain the necessary experience, complete the development of existing technology to perform the work, or negotiate with outside entities to obtain the requisite approvals to proceed with performance, the cost and time required for such adjustments may be substantial. Moreover, the additional time required to overcome these obstacles could place successful completion of the contract in jeopardy.

Once the technical risks have been identified, the contractor should consider whether it can bound and mitigate its risks to an acceptable level as part of its bid/no bid decision process. A number of techniques are available to assist in the evaluation of risk mitigation. These techniques can be as simple as calculating a bid contingency, increasing the price offered, or obtaining warranties from potential subcontractors. On the other hand, risk bounding and mitigation techniques might require a much more complicated approach, involving the utilization of statistical testing and estimation techniques. Finally, in appropriate circumstances, a contractor should determine whether some of that risk might be transferable to the government, i.e., through use of government facilities, technology, or resources to support the contract effort.

When attempting to ensure that subcontractors share in the contract's performance and financial risks, the contractor should analyze carefully the financial solvency of any potential subcontractor. An attempt to simply transfer risks of performance to a subcontractor through terms in the subcontract will not protect the contractor from consequences under the prime contract should the subcontractor's performance be deficient due to circumstances within its control, including its financial condition. Consequently, as a routine matter, a contractor should check credit reports and other financial disclosures by its intended subcontractors, especially if the contractor has not worked with that entity in the past.

Understand Required Representations and Certifications. In its proposal response to Section K of the solicitation, an offeror might be required to make a series of representations and certifications. These representations and certifications can relate to a number of governmental interests, including: 1) the status of the offeror (Section 8a, HUBZone, Small Disadvantaged Business ("SDB")⁴⁶); 2) whether the offeror has been defaulted on a government contract within the previous three years; 3) whether the offeror is in compliance with Equal Employment Opportunity requirements; 4) whether the offeror has communicated with any other offeror in relation to its intention to submit an offer, the

⁴⁶ Section 8(a), HUBZone, and SDB programs are administered by the Small Business Administration. Procurement preferences involving these entities are found in FAR Part 19.

pricing of that offer, or the methods or factors used to calculate the prices offered; and 5) whether the offeror has been debarred or suspended from participation in federal procurements.

These representations and certifications must be completed carefully. Erroneous representations or certifications can render an offer ineligible for award and, in some cases, can result in the assessment of other penalties.

This portion of Section I highlights some of the features that are unique to the federal marketplace. Any company evaluating whether to do business with the federal government should factor these features into its business case analysis. Failure to consider the unique features of the federal marketplace and to undertake measures to mitigate the risks associated with those features, including obtaining the advice of competent counsel, might just transform the company's golden opportunity into its business nightmare. The next portion of this Section highlights some strategies for effective and proactive management of government contracts and offers some tips to help contractors protect themselves and their business investment during contract performance.

D. Turning Opportunity Into Profit – Avoiding Expensive Pitfalls During Contract Performance

Winning a government contract opens the door not only to the opportunity to prosper, but to the risk of incurring consequences that can outlive the contract itself. Consequently, once a contractor receives an award of a government contract, the contractor must remain vigilant of the unique aspects of government procurement and proactively manage the contract, or its first foray into the federal marketplace might be its last. A few of the more significant risks, and strategies to mitigate those risks, are addressed below

Document All Significant Contract Events. During the performance of the contract, the contractor should ensure that a company employee or employees are tasked with the responsibility to create, maintain, and store business records pertaining to the contract. To maximize the likelihood that contract records can be used in the resolution of any disputes that might arise under the contract, it is essential that the employee creating the record of a contractually significant event have personal knowledge of the event, creates the record (document) at or near the time of the event, and complies with the rules of the business concerning the filing of that document. Documents that should be created and maintained include minutes of meetings with other participants in the contract effort (e.g., government contracting officials, technical representatives, subcontractors, permitting officials), all contract related correspondence, progress reports, schedules, technical reports, change orders and notices, reports of incidents causing delays on the project, and any other event that might be material to the resolution of a dispute with the government or a subcontractor over the quality, quantity, cost, or timeliness of performance.

Identify and Manage Contract Changes. Unlike most commercial contracts, a government contract will contain a clause that allows the government unilaterally to order changes in the contract requirements after award without committing a breach of contract. The types of changes that the government may order under the "Changes" clause vary according to the type of contract (e.g., fixed-price, cost-reimbursement, or time and material contracts).

In exchange for this flexibility, the Changes clause provides protection to the contractor. For example, the Changes clause used in fixed price contracts,⁴⁷ provides generally that where the change ordered by the government causes an increase in the cost of or time required for performance, the contractor is entitled to an equitable adjustment, i.e., the contractor may recover those additional costs, plus profit, and will receive an extension to the contract performance schedule for the additional time. On the other hand, should the change ordered by the government decrease the effort required, the government may also adjust the contract price and schedule to reflect that deduction.⁴⁸

In addition to the flexibility provided to the government by the Changes clause to order changes that it desires to the contract, it also provides a vehicle for the incorporation into the contract by the government of changes in performance proposed by the contractor during performance. For example, a contractor might propose that minor changes be made to the specifications or delivery schedule to meet production requirements. Should the government determine that the changes proposed by the contractor do not decrease the value of the performance to the government, or if the contractor offers consideration to the government for the changed requirements, the government could accept the proposal and modify the requirements under the Changes clause to allow the variation.

A contractor's ability to recover the cost of changed work can depend on the effort expended by the contractor, as part of its proposal effort, to understand, plan, and document the contract requirements. The more the contractor understands about the relationship between the scope of performance in the solicitation and its costs, schedule, and other performance metrics, the more likely the contractor will be able to recognize changes to the scope of the contract and to obtain appropriate adjustments to the price and schedule for performance.

On occasion, despite the contractor's efforts to review and understand fully the contract requirements in the proposal phase, a disagreement arises between the government and the contractor over the interpretation of the contract requirements during performance. Under these circumstances, the government may order the contractor to proceed with performance in a manner that the contractor, but not the government, believes is a change to the contract requirements. In this case, the Changes clause still offers some protection to the contractor, as long as the contractor complies with its provisions. Specifically, the contractor should notify the government contracting officer that it believes that the direction constitutes a change to the contract and that the contractor reserves its right to submit a claim for an equitable adjustment under the Changes clause. By notifying the government contracting officer promptly of the contractor's interpretation, the contractor provides the government with a fair opportunity to assess the situation and confirm or retract its direction prior to expending costs or time in response to the direction.

Should the government persist in its interpretation notwithstanding the contractor's notification, the contractor has 30 days from the date it received the government's written directive to submit its claim for an equitable adjustment. Some leeway is usually allowed in the timing of a contractor's claim submission, especially for "constructive" changes, i.e., those that are not supported from the outset by a written modification to the contract by the government (e.g., differences in the interpretation of contract requirements). In these

⁴⁷ See FAR 52.243-1.

⁴⁸ FAR 52.243-1(b).

circumstances, prompt identification of possible claims and the effects of those changes upon the contractor's performance should assist the contractor in its effort to substantiate its increased costs or time requirements caused by the change.

Managed incorrectly, changes can be very expensive for a contractor. To minimize losses and maximize the potential for recovery under the changes clause, contractors should educate their management personnel to ensure that they understand the contract requirements and the requirements of the Changes clause, identify a change, and promptly notify the government contracting officer in writing when they believe that an order of the government requires performance in excess of the contract requirements.

The actual process of issuing and implementing a change can be time-consuming, and the contractor frequently will find itself having to incorporate the changed requirements into its contract performance effort before the parties have agreed upon a price for the change. Under most circumstances, the terms of the "Disputes" clause⁴⁹ incorporated into government contracts, require the contractor to proceed with performance of the contract, as directed by the government, pending resolution of the dispute.⁵⁰ Moreover, the contractor bears the burden of proof to establish both the fact that the change caused an increase in the costs and time required for performance and the amount of those increases. Consequently, the contractor should establish an accounting system that can track the change-related costs accurately, e.g., by establishing separate Work Breakdown Structure accounts for the changed work, and by documenting the necessary work schedule adjustments, and by demonstrating the effect, if any, of the change in requirements upon the contractor's ability to meet schedule milestones or delivery dates. Indeed, if the contract contains the Change Order Accounting clause,⁵¹ the contractor must establish a system to segregate such costs.

Despite these provisions, in many circumstances, especially those in which constructive changes have occurred, contractors have not identified or segregated the cost of the changed work. This may occur when management first determines that specific work is an increase in contract requirements only after that work has commenced, or possibly has been completed. In these cases, the contractor's options are: 1) identify the rationale for the determination that the work constituted a change in the contract requirements; 2) determine the cost of that changed work through functional or product-specific analysis; 3) use fact-based engineering estimates or standards to validate the impact of changed work; 4) determine what, if any, schedule time was lost due to changed work or other issues; 5) identify the costs related to the schedule change; and 6) identify other changed conditions and the cost impacts associated with the primary change.

Given the difficulties with this approach, the contractor should undertake a strategy designed to minimize the likelihood that it will incur unrecoverable costs during performance. That strategy should include elements that ensure that its program management has procedures in place to assess changes in running cost or schedule performance metrics to determine if they are the result of a constructive change; to refrain from proceeding with the implementation of any changes unless those changes have been issued by written order of the government contracting officer; and to ensure that contract

⁴⁹ See FAR 52.233-1.

⁵⁰ See FAR 52.233-1(i).

⁵¹ See FAR 52.243-6.

modifications implementing any changes are reviewed by technical, management, and legal personnel prior to execution of the modification by the contractor's representative.

Monitor Contract Modifications. Every contract modification, even routine modifications that appear to be issued primarily to add funding to an incrementally funded contract, should be reviewed carefully before being executed to ensure that it does not contain a provision that waives the contractor's rights to pursue claims. Although releases appended to modifications issued during performance (as opposed to final payment releases) are narrowly construed by courts and administrative tribunals, the presence of such releases in a modification that has been executed by the contractor almost guarantees a dispute if related claims are submitted later. Consequently, a contractor should ensure that its contract administration and legal personnel review carefully even the most routine contract documents presented by the government for its signature.

Monitor Costs Incurred Against the Contract Amount. In a firm-fixed-price contract, to protect its profit, a contractor monitors carefully its incurred costs against the schedule of values and its basis of estimate to assist it in the management (and minimization) of its costs of performance. In a cost reimbursement contract, or a fixed price contract that is incrementally funded (i.e., where the government has not obligated all of the money to pay for the work in the year the contract is signed), the contractor will also be required to monitor the amount of costs incurred, but for a different reason. A cost-reimbursement contract, or a fixed-price contract that has been incrementally funded, will have a contract provision warning the contractor that the government will not be liable for the reimbursement of costs incurred by the contractor that exceed the funds obligated to the contract.

For cost-reimbursement contracts, the "Limitation of Cost"⁵² or "Limitation of Funds"⁵³ clause will be included in the contract. These clauses require the contractor to report to the contracting officer when it has incurred costs reaching a designated percentage of the funds then obligated to the contract. For contracts where effort is expected to begin prior to full funding, the "Availability of Funds"⁵⁴ or the "Availability of Funds for the Next Fiscal Year"⁵⁵ clause will be used. These clauses warn the contractor that appropriated funds are not yet available for the contract effort, or are not available beyond a certain date, and inform the contractor that the government's liability for payment will not arise until the funds have been appropriated and the contractor informed of that fact in writing by the government contracting officer. Consequently, contractors performing under contracts with any of these clauses must monitor their costs carefully as the contract progresses not only to maximize their performance efficiency, but also to limit their exposure to uncompensated costs due to unexpected changes in government funding.

Protect Your Investment in Intellectual Property. The rules relating to the ownership and assignment of rights in intellectual property created in the performance of a government contract can differ substantially from the commercial contracting environment. For example, under government contracts involving research or development, when an invention is conceived or first actually reduced to practice using government funds (which includes payments received by the contractor under a government procurement contract),

⁵² FAR 52.232-20.

⁵³ FAR 52.232-22.

⁵⁴ FAR 52.232-18.

⁵⁵ FAR 52.232-19.

the government will obtain an irrevocable, non-exclusive, fully paid-up license to practice that invention or have it practiced on its behalf worldwide.⁵⁶ An invention arising under these circumstances is called a “subject invention” under that government contract.⁵⁷

Federal regulations require the contractor to disclose to the government any such subject invention within a specific time period.⁵⁸ Should the contractor fail to disclose a subject invention, the contractor can lose title to the invention upon challenge by the government.⁵⁹ Consequently, contractors with intellectual property assets under development, especially those efforts undertaken and supported using company funds, must keep meticulous records relating to that intellectual property. Where the inventions are being developed using company funds, reliable, detailed records can help avoid (and even resolve) disputes over when a novel, patentable concept was first conceived or actually reduced to practice, and thus, whether the government will have any rights to the invention. For subject inventions, the contractor must have a system in place to ensure that any such inventions are disclosed to the government within the timeframe required by the contract to avoid the risk of forfeiture.

In addition to taking measures to protect their patent rights, contractors must also be aware of the government contract requirements associated with technical data. In many cases, the technical data associated with a contractor’s product or service can be as important as an invention.

A contractor’s technical data may be protected under copyright laws or as a trade secret. While copyright laws help protect data that is published, publication is anathema to trade secret data. Consequently, a contractor must be aware of the rights that it will be required to relinquish to the government with respect to data that is produced under or used in the performance of a government contract.

The federal regulations establish a hierarchy of rights in data that can arise under government contracts, e.g., Unlimited Rights, Limited Rights, Restricted Rights, and Rights in Special Works.⁶⁰ With some exceptions, the government will seek, and usually obtain unlimited rights in data that is first produced in the performance of a government contract, as well as in form, fit and function data, in data that constitute instructional manuals or training materials related to items or processes delivered or furnished for use under the contract, and in all other data delivered under the contract, unless the government’s rights in such data are limited by another regulatory provision.⁶¹ When the government receives unlimited rights in such data, it has rights to “use, disclose, reproduce, prepare derivative works, distribute copies to the public, and perform publicly and display publicly, in any manner and for any purpose, and to have or permit others to do so” with respect to that data.⁶²

In specific circumstances, contractors may be able to retain some or most of their rights in data, usually in situations in which the data or computer software to be delivered under the

⁵⁶ See 35 USC §§ 200-212; FAR 27.302(c).

⁵⁷ See FAR 27.301 (definitions of *invention*, *made*, and *subject invention*); FAR 27.302.

⁵⁸ See FAR 52.227-11(c)(1).

⁵⁹ FAR 27.302(d)(1)(i); 52.227-11(d)(1)(i).

⁶⁰ See, e.g., FAR 27.401; 27.405-1(a); 52.227-14; 52.227-17.

⁶¹ FAR 27.404-1.

⁶² FAR 27.401.

contract was developed at private expense and constitutes a trade secret.⁶³ In these circumstances, a contractor might be able to withhold such data from delivery, substituting in its place, form, fit and function data.⁶⁴ If the contractor must deliver the data, it must identify such data with specific protective markings or risk loss of its protection.⁶⁵

Given the wide range of such circumstances, the complexity of the regulations and clauses pertaining to such situations, and the sometimes significant variations in the regulations and clauses used by some federal agencies,⁶⁶ prospective government contractors should seek competent counsel with respect to these issues in advance of submission of an offer to the government that could result in the award of a procurement contract.

Terminations. Another feature of federal government contracts is the manner in which they can end. Under the terms of most government contracts, one party, the government, has the right to terminate the contract for its convenience at any time during performance.⁶⁷ The government may exercise this right for a number of reasons, including a substantial change in requirements occurring after award, lack of funds to continue performance, or a determination that the equipment, supplies, or services to be provided under the contract are no longer needed.

In exchange for this flexibility, when a government contract is terminated for convenience, the contractor is usually entitled to receive its costs of performance, plus profit, as well as the costs it incurs as a result of the termination (i.e., its settlement expenses). There are specific rules governing the actions a contractor must take upon receipt of a termination notice from the government contracting officer, including rules relating to the preparation and submission of the contractor's termination settlement proposal. Failure to adhere to these rules and time limits can substantially affect, if not extinguish, a contractor's ability to recover all of its costs. In addition, if it is determined that the contractor would have experienced a loss if the contract had been completed, the contractor's recovery can be decreased proportionately.

Unlike a termination for convenience, a termination for default is similar to a breach of contract action, except that, as one might expect, the government is in a preferential position compared to the contractor. The government's preferential position is established by inclusion in the contract of the Termination for Default clause appropriate for the type of contract.⁶⁸

While the circumstances under which a contractor can stop performing a government contract are very limited, the circumstances under which the government can terminate the contract for default are basically co-extensive with the circumstances that would support a breach of contract action in the commercial context. For example, with very limited exceptions, a contractor must continue performance of a government contract pending the resolution of a dispute with the government concerning that contract, even if that dispute

⁶³ See FAR 27.401; 27.404-2.

⁶⁴ FAR 27.404-2(a); 52.227-14(g)(1).

⁶⁵ See FAR 27.404-5(b); 52.227-14(g)(3) & (4).

⁶⁶ For example, the Department of Defense has supplemented the FAR with provisions relating to technical data and software that vary, in some cases substantially, from the basic FAR provisions referenced here. See generally Defense FAR Supplement Part 227 and Section III *infra*.

⁶⁷ See, e.g., FAR 52.249-2, Termination for Convenience of the Government (Fixed Price).

⁶⁸ See, e.g., FAR 52.249-8, Default (Fixed-price Supply and Service); FAR 52.249-9, Default (Fixed-price Research and Development); FAR 52.249-10, Default (Fixed-price Construction).

involves a substantial amount of additional contractor effort and cost. On the other hand, the government can terminate a supply contract for default should the contractor miss a single delivery date.⁶⁹

Notwithstanding the unbalanced nature of the parties' rights relative to termination, a contractor may have recourse to a number of defenses to mitigate, or even defeat the government's assertion of termination rights under the default clause. Some of these defenses require that the contractor take specific actions during the course of performance to preserve the contractor's rights. A successful defense against a termination for default will usually convert the termination into one for the convenience of the government. If so, the contractor is usually in a much better position to attempt to recover its costs of performance. In many, if not most cases, however, awaiting receipt of a termination notice to react to technical or schedule problems arising during a contractor's performance or with the interpretation of contract requirements risks disaster. Consequently, proactive management of contract performance is especially important in government contracts.

Contract closure. Contractors must not only approach the solicitation and performance of their government contracts cognizant of the risks associated with such work, but they must also must proceed with caution in the completion and closeout of their contracts. Generally, by their express terms, the contract clauses that provide a contractor with price and schedule adjustments in the event of changes caused by the government in the scope of work do not survive final payment. Moreover, the government usually requires a contractor to execute a release from future claims at the time the contractor receives final payment. Consequently, prior to submitting its voucher to the contracting officer seeking final payment under a contract, and before the execution of any releases, a contractor should review carefully its contract records to ensure that it has asserted all possible claims under the terms of the contract.

In cost reimbursement contracts, contract closeout may occur some time after the completion of work on the contract as the result of delay in the finalization of negotiated overhead rates and the completion of an audit of the contractor's costs. Under normal close out procedures, following the calculation of the final overhead rates and the development and submission of a final prior year overhead rate proposal, the contractor's books and records are subject to audit by the appropriate audit agency.

At contract closure, a contractor can expect that an audit of its incurred costs will be performed. During this audit, the Defense Contract Audit Agency ("DCAA") or other audit agency reviews the allowability of costs. Generally, a cost is allowable under a cost reimbursement contract if it is determined to be reasonable, allocable, and otherwise meets the requirements of accounting standards, the terms of the contract, and special rules contained in the Federal Acquisition Regulation.⁷⁰ A cost is *reasonable* if it does not exceed what would have been paid by a reasonably prudent person in the conduct of competitive business.⁷¹ A cost is *allocable* if it is incurred specifically for the contract, or if it benefits both the contract and other work and can be distributed on a reasonable basis,

⁶⁹ FAR 52.249-8(a)(1)(i).

⁷⁰ See FAR 31.201-2(a).

⁷¹ See FAR 31.201-3.

or if it is necessary for the overall operation of the business even though a direct relationship to a particular cost objective cannot be shown.⁷²

Final reviews of cost-reimbursement contracts are performed after the contractor submits a contract completion invoice or voucher as required by the FAR.⁷³ In these final reviews, a contractor's incurred costs may be audited from contract inception and may include a review of the disposition of ending inventory, the negotiation of final or quick close-out rates and the calculation of the fee including an award or incentive fee. Some of the costs typically reviewed by DCAA include the following categories: material and subcontract costs; direct labor and labor rates; scrap and spoilage; travel and other direct costs; and various overhead rates. The results of these reviews can affect the final indirect rates that the government will reimburse under the contract, and thus, the overall profitability of the work.

Conclusion. Contracting with the federal government can be a rewarding experience as long as the contractor is aware of, and accounts for the unique aspects of the federal marketplace throughout its involvement in the federal procurement process. Obtaining professional assistance in the identification, evaluation, and management of the risks of performance in the federal marketplace is crucial not only to winning and performing the contract itself, but also to protecting the contractor's "bottom line" throughout performance of the contract.

II. Problem or Show-Stopper – Use of Commercial Software License Terms in Government Contracts

A. Acquisition of Commercial Computer Software by the Government

Different rules apply to the acquisition by the federal government of computer software depending, in part, upon whether the software is commercial or noncommercial and the type of contract instrument used. The basic issues arising with respect to the government's acquisition of commercial computer software are addressed in this section. Some of the issues arising with respect to the government's acquisition of noncommercial computer software are addressed in Section III below.

Acquisition of commercial items. For some time now, the government has recognized that it may reap substantial savings if it could meet its needs for goods and services using items or services that are commercially available. By doing so, the government can tap into the beneficial effects of competition in the general marketplace and avoid the costs that would be incurred by an offeror to modify its product or service to meet unique government specifications. Indeed, it is now the policy of the government to meet its needs through the acquisition of commercial items to the maximum extent possible.

One problem the government encountered in the implementation of this policy was that many commercial suppliers were unwilling to sign contracts which contained the host of unique and somewhat onerous requirements routinely imposed by the government on its contractors. Among others, these requirements included use of specific accounting methods, audit of the contractor's accounting records, unilateral government authority to require changes to the contract during performance, and the complex procedures and

⁷² See FAR 31.201-4.

⁷³ See FAR 52.216-7(h)(1).

requirements placed upon the contractor when the government terminates a contract for its own convenience. To address this problem, the government established special rules and procedures specifically for the acquisition of commercial items and services. These rules and procedures were intended to eliminate many, if not most of the onerous requirements that impeded the government's ability to do business in the commercial marketplace.

These special rules and procedures are available when the item or service being acquired falls within the category of a "commercial item" as defined in the FAR. In pertinent part, the FAR defines "commercial item" as

(1) Any item, other than real property, that is of a type customarily used by the general public or by non-governmental entities for purposes other than governmental purposes, and –

(i) Has been sold, leased, or licensed to the general public; or

(ii) Has been offered for sale, lease, or license to the general public;

(2) Any item that evolved from an item described in paragraph (1) of this definition through advances in technology or performance and is not yet available in the commercial marketplace, but will be available in the commercial marketplace in time to satisfy the delivery requirements under a Government solicitation;

(3) Any item that would satisfy a criterion expressed in paragraphs (1) or (2) of this definition, but for –

(i) Modifications of a type customarily available in the commercial marketplace; or

(ii) Minor modifications of a type not customarily available in the commercial marketplace made to meet Federal Government requirements.

...

(4) Any combination of items meeting the requirements of paragraphs (1), (2), (3), or (5) of this definition that are of a type customarily combined and sold in combination to the general public;

(5) Installation services, maintenance services, repair services, training services, and other services if –

(i) Such services are procured for support of an item referred to in paragraph (1), (2), (3), or (4) of this definition, regardless of whether such services are provided by the same source or at the same time as the item; and

(ii) The source of such services provides similar services contemporaneously to the general public under terms and conditions similar to those offered to the Federal Government;

(6) Services of a type offered and sold competitively in substantial quantities in the commercial marketplace based on established catalog or market prices for specific tasks performed or specific outcomes to be achieved and under standard commercial terms and conditions.

...

(7) Any item, combination of items, or service referred to in paragraphs (1) through (6) of this definition, notwithstanding the facts that the item, combination of items, or service is transferred between or among separate divisions, subsidiaries, or affiliates of a contractor; or

(8) a nondevelopmental item, if the procuring agency determines the item was developed exclusively at private expense and sold in substantial quantities, on a competitive basis, to multiple State and local governments.⁷⁴

Upon consideration of the various components of this definition, its breadth and inherent flexibility become readily apparent. For computer software meeting the requirements of this definition, significant additional flexibility exists with respect to the licenses under which the government may acquire such software. This additional flexibility is addressed below.

Types of contracts used by the government to acquire commercial computer software. Commercial computer software may be acquired by the government either as a single item or in conjunction with other items. Agencies do so by using a number of different contract solicitation and award procedures, such as a negotiated procurement,⁷⁵ a commercial item procurement,⁷⁶ or an order under an existing government contract available for use by other federal agencies (e.g., a Government-Wide Acquisition Contract ("GWAC") or a Multiple Award Schedule ("MAS") contract).⁷⁷

Each of these procurement regimes have different procedures governing the solicitation and award of contracts or orders, have different requirements for their use, and present different risks for the contractor relating to the administration of such contracts. The basic rules regarding the allocation of rights in commercial computer software acquired by the government under such contracts, however, are substantially the same. Federal policy with respect to the acquisition of commercial computer software and the basic rules with respect to the rights the government will obtain in such computer software are addressed below.

Basic policy and rules regarding acquisition of rights in commercial computer software by the government. Regardless of the type of acquisition under which the federal government acquires commercial computer software, the basic policy and the rules with respect to the required terms of the licenses under which such software is acquired are substantially the same. The basic policy of the federal government is that "commercial software or commercial computer software documentation shall be acquired under licenses customarily provided to the public to the extent the license is consistent with federal law and otherwise satisfies the Government's needs."⁷⁸ Contracting officers are expressly instructed, however, to "exercise caution in accepting a vendor's terms and conditions, since they may be directed to commercial sales and may not be appropriate for Government contracts."⁷⁹ Any changes to a vendor's license terms that are necessary to meet the requirements of federal law, and which have been accepted by the vendor, are required to be reflected in the terms of the contract under which the commercial computer software is being acquired as exceptions to the unacceptable terms of the vendor's commercial computer software license.⁸⁰

⁷⁴ FAR 2.101.

⁷⁵ See FAR Part 15.

⁷⁶ See FAR Part 12.

⁷⁷ See FAR Subpart 8.4.

⁷⁸ FAR 12.212(a); see also FAR 27.405-3(a), DFARS 227.7202-1(a).

⁷⁹ FAR 27.405-3(b).

⁸⁰ *Id.*

The regulations prescribe no specific contract clauses for the allocation of the rights of the parties in commercial computer software to be delivered under a government contract.⁸¹ Although the FAR does contain a clause entitled "Commercial Computer Software License,"⁸² use of the clause is not required, but is recommended for use "when there is any confusion as to whether the Government's needs are satisfied or whether a customary commercial license is consistent with Federal law."⁸³ Contractors should not accept the use of this clause automatically, however, since the terms of the clause are substantially similar to the terms of the clauses used in contracts acquiring noncommercial computer software⁸⁴ and grants rights to the government that are likely to be broader than those the government would obtain under the contractor's commercial computer software license.

If the government wishes to obtain rights in commercial computer software in addition to those conveyed by the license customarily provided to the public, the contracting officer may negotiate with the contractor to obtain such rights.⁸⁵ In such cases, the license terms negotiated between the government and the contractor must be reflected in a license agreement and made a part of the contract.⁸⁶

The flexibility available with respect to the licenses under which the government acquires commercial computer software, however, is not unlimited. Specific limitations upon the nature and scope of the government's flexibility are discussed below.

B. Typical Disconnects Between Typical Commercial Software License Terms and the Requirements of Federal Contract Law or Agency Needs

Notwithstanding the flexibility inherent in the policy, rules, and procedures applicable to the acquisition of commercial items, and the general rule that commercial computer software is acquired under licenses used by the software vendor in its sales to the general public, there are some basic limitations. A government contracting officer can only accept a commercial computer software license if its terms and conditions are: 1) consistent with federal contract law, and 2) otherwise meet the needs of the agency. These two limitations raise very different issues.

The first limitation, i.e., the requirement that the terms of the commercial computer software license be consistent with federal contract law, raises issues that, by and large, leave little or no room for negotiation. It is long settled that the government can only be bound by the valid acts of its authorized agents. As an authorized agent of the government, a contracting officer is bound to follow the law and cannot bind the government to terms that violate federal statutes or regulations. An agreement that exceeds these bounds cannot be enforced against the government with respect to such impermissible terms.

When compared to the requirements of federal contract law, many standard commercial computer software licenses contain a number of terms that cannot be accepted by a

⁸¹ See FAR 27.405-3(a); DFARS 227.7202-4.

⁸² See FAR 52.227-19.

⁸³ FAR 27.405-3(a).

⁸⁴ These clauses, and the license rights obtained by the government when such clauses are included in a contract requiring the delivery of noncommercial computer software, are addressed in Section III *infra*.

⁸⁵ See FAR 27.405-3(a); DFARS 227.7202-3(b).

⁸⁶ See FAR 27.405-3(a); DFARS 227.7202-3(b) & 227.7202-4.

contracting officer. The more commonly encountered problematic terms are identified below, along with the basis for their legal infirmity in this context.

Interpretation using state law. Not surprisingly, many, if not most commercial computer software licenses in the market invoke the law of their own state for the interpretation of its provisions and the resolution of disputes. A license issued to, and accepted by the government establishing the conditions under which the government may use the computer software to which the license applies is a contract between the government and the licensor. It is long settled that federal law applies to federal contracts. Although the manner in which the government obtains the software, i.e., directly from the licensor or indirectly through an intermediate contractor, can affect some of the procedures available to the licensor for resolution of disputes under the license, it does not affect the body of law that must be applied to such contracts. Consequently, a contracting officer cannot agree to a license term that invokes any body of law other than federal law.

Use of state forum for disputes. Similarly, and usually in the same paragraph as the invocation of state law, a commercial computer software license will contain a venue provision situating any disputes in the courts of its state of incorporation or primary location. For essentially the same reasons that only federal law applies to federal contracts, the federal government may only be sued under its contracts in a federal forum. Such federal forums include the U.S. Court of Federal Claims (for claims filed under the Contract Disputes Act or the Tucker Act⁸⁷), the U.S. District Court (for certain claims filed under the Tucker Act⁸⁸) and federal agency Boards of Contract Appeals (for claims filed under the Contract Disputes Act⁸⁹).

Mandatory arbitration. The federal government rarely, if ever, agrees to participate in compulsory arbitration of its contract disputes. This position has several bases, including the existence of statutory requirements relating to the resolution of disputes arising under government contracts and the concern that an arbitration award might exceed the amount of funds available to the agency for that purpose. As a result of a renewed emphasis within the federal government upon informal resolution of such disputes, primarily through such techniques as early involvement of neutrals and non-binding mediation, some agencies may obtain authority to agree to the use of mandatory arbitration in limited circumstances. To do so, an agency must obtain the approval of the Office of Management and Budget of the procedures under which it intends to engage in the process, including the circumstances under which the agency may agree to engage in compulsory arbitration and the establishment of specific limitations upon the government's exposure to liability.

As a result of these threshold and operational limitations, government contracting officers can be expected to remain reluctant even to consider a provision for compulsory arbitration and, when they do consider such a provision, can be expected to determine such terms to be unacceptable categorically. Should one encounter such a position, the initial determination should be whether the agency has the authority to enter such an agreement. If the agency is not authorized to do so, no amount of negotiation will result in a change in the contracting officer's position and the effort to negotiate the terms of the license would be spent more effectively addressing other issues.

⁸⁷ See 28 USC § 1491(a).

⁸⁸ See 28 USC § 1346(a)(2).

⁸⁹ See 41 USC § 607(d).

Requirement to purchase future upgrades or software maintenance services.

Although this type of requirement may be negotiated and incorporated as a priced option into the contract under which the commercial computer software is acquired, it may not be included as an "automatic" requirement in the license under which the software is delivered. There are two basic reasons for this limitation. First, as a license term, it may be interpreted as an attempt to bind the government to a future expenditure of public funds regardless of its needs at the time and regardless of whether there are sufficient funds appropriated for that purpose. The Anti-Deficiency Act⁹⁰ prohibits any official of the government from obligating the expenditure of public funds in advance of their appropriation. Most government procurement funds are appropriated for obligation during a specific time period. Use of an option clause in a contract gives the contracting officer the flexibility to determine whether the exercise of the option would satisfy a then-current need of the agency and whether there are sufficient funds available to pay for it and that time.

Second, depending upon its precise terms, such a provision could circumvent the requirements of the Competition in Contracting Act⁹¹ by foreclosing an open, competitive solicitation of the agency's requirements. This result could occur if the provision were to be used in a manner that locked the agency into a specific software application or environment, or penalized the agency for transitioning to a new software solution by imposing costs for upgrades or services that it would no longer require if different vendor were to be chosen for subsequent work.

Indemnity to licensor. The government rarely agrees to indemnify contractors, and when it does so, it is usually under circumstances involving extra-hazardous activity being conducted by the indemnified party at the behest of the government (e.g., certain types of activities involving nuclear or chemical hazards). The basis for the government's aversion to such clauses is the same as one of the reasons it refuses to accept automatic requirements to purchase future software upgrades – the clause raises the potential for a violation of the Anti-Deficiency Act. In this case, the indemnification clause would create a contingent liability of the government to the extent of the damages against which the government would be indemnifying the licensor. In the rare cases in which indemnification has been allowed, it has been provided under the authority granted by a specific federal statute.⁹²

Automatic termination provisions. Although the government may purchase software under licenses for a specific term that includes termination on a specific date, it may not agree to a license that contains a provision under which the license terminates automatically upon the assertion by the licensor of a breach of the license. As is the case with respect to commercial computer software license provisions specifying the use of state forum for the resolution of disputes, assertions of breach with respect to the contracts through which the government meets its needs are resolved under formal procedures and in specific forums based on the nature of, and parties to the contract.

Licensor audit access requirements. Depending upon the agency to which the software is licensed and the purpose for which the software is acquired, an agency's position with

⁹⁰ See 31 U.S.C. §§ 1351 & 1517(a).

⁹¹ See Competition in Contracting Act of 1984, Pub. L. 98-369 (establishing "full and open competition" as the basic requirement for federal government procurements).

⁹² See, e.g., FAR Part 50, addressing indemnification authority under Pub. L. 85-804, 50 USC § 1431(a).

respect to a provision in a commercial computer software license allowing audits of the licensee's use of the licensed software can range from strong reluctance to categorical refusal. One should expect a contracting officer to cite a need to avoid interference with orderly agency operations as a basis to eliminate such provisions. For some agencies, including the military departments, contracting officers may cite general operational security needs or the existence of restrictions on access based on a formal security classification pertaining to the underlying operations or information. Where neither operational security nor classification restrictions exist, however, a contracting officer should be able to agree to a provision that will require an accounting by the agency or allow some type of access for a licensor to verify the agency's compliance with the terms and conditions of its license.

Over the years, commercial computer software vendors' attempts to reconcile the terms of their commercial computer software licenses with the limitations upon the terms with which the government may agree appear to have varied only slightly in form and substance. An example of what appears to be the generic industry response to this challenge, and a recommendation for a more effective approach to resolve these issues, are provided below.

C. Breaching the Gap – Negotiating Appropriate Terms and Conditions in Commercial Software Licenses to the Federal Government

The basic conclusion to be drawn from the analysis presented above concerning the prohibitions or limitations upon the application of a number of the terms and conditions usually found in commercial computer software licenses is that such licenses will always require modification, and probably negotiation, when the customer or end user is the federal government.

The Generic Short-cut "Solution." Even a quick survey of commercial computer software licenses in the market illustrates that many such licenses already include a specific provision intended to address the unique requirements and limitations of government users. Usually, these short, one- or two-paragraph provisions are entitled "U.S. Government End Users" or "U.S. Government License Rights." Rather than tailor the license granted to the government user with any specificity, however, many (if not most) of these provisions simply list several of the FAR and DFARS clauses under which the government obtains license rights to computer software and grant to the government a specific category of license rights, such as "Restricted Rights," that is defined in the referenced clauses.⁹³ The following clause is one such example:

U.S. GOVERNMENT LICENSE RIGHTS. All Product provided to the U.S. Government pursuant to solicitations issued on or after December 1, 1995 is provided with the commercial license rights and restrictions described elsewhere herein. All Product provided to the U.S. Government pursuant to solicitations issued prior to December 1, 1995 is provided with "Restricted Rights" as provided for in

⁹³ The categories of license rights (e.g., Unlimited Rights, Government Purpose Rights, and Restricted Rights) that the government obtains under the clauses used for the acquisition of noncommercial computer software are addressed in Section III *infra*.

FAR, 48 CFR 52.227-14 (JUNE 1987) or DFAR, 48 CFR 252.227-7013 (OCT 1988, as applicable.⁹⁴

This license provision, which has been used for years and is still identified on the Licensor's website as current and effective, is problematic in several respects. For example, the first sentence ignores the specific limitations upon the government's authority to agree to certain provisions of commercial computer software licenses by invoking without exception all of the provisions of the license in which it is contained. In this specific license, those clauses include a provision purporting to bind the government without action by a contracting officer authorized to do so, provisions invoking state law and state dispute forums, and an automatic termination provision. Consequently, for acquisitions by the government of this computer software under solicitations to which the first sentence applies, the provision is essentially meaningless.

The second sentence also fails to address such limitations. Although the provision grants to the government the bundle of rights defined by the cited regulatory clauses as "Restricted Rights," the provision does not incorporate any of the other provisions of the FAR and DFARS clauses it identifies. Moreover, with respect to the cited DFARS clause, DFARS 252.227-7013 (OCT 1988), the provision fails to identify with precision the specific category of "Restricted Rights" available under the clause that it grants to the government.⁹⁵ Consequently, the provision not only fails to replace or even propose terms to replace those terms to which the government cannot agree, but it also creates ambiguity with respect to the rights it does purport to grant to the government.

One Recommended Approach. As demonstrated above, while the use of generic "U.S. Government User" clauses might satisfy an inappropriate desire among some persons for "short cuts" in the negotiation of contracts for the acquisition of commercial computer software, modification of a standard commercial computer software license for use in a government acquisition is not a simple task. Any such modifications should be drafted to remove those provisions in the standard license with which the government cannot agree and replace such provisions with terms that are consistent with federal law.

Based on the circumstances of the specific procurement, the complexity of this task may vary. For example, if the licensor is also the contractor, to obtain the approval of the contracting officer, the license might only need to be modified to state, among other things, that the provisions of the government contract governing applicable law and the resolution of disputes replace conflicting provisions of the license. Other impermissible provisions should also be modified to eliminate each such inconsistency in an unambiguous manner.

If the licensor is not the contractor with the government but is a supplier of the contractor, the same issues arise but might not be resolved directly between the contracting officer and the licensor. Under the regulations pertaining to an agency's acquisition of computer software,⁹⁶ a contractor may not deliver third-party copyrighted software to the government without the permission of the contracting officer. In these cases, the primary

⁹⁴ This license provision is contained in the End User License Agreement issued by a major software developer for its operating system software. A copy of the complete agreement is on file with the author.

⁹⁵ Compare the 1988 DFARS 252.227-7013(c)(1)(i) provision with the 1988 DFARS 252.227-7013(c)(1)(ii) provision. See generally Simchak and Vogel, *Licensing Software and Technology to the U.S. Government*, CCH Incorporated, pp 208-209, 317-319 (discussing additional issues raised by the incorporation of this 1988 DFARS clause by reference and without modification).

⁹⁶ See Section II-A *supra*.

concern of the contracting officer is quite likely to be with the terms and conditions under which the government obtains the third-party software. The licensor should expect, however, that any negotiations with the government pertaining to such license terms will also include the intervening contractor, since that contractor bears the ultimate responsibility for the successful performance of the contract. In addition, the parties must keep in mind that if the licensor is a supplier to the contractor such that the government is an end user rather than the contracting party, the procedures and forums available to the licensor might differ based on the inapplicability of the Contract Disputes Act directly to the transaction.

In addition to eliminating impermissible license terms and replacing those terms to the satisfaction of the contracting officer, the licensor should address whether the remaining terms of the license provide the government with rights that meet its needs. The first place to look to assess the type and scope of the government's needs is the solicitation under which the government seeks to acquire the computer software. While some specific license provisions required or implied by the government's specification in a particular procurement might be relatively inconsequential, others might involve granting the government broader rights than the licensor might wish to grant. In the latter case, the contractor or supplier licensor should engage the contracting officer in negotiations with respect to the rights to be granted to the government under the license. As discussed above, federal policy and the regulations implementing that policy expressly recognize the need and propriety of engaging in such negotiations with respect to the acquisition of commercial computer software.

Conclusion. Contracts work best when the duties and responsibilities of the parties are well defined in the agreement. The flexibility available to the government in the processes it can use to acquire commercial computer software is subject to specific limitations upon the terms and conditions of the licenses for such computer software to which the government may agree. By taking the time to address with the government contracting officer the license modifications that may be required or desired by the government, rather than relying upon a short-cut generic invocation of portions of certain regulatory clauses, both the contractor/licensor and the government can ensure that the performance of the contract and the use by the government of the commercial computer software delivered under the contract is in accord with the parties' requirements and expectations.

III. Short Term Benefit vs. Long Term Risk – Government Contracts for Software Development

A. Acquisition of Noncommercial Software by the Federal Government

A company's intellectual property assets include, among other things, its inventions and the specialized knowledge it has accrued over years of practice in its technical field(s) of endeavor. That specialized knowledge may be in the form of trade secrets, copyrighted studies and analyses, and software programs and related materials. When the government pays for the development of items, components, or processes or for the generation of software, the government receives certain license rights to use and disclose the technical data pertaining to such items and the software generated under such contracts. These license rights are negotiable, but within a limited scope.

The federal statutes and regulations allocating rights in technical data and computer software to be developed or delivered under a government contract establish the minimum

rights that must be granted to the government in such data or software. The key provision of these statutes and their implementing regulations is that even when the government requires the contractor to provide technical data or software, *the contractor retains ownership in such data*, even if the government paid for its development. With very limited exceptions, the government only receives a license in such data or software, with such provisions as are required by the statute or regulations or are negotiated specifically between the parties. Consequently, even when the government receives broad license rights in a contractor's data or software, the data or software does not thereby enter the public domain. The contractor retains the right to control its use by third parties not specifically authorized by the government.

Under the federal statutes and implementing regulations discussed below, the primary factor to be used in the allocation of rights in technical data and computer software developed or delivered under a contract with the federal government is whether the item or process to which the technical data pertains, or the computer software itself was developed exclusively with federal funds, exclusively with private funds, or a mixture of both. The rights allocations are reflected in clauses prescribed by the implementing regulations for incorporation into contracts awarded by federal agencies for the procurement of property or services.

The terms of the licenses that the government receives in such data or software can also differ based upon the identity of the government agency conducting the procurement and whether the technical data or computer software is being acquired as a noncommercial or commercial item. The basic rules governing such allocations, including some of the differences in those rules, are described below.

IP Rights Allocations Under Contracts with Non-DOD Federal Agencies. 41 USC § 418a, Rights in Technical Data, is the primary statute governing the allocation of rights in technical data and computer software in procurements conducted by federal agencies other than the Department of Defense (e.g., the Department of Energy, the Department of Transportation, or the Department of Justice). This statute provides that "the legitimate proprietary interest of the United States and of a contractor in technical or other data shall be defined in regulations prescribed as part of the single system of Government-wide procurement regulations...."⁹⁷

The regulations implementing the allocation rules established by this statute may be found in Part 27 of the FAR and in the agency supplements to the FAR. These requirements are incorporated into the contracts awarded by the agencies to which the regulations apply through the incorporation of the specific contract clauses referenced. The clause at FAR 52.227-14, Rights in Data – General (DEC 2007) (the "-14 clause") illustrates the type and scope of the license rights obtained by most non-DOD agencies in contracts requiring the development or delivery of technical data or computer software. Other clauses are prescribed for use in specific circumstances, but the allocation rules found in the -14 clause are the rules most frequently encountered. Consequently, the allocation rules established by the -14 clause form the basis for the discussion below with regard to non-DOD procurements.

IP Rights Allocations Under Contracts with DOD. 10 USC § 2320, Rights in Technical Data, and 10 U.S.C. § 2321, Validation of Proprietary Data Restrictions, are the basic

⁹⁷ 41 U.S.C. § 418a(a).

statutes governing the allocation of rights in technical data and computer software in procurements conducted by the military departments and other entities within the Department of Defense. These statutes are substantially more detailed than the provisions of 41 U.S.C. § 418a with respect to the rights to be allocated, the bases upon which such allocations are to be made, and the procedures for resolving government challenges to a contractor's assertions of restrictions upon the government's use or disclosure of technical data or computer software developed or delivered under a DOD contract.

Part 227 of the DFARS contains the regulations implementing the requirements of 10 USC §§ 2320 & 2321. As does the FAR, the regulations prescribe that these statutory requirements be incorporated into certain procurement contracts awarded by DOD entities through the use of the specific contract clauses contained in the regulations. To illustrate the type and scope of license rights obtained by most DOD entities in contracts requiring the development or delivery of technical data or computer software, the discussion below references the allocations reflected in the contract clauses found at DFARS 252.227-7013, Rights in Technical Data – Noncommercial Items (NOV 1995) (the "-7013 clause") and DFARS 252.227-7014, Rights in Noncommercial Computer Software and Noncommercial Computer Software Documentation (JUN 1995) (the "-7014 clause").

As is the case with agency contracts governed by FAR Part 27, different allocation rules exist for special types of DOD contracts, such as contracts for the acquisition of commercial items and contracts awarded under the Small Business Innovative Research program. When such contracts are encountered, one must identify and consider the differences between the rules applicable to such contracts and the basic rules discussed here with respect to the effect, if any, such difference may have upon the contractor's business expectations for the project under which the contract has been obtained. The rights allocation rules reflected in the -7013 and -7014 clauses are the rules encountered most frequently in DOD procurement contracts requiring research and development. Consequently, those rules form the basis for the discussion below.

B. Bases for Allocation of Rights in Technical Data and Computer Software Delivered Under US Government Contracts

The rights allocation framework reflected in the -14 clause (for certain non-DOD agency contracts) and in the -7013 and -7014 clauses (for certain DOD contracts) is substantially similar. The rights the government obtains in technical data or computer software usually "follows the money" used to develop the item, component, or process to which the data pertains, or to generate the data or software itself when generation of the data or software is required as a performance element of the contract.

The determination of whether an item, component, or process has been "developed" in whole or in part with government funds can be complicated. Such determinations focus upon the lowest segregable level of the item, component, or process being developed, including individual parts. In the case of computer software, this determination could be as discrete as the specific software required to perform a specific routine, subroutine, or process. Consequently, these determinations proceed by examining the facts of the development itself, including the specific portion(s) of the item, component, process, or software developed with government funds. As a result of such a determination, the government may be entitled to different licenses for technical data pertaining to different portions of such items, components, or processes and different licenses to portions of computer software. To preserve its ability to make and defend such determinations, a

contractor should maintain detailed records of its sources of development funding throughout its research and development efforts, especially when there is a possibility that the item, component, process or computer software developed by the contractor might be delivered or modified under a government contract.

Within each regulatory licensing framework, there are some mandatory allocations and some standard, but negotiable, allocations. To protect and preserve its rights in the technical data or computer software required to be delivered under a government contract, these clauses require a contractor to follow specific procedures and meet specific requirements. Where these requirements differ based on whether the contract contains the -14 clause or the -7013 and -7014 clauses, the differences are identified below.

Categories of License Rights Obtained by the Government. When noncommercial technical data or noncommercial computer software is required to be delivered to the government under a contract containing one of the clauses identified above, it will be delivered with one of the following types of licenses: Unlimited Rights, Government Purpose Rights, Limited Rights (technical data only), Restricted Rights (computer software only) or Specifically Negotiated License Rights. Each of these categories include the basic terms of all of the licenses the government obtains in the noncommercial technical data or computer software delivered under its procurement contracts, i.e., nonexclusive, royalty-free, and irrevocable. The specific additional rights obtained by the government under each of these license categories are identified and defined in the applicable contract clauses.

One of the several material differences between non-DOD government contracts containing the -14 clause and DOD contracts containing the -7013 and -7014 clauses occurs with respect to the categories of license rights identified expressly in the clauses. The DOD clauses contain each of the categories of license rights identified above. The -14 (FAR) clause, however, contains no express category of license rights named Government Purpose Rights or Specifically Negotiated License Rights. Instead, the -14 clause provides that the government will obtain essentially similar license rights as Government Purpose Rights under certain circumstances and the FAR itself allows the parties to negotiate specific license provisions when appropriate.⁹⁸

- *Unlimited Rights*

The FAR defines Unlimited Rights as

the rights of the Government to use, disclose, reproduce, prepare derivative works, distribute copies to the public, and perform publicly and display publicly, in any manner and for any purpose, and to have or permit others to do so.⁹⁹

Under the DFARS definition, which is substantially the same as the FAR definition:

“unlimited rights” means rights to use, modify, reproduce, perform, display, release, or disclose technical data in whole or in part, in any

⁹⁸ See FAR 52.227-14(c)(1)(iii) and FAR 27.404-3(a)(4) & (b)(2) respectively.

⁹⁹ FAR 27.401.

manner, and for any purpose whatsoever, and to have or authorize others to do so.¹⁰⁰

The government obtains Unlimited Rights in specific categories of data, including the following: 1) form, fit & function data; 2) data produced for the contract as a performance element of the contract; 3) data (e.g., manuals, instructional material) necessary installation, operation, maintenance, or training purposes; 4) data pertaining to items, components or processes developed exclusively with government funds (-7013); or 5) data furnished previously to the government under restrictive conditions which have expired (e.g. after the expiration of the Government Purpose Rights period) (-7013, -7014).

With respect to noncommercial computer software, the government obtains Unlimited Rights in such software, when it was: 1) first produced in the performance of the contract (FAR); 2) developed exclusively with government funds (DFARS); or 3) furnished previously to the government under restrictive conditions which have expired (DFARS).

When the government obtains Unlimited Rights to the contractor's data or software, the government can use that data or software for anything and disclose it to anyone, including the contractor's competitors, for any purpose. Consequently, before a contractor submits a proposal for a contract in which its technical data or computer software will be delivered to the government with Unlimited Rights, the contractor should assess carefully the effects of that license upon its strategy for the commercial exploitation of that technology.

- *Government Purpose Rights*

Although the FAR does not contain a separate license category named "Government Purpose Rights," under the provisions of the -14 clause, a contracting officer may agree to restrict the government's use of technical data or computer software delivered under the contract to uses "by or on behalf of the Government" by permitting the contractor to assert copyright in the delivered technical data or computer software.¹⁰¹

The DFARS, however, expressly defines Government Purpose Rights as a separate license category:

"Government purpose rights" means the rights to -

- (i) Use, modify, reproduce, release, perform, display, or disclose [technical data / computer software or computer software documentation] within the Government without restriction; and
- (ii) Release or disclose [technical data / computer software or computer software documentation] outside the Government and authorize persons to whom release or disclosure has been made to use, modify, reproduce, release, perform, display, or disclose [that data / the software or documentation] for United States government purposes.¹⁰²

Under the DFARS, the government obtains Government Purpose Rights in data that pertains to items, components, or processes that were developed with "mixed" funds, i.e.

¹⁰⁰ DFARS 252.252-7013(a)(15).

¹⁰¹ See FAR 52.227-14(c)(1)(iii).

¹⁰² DFARS 252.227-7013(a)(12) and 252.227-7014(a)(11) respectively.

with both government and private funding; in data that was created in contracts not requiring development; and in computer software that was developed with mixed funds.¹⁰³

The scope of the government's license to technical data or computer software in which it has obtained Government Purpose Rights includes disclosure and use in government procurements. When the government exercises that license right, the entity receiving the licensed data or software must sign a non-disclosure agreement ("NDA") with the government that limits its use of the contractor's data or software to the purpose for which it was provided by the government (e.g., the specific procurement or research and development effort in support of which the government has disclosed the data or software). The NDA must also recognize the contractor supplying the data or software under Government Purpose Rights as a third party beneficiary of the NDA. This may be acceptable to a contractor if its business plans includes marketing the technology commercially. If the government is the contractor's sole customer, however, granting the government such rights can be quite risky, since it can result in the creation or strengthening of competitors of the contractor.

Another potential risk posed by the DFARS Government Purpose Rights license is that Government Purpose Rights convert into Unlimited Rights automatically on the date that is five years after the award of the contract under which the data or software is delivered. The length of this period is negotiable. Thus, contractors entering contracts under which technical data or computer software will be delivered to the government with Government Purpose Rights should, among other things, estimate the minimum time period during which these restrictions would be required to enable the contractor to exploit the technology in the commercial sector prior to facing the possible release of the technical data or computer software by the Government and attempt to negotiate an extension of the Government Purpose Rights period to coincide at least with that minimum time period.

- *Limited Rights*

Under the FAR clause, the government obtains Limited Rights in technical data that "embody trade secrets or are commercial or financial and confidential or privileged to the extent such data pertain to items, components, or processes developed at private expense, including minor modifications."¹⁰⁴ Under the DFARS clauses, the government obtains Limited Rights in technical data that is required to be delivered under a contract and which pertains to items, components, or processes that were developed entirely at private expense or which were "[c]reated entirely at private expense in the performance of a contract that does not require the development, manufacture, construction or production of items, components, or processes."¹⁰⁵

Under the FAR, as implemented by the -14 clause, Limited Rights data:

May be reproduced and used by the Government with the express limitation that they will not, without written permission of the Contractor, be used for purposes of manufacture nor disclosed outside the Government; except that the Government may disclose these data outside the Government for the following purposes, if any; provided that the Government makes such disclosure subject to prohibition against further

¹⁰³ See DFARS 252.227-7013(b)(2); 252.227-7014(b)(2).

¹⁰⁴ FAR 52.227-14(a).

¹⁰⁵ DFARS 252.227-7013(b)(3)(i)(B).

use and disclosure: [agencies may list other purposes here or state "None."]¹⁰⁶

The DFARS definition is substantially the same as the FAR definition, but adds a few provisions covering specific situations:

"Limited rights" means rights to use, modify, reproduce, release, perform, display, or disclose technical data, in whole or in part, within the Government. The Government may not, without the written permission of the party asserting limited rights, release or disclose the technical data outside the Government, use the technical data for manufacture, or authorize the technical data to be use by another party, except that the Government may reproduce, release or disclose such data or authorize the use or reproduction of the data by persons outside the Government if reproduction, release, disclosure, or use is –

- (i) Necessary for emergency repair or overhaul; or
- (ii) A release or disclosure of technical data (other than detailed manufacturing or process data) to, or use of such data by, a foreign government that is in the interest of the Government and is required for evaluational or informational purposes;
- (iii) Subject to a prohibition on the further reproduction, release, disclosure, or use of the technical data; and
- (iv) The contractor or subcontractor asserting the restriction is notified of such reproduction, release, disclosure, or use.¹⁰⁷

The scope of the government's use of Limited Rights data is substantially narrower than under the license categories already discussed (i.e., Unlimited Rights and Government Purpose Rights). The circumstances under which the government may use the contractor's data under the Limited Rights license (e.g., for emergency repair, release to a foreign government for evaluation) might indicate that a contractor should seek additional protections against inappropriate use of its data by the government or other authorized recipients. For example, a contractor might seek a right of first refusal prior to any release of its data for emergency repairs (assuming the client has the requisite capability to perform such repairs where and when needed). Under any circumstances, a contractor should be proactive, whenever possible, with respect to the enforcement of its restrictions on the government's release of its data by seeking prompt notification from the government of any such release and confirmation from the government of its re-establishment of full control over the data when the release condition no longer applies.

- *Restricted Rights*

Under the FAR -14 clause, the government obtains Restricted Rights in "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."¹⁰⁸ Under the DFARS -7014 clause, the

¹⁰⁶ FAR 52.227-14(a) & Alternate II (DEC 2007) adding subparagraph (g)(3) to the basic clause.

¹⁰⁷ DFARS 252.252-7013(a)(13).

¹⁰⁸ FAR 52.227-14(a).

government obtains Restricted Rights in computer software and other items that fall within the DFARS definition of "computer software" that are required to be delivered or otherwise provided to the government under the contract and "that were developed exclusively at private expense."¹⁰⁹

When the government obtains Restricted Rights in computer software under the FAR, the 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 (b)(4) of this notice; and
- (6) Used or copied for use with a replacement computer.¹¹⁰

The DFARS definition of Restricted Rights adds express protections when computer software delivered with such restrictions is to be provided to the government's support contractors. Such protections include: 1) a requirement that the government provide notice to the contractor asserting the restrictions that a disclosure was made; 2) a requirement for the execution by such contractors of a NDA or the inclusion in the support contractor's contract a separate contract provision restricting its use of the software and making the contractor party asserting restrictions a third party beneficiary of such NDA or other provision; and 3) an express contract provision in the support services contract restricting the use of such software solely to the purpose(s) for which it was provided by the government and in accordance with the restrictions stated in the contract clause with respect to the scope of the government's use.¹¹¹

- *Specifically Negotiated License Rights*

Under both the FAR and DFARS, within certain statutory limitations, the parties can negotiate specific license provisions when appropriate. Under the FAR, there is no separate category of license rights identified in the -14 clause that applies to such situations. There are, however, express provisions in the FAR granting the contracting officer such authority.¹¹²

¹⁰⁹ DFARS 252.227-7014(b)(3)(i).

¹¹⁰ FAR 52.227-14(a) and Alternate III (DEC 2007), adding subparagraph (g)(4) to the basic clause.

¹¹¹ See DFARS 252.227-7014(a)(14).

¹¹² See FAR 27.404-3(a)(4) & (b)(2).

The DFARS, however, prescribes a specific license category for negotiated rights licenses.¹¹³ Under the DFARS provisions, the parties may vary the terms of the "standard" licenses, e.g., Unlimited Rights, Government Purpose Rights, Limited Rights (technical data), or Restricted Rights (computer software), by mutual agreement, but the government must receive at least the rights granted under the Limited Rights license for technical data or the Restricted Rights license for computer software.¹¹⁴

Under both the FAR and DFARS, when the standard terms of the government licenses have been modified by the mutual agreement of the parties, the modified license terms must be: 1) stated in a conspicuous place on the medium on which the data is recorded (for technical data/computer software first produced and delivered in the performance of a contract subject to the -14 clause); 2) stated in the contract and clearly marked in a conspicuous place on the data delivered to the government (for technical data/computer software not first produced, but required to be delivered in the performance of a contract subject to the -14 clause); or 3) identified in a license agreement made part of the contract and marked with the appropriate legends (for technical data/computer software delivered under a contract subject to the -7013 or -7014 clauses).

C. Protecting and Preserving A Contractor's Rights in Technical Data and Computer Software

Both the FAR and DFARS require a contractor to take specific actions throughout the procurement process to protect its technical data or computer software from inappropriate use or disclosure. The more material of these requirements are identified and discussed below.

Actions During the Proposal Stage. The government routinely seeks information from its offerors in their responses to a Request for Proposal ("RFP") issued by the government. One of the categories of information the government seeks is whether the data or software the offeror expects to deliver under any resulting contract will contain restrictions on the government's use or disclosure of such data or software. There is an important difference, however, between the process and documentation used by the non-DOD agencies and the process and documentation used by DOD entities with respect to such information.

Under the FAR, technical data or computer software in which the government's use will be restricted is not required to be delivered to the government.¹¹⁵ Instead, the contractor notifies the government that it is withholding the data and substitutes form, fit, and function data in its place.¹¹⁶ To assess the likelihood of this possibility and to ensure that it will obtain the technical data and computer software that it needs, the contracting officer can include FAR clause 52.227-15 (the "-15 clause") in the RFP, which asks offerors to state whether any of the technical data or computer software they anticipate delivering under the contract would be subject to Limited Rights or Restricted Rights restrictions respectively and, if so, to identify such technical data and computer software.¹¹⁷ Based on the responses to this clause, and the agency's need for delivery of technical data or computer software subject to such restrictions, the contracting officer then decides whether

¹¹³ See DFARS 252.227-7013(b)(4); 252.227-7014(b)(4).

¹¹⁴ See *id.*

¹¹⁵ See FAR 52.227-14(g)(1).

¹¹⁶ See *id.*

¹¹⁷ See FAR 52.227-15.

to include Alternates II or III to FAR 52.227-14 in the RFP and in any contract resulting from the RFP. Alternates II and III add subparagraphs (g)(3) and (g)(4) to FAR 52.227-14, which govern Limited Rights technical data and Restricted Rights computer software respectively. Since the -15 clause is intended solely to provide information to the contracting officer, an offeror's failure to identify technical data or computer software that will be delivered as Limited Rights data or Restricted Rights software does not prevent the offeror, when it becomes the contractor, from asserting such restrictions on the government's use or disclosure of the technical data and computer software at the time of delivery. While offeror should always exercise care when completing the clause, mistakes or omissions in the information provided in response to the -15 clause should not have a specific legal effect to the detriment of the contractor's rights in such technical data or computer software during performance.

The DOD procedure is somewhat different, however, both in process and in legal effect. In a DOD RFP containing the -7013 or -7014 clauses, the contracting officer is required to include the clause at DFARS 252.227-7017 (the "-7017 clause"). In its response to a RFP containing the -7017 clause, an offeror must identify the technical data and computer software that the offeror intends to deliver under any resulting contract with a license that grants less than Unlimited Rights to the government. The -7017 clause requires the offeror to complete a chart (the "-7017 chart"), which specifically identifies the technical data or computer software to be delivered with less than Unlimited Rights, the basis for the offeror's assertion of the restriction (i.e., "developed entirely at private expense" or "developed with mixed funding"), the category of license under which the offeror intends to deliver the technical data or computer software (e.g. "Limited Rights," "Government Purpose Rights," or "Restricted Rights"), and the name of the person asserting the restriction. The completed -7017 chart must be signed by a person authorized to bind the offeror and the executed -7017 chart must be submitted as an attachment to the offeror's proposal.¹¹⁸ If the offeror is awarded a contract, the contractor's assertions of restrictions will be incorporated into the contract.

Unlike the FAR -15 clause, an offeror's mistakes or omissions in the DFARS 7017 chart can affect materially the rights of the parties. Under a DOD contract awarded as a result of a RFP with the -7017 clause, the contractor will only be permitted to deliver technical data or computer software subject to restrictions on use or disclosure by the government if that data or software was listed properly in the -7017 chart submitted by the offeror with its proposal.¹¹⁹ The only exceptions to this rule are restrictions based on new information (such as when new requirements are added to the contract requiring the delivery of additional technical data or computer software) or in the case of an inadvertent mistake by the offeror omitting the data or software from the -7017 chart.¹²⁰ Even in the case of inadvertent mistake, however, the contractor will not be allowed to assert the restriction after award if the notice of such restriction would have affected the source selection decision.¹²¹

Under both the FAR and DFARS provisions, an offeror's assertion in its proposal or during negotiations of restrictions on the government's use or disclosure of technical data

¹¹⁸ See DFARS 252.227-7017(d).

¹¹⁹ See DFARS 252.227-7013(e)(2); 252.227-7014(e)(2).

¹²⁰ See DFARS 252.227-7013(e)(3); 252.227-7014(e)(3).

¹²¹ *Id.*

or computer software does not bind the government to accept the validity of such assertions after award.¹²² Consequently, an offeror should gather, update, and maintain the documentation and other evidence necessary to support its assertions of restrictions as an routine course of practice.

Actions After Contract Award but Before Delivery. Under most circumstances, a government contractor must obtain the permission of the contracting officer before delivering technical data or computer software which incorporates material copyrighted by a third party.¹²³ The burden is upon the contractor to provide such data or software to the government with the appropriate license rights; the contracting officer is not required to accept such deliverables and in some cases, cannot accept such deliverables. For example, if the software developed by a contractor for delivery to the government contains third party software routines or modules, that software is likely to be subject to a license containing terms which are incompatible with federal procurement law or regulation, or otherwise fail to meet the needs of the agency.¹²⁴ In such circumstances, the license will be unacceptable to the contracting officer and the deliverable can be rejected.

Actions Upon Delivery. Both the FAR and DFARS clauses have specific provisions establishing the marking requirements for technical data and computer software in which the delivering contractor asserts restrictions upon the government's use or disclosure.¹²⁵ If a contractor delivers technical data or computer software to the government without any restrictive markings, the government is entitled to treat the technical data or computer software as having been received with Unlimited Rights.¹²⁶ If such an unrestricted delivery was made by mistake, the contractor must act promptly to limit any damage that may be caused by the government's use or dissemination of the data or software to the detriment of the contractor's interests.¹²⁷ Under these circumstances, the contracting officer has the discretion to allow the contractor to mark its data or software with the appropriate markings, but the contractor must agree to indemnify the government from any harms caused by its use or disclosure of the unmarked data or software prior to being notified by the contractor of the appropriate restriction.¹²⁸

Actions Upon Government Challenge of Contractor's Assertion of Rights. The government is not required to accept at face value a contractor's assertions of restrictions upon the government's use or disclosure of technical data or computer software delivered under government procurement contracts.¹²⁹ Under the applicable regulations, the government may challenge a contractor's assertions of such restrictions. A contracting officer may request information from the contractor to support the basis of the contractor's assertion. Upon review of the contractor's submission, if the contracting officer finds one or more reasonable grounds to do so, the contracting officer may formally challenge the contractor's assertion. Generally, the contracting officer will provide the contractor with

¹²² See FAR 52.227-15(c); DFARS 252.227-7017(f).

¹²³ See FAR 52.227-14(c)(2); DFARS 252.227-7013(d); 252.227-7014(d).

¹²⁴ See Section II above.

¹²⁵ See FAR 52.227-14(g)(3) & (4); DFARS 252.227-7013(f); 252.227-7014(f).

¹²⁶ See FAR 52.227-14(f)(1).

¹²⁷ See FAR 52.227-14(f)(2).

¹²⁸ See *id.*

¹²⁹ See FAR 52.227-14(e); DFARS 252.227-7013(h)(1); 252.227-7014(h)(1); 252.227-7019 (procedures for validation of contractor's assertions of restrictions – computer software); 252.227-7037 (procedures for validation of contractor's restrictive markings on technical data).

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the specific basis for the challenge and give the contractor the opportunity to respond with documentary and analytical support. After reviewing the contractor's response, if the contracting officer maintains the challenge, the contracting officer will issue a final decision under the dispute provisions of the contract. The contractor may appeal the contracting officer's final decision to the appropriate agency board of contract appeals or to the U.S. Court of Federal Claims. With limited exceptions, pending resolution of the appeal, the government is required to abide by the contractor's asserted restriction.¹³⁰

Conclusion. The laws and regulations governing the allocation of rights in technical data and computer software developed or delivered under government procurement contracts are complex. The information presented in this Section only scratches the surface of the applicable body of law and is intended to identify the more substantial sources of risk (and reward) for contractors doing business in this highly regulated environment. To preserve and leverage intellectual property assets requires an integrated approach that develops, analyzes, and documents the information necessary to make informed business decisions not only at the threshold, but also throughout the performance of a government contract. By doing so, a contractor can protect its rights and business expectations, while at the same time preserving, if not improving its good relationship with its government customers.

¹³⁰ *Id.*

Practice Tips – Getting Government Business

1. Mine the Internet for federal business opportunities within your firm's capabilities.
2. Review every portion of a solicitation carefully to identify ambiguities and assess project risks before submitting a proposal.
3. During the procurement process, use all available opportunities to clarify your understanding of the contract requirements, resolve ambiguities with the government, and mitigate project risks.
4. Use great care in the completion of Section K representations and certifications.
5. Document your understanding of the contract requirements in your proposal.
6. Develop a compliance matrix identifying every requirement in the solicitation and where in your proposal you address how you are going to meet that requirement.
7. Document any "side agreements" reached with your government counterparts during negotiations and ensure that these agreements are contained in the final integrated contract.

Practice Tips – Contract Administration

1. During performance, monitor and evaluate all instructions and directives from the Government program office administering the contract carefully to identify possible changes in requirements.
2. Provide timely written notification to the government contracting officer of any perceived change and segregate the costs associated with incorporation of any such change into performance.
3. If proprietary information is to be provided to the government under the contract, ensure that the appropriate markings and legends have been affixed to deliverables containing any such information.
4. Document your research and development efforts at all times to maintain a competent, defensible record of the events relevant to the determination of ownership and assignment of patent rights.
5. Report all "subject inventions" within the required time limits and in strict accordance with the contract requirements to protect against forfeiture of title.
6. Review every bilateral contract modification carefully before signing it to ensure that it does not contain provisions that affect your rights to assert claims or the strength of your positions on other contract issues not directly related to the modification under review.
7. If the contract is terminated for the *convenience* of the government, ensure that your termination settlement activities and proposal are completely and accurately prepared and timely submitted. If the contract is terminated for *default* (or for *cause*, if a commercial items contract), ensure that all possible defenses are considered that might be used to convert the termination into one for the convenience of the government through an appeal.

Practice Tips

Protecting the Value of Technical Data and Computer Software Developed or Delivered Under U.S. Government Contracts

The regulations governing the allocation of rights to technical data or computer software developed or delivered under government procurement contracts are complex. Consequently, issues and risks may arise throughout the contracting process – starting with proposal preparation and submittal, continuing through negotiation and award, during performance, and even after performance has been completed and the contract is being closed. The following strategies and practices may be used by contractors to help avoid pitfalls in this arena. These strategies fall under four basic actions: *Identification – Notification – Documentation – Compliance*. Specific practices and recommendations in each of these action areas are discussed below.

Identification – What Do You Have and What You Intend to Make

A time-proven management principle is that "Prior Planning Prevents Poor Performance." The government procurement market is no exception. Indeed, it is even more important for businesses operating in this highly regulated environment to discern carefully from the outset the specific regulatory requirements that can affect the contractor's goals. A key determination at the pre-proposal stage relates to a company's intellectual property assets. The developmental status of all of a company's intellectual property assets should be determined and documented before entering into a contract funded by the government that involves the development of items, components or processes or the generation of computer software.

Before entering a government contract involving the development of items, components, or processes, the company should thoroughly assess the current developmental status of any such items by the company, including the types of modification (e.g., minor, major) that might be necessary to allow the company's currently available or developed items to meet the requirements of the anticipated government contract. This "developmental" analysis should document the funding source for the development of the company's products, processes, or software and should be extended to the lowest technical level, i.e., the smallest segregable portion or unit. Such analysis and documentation is necessary to establish the basis upon which the scope of any government license to data pertaining to such items or to computer software generated or delivered under the contract will be determined, especially if the government participates in further development. This type of analysis and documentation can be time consuming. Consequently, contractors can weigh the expense and time involved in such an analysis against the anticipated benefit of limiting the scope of any government license.

Notification – Timely Disclosures and Assertions of Restrictions of Government Rights

As discussed in Section III above, the regulations governing the allocation of rights in technical data and computer software developed or delivered under government procurement contracts contain specific requirements pertaining to the disclosure of facts (i.e., third party material) and an offeror's intention to assert restrictions on the government's rights (i.e., the -7017 chart). Each of these notices are material in that the

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failure to make the appropriate notification can affect the contractor's rights in the items covered by the subject of the notice. For example, failure to notify a contracting officer of the inclusion of third-party material in a data deliverable, and the failure to obtain the contracting officer's permission to do so, can result in the rejection of the deliverable, possibly placing the timely performance of the contract at substantial risk. Consequently, contractor's contracting personnel must be aware of, and track notification requirements in their government contracts meticulously.

Documentation – Get It In Writing

Whether the requirement or contract action consists of a disclosure, a request for extension of a disclosure or other election, or the assertion of a restriction on the government's right to use or disclose all or part of a data deliverable, these communications must be made in writing. Such advice is elementary, but instances continue to arise in which contractors have relied upon oral statements, even assurances, from government contracting personnel that have been subsequently forgotten or disavowed by the same government personnel or their supervisors. If it is important and you intend to rely upon it, get it in writing.

Compliance – Follow the Law; Read the Contract

There is little or no room for error in this regulatory environment. A contractor should integrate its intellectual property personnel with its contract administration team and train them with the information they will need to comply with the regulations and contract clauses governing the allocation of rights in the company's intellectual property assets. This training should be updated and refreshed periodically, since the regulations and the contract clauses they prescribe change periodically.

*Charles R. "Rod" Marvin, Jr.
Cohen Mohr LLP*

Contact Information

Charles R. "Rod" Marvin, Jr.

Partner

Cohen Mohr LLP

1055 Thomas Jefferson Street, NW

Washington, DC 20007

Office: 202-342-2550

Direct: 202-298-5650

Cell: 301-802-6175

Facsimile: 202-342-6147

E-mail: crmarvin@cohenmohr.com

Website: www.cohenmohr.com