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U.S. Court of Federal Claims Releases Decision on Damages Owed by U.S. Department of Defense in Copyright Infringement Case

By Scott A. Felder and Lisa Rechden*

In this article, the authors examine a recent decision by the U.S. Court of Federal Claims and its implications for contractors that license commercial software to the government.

The U.S. Court of Federal Claims (COFC) recently unsealed its decision on damages for copyright infringement by the U.S. Department of Defense (DOD) in *4DD Holdings, Inc. v. United States*.[1] The COFC awarded 4DD Holdings nearly $12 million for DOD's creation of tens of thousands of infringing copies of 4DD's commercial computer software, including actual damages in the nature of license and convenience fees for additional copies of the software plus additional compensation for the government's willful copyright infringement.

For contractors that license commercial software to the government, this decision is a welcome rebuke of the government's sometimes haphazard compliance with commercial software license terms.

THE CASE

The case arises out of the DOD's ongoing efforts to modernize and streamline its medical records databases. As an interim solution to this problem, the DOD acquired 64 core and 50 seat licenses to 4DD's Tetra Healthcare Federator software (TETRA) for approximately $1 million and subject to 4DD's End-User Licensing Agreement (EULA). TETRA's EULA prohibits users (including the government) from making additional copies of the Tetra software. But DOD required that 4DD deactivate functionality that would allow 4DD to monitor DOD's use of the software, forcing 4DD to trust that DOD was abiding by the terms of the EULA and using only the number of licenses for which it paid.

DOD was not. Indeed, the contracting officer's representative admitted to the COFC that the government "easily gets out of whack" trying to track how

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[1] 4DD Holdings, Inc. v. United States, No. 15-945C (Ct. Fed. Cl., Nov. 30, 2023).

many licenses it has utilized (an admission that should concern software licensors). Not only did the tracking system fail to work generally, the government did not actually look at it and instead "just stupidly assumed" DOD was in compliance. Adding insult to injury, once the government realized it had exceeded the scope of its license, it ordered an untold number of unauthorized copies—and, along with them, the evidence of its infringement—to be destroyed.

In a previous decision,[2] the COFC found that 4DD's EULA prohibited copying of the TETRA software and the government violated the Copyright Act by installing more copies than those authorized by the EULA. The recently-published decision addressed the damages to which 4DD was entitled, including an effort to determine just how many unlicensed copies of TETRA DOD made and the corresponding "reasonable and entire" compensation owed to 4DD under 28 U.S.C. § 1498(b).

THE DECISION

Copyright owners will often prove damages by presenting evidence of either lost sales or diminished value. Here, however, DOD's infringing copying had neither deprived 4DD of sales nor diminished the value of its copyright. Accordingly, the COFC analyzed 4DD's damages through the lens of a hypothetical negotiation, applying the factors outlined in *Georgia-Pacific Corp. v. U.S. Plywood Corp.*,[3] which are often also applied in the copyright context.

Applying these factors, the COFC determined that the parties would have agreed to a per-core license fee of $305.22 for each of 30,060 non-backup copies of the TETRA software ($9,174,922.88), a 20% "convenience fee" for backup copies ($1,834,984.57), plus $150,000 as compensation for the government's willful infringement associated with the creation of additional copies that (apparently) were never used.

CONCLUSION

This decision demonstrates that software licensors can find relief if the government violates their software licenses and infringes on their copyrights. But copyright infringement trials—particularly against the government—can be long and expensive, and it may be preferable to avoid them when possible. With that in mind, government contractors interested in licensing commercial software to the government should be mindful of both the risks and the rewards and take proactive steps to avoid potential pitfalls.

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[2] 4DD Holdings, LLC v. United States, No. 1:2015cv00945 (Ct. Fed. Cl. 2022).

[3] Georgia-Pacific Corp. v. U.S. Plywood Corp., 318 F. Supp. 1116 (S.D.N.Y. 1970).

For instance, they should review their license agreements to ensure they fully cover their interests, including the use of broad restrictions against copying the licensed software.

It is also important to maintain an open line of communication with the government regarding the number of licenses that have been utilized so these issues can be identified and addressed early on—preferably before the scope of infringement reaches the magnitude seen in *4DD*.