$500 MILLION OCULUS VERDICT HIGHLIGHTS LITIGATION RISKS FOR EMERGING TECH COMPANIES

The decision by a federal jury in Dallas, Texas, to award $500 million to the plaintiffs in a case involving virtual reality (VR) technology – despite the jury's conclusion that the defendants had not misappropriated any of the plaintiffs' trade secrets – illustrates the degree to which companies must move with caution when they begin or expand businesses relying on VR or other emerging technologies.

THE BOTTOM LINE

Companies developing – or seeking to acquire – new technology must take every precaution to limit their risks before litigation is on the horizon. The full extent and scope of those risks is often not clear without careful analysis. Working with counsel every step of the way can help to uncover potential liabilities and limit exposure.

COMPLAINT

The plaintiffs in the case, Zenimax Media Inc. and id Software LLC, sued Oculus VR LLC, owned by Facebook, Inc., which had acquired Oculus in October 2014 for approximately $3 billion. The plaintiffs also sued Oculus' founder (Palmer Luckey), chief technology officer (John Carmack, who previously worked for Zenimax), and former chief executive officer (Brendan Iribe) individually.

The allegations included claims that the defendants had misappropriated VR-related trade secrets, infringed key computer code copyrights, and violated a binding non-disclosure agreement (NDA).

The plaintiffs also asserted that (1) Facebook had tortiously interfered with the NDA and that Oculus and Facebook had engaged in unfair competition with respect to their contracts, trademarks, copyrights, and/or trade secrets; (2) Carmack had "converted" their property by copying files to a USB storage device and taking them with him; and (3) Oculus, Luckey, and Iribe had infringed their trademarks, including the names of popular video games "DOOM" and "SKYRIM."

The plaintiffs sought $2 billion in damages, a royalty, and billions more in punitive damages.

JURY VERDICT

The jury rejected a number of the plaintiffs' claims, including their claim for misappropriation of trade secrets – which was the main emphasis of their case.

Nevertheless, the jury decided that Oculus (but not any of the other defendants) had directly infringed the plaintiffs' computer code copyrights and that Oculus had breached the NDA. The jury awarded damages of $50 million and $200 million for those respective claims.

The jury also agreed with the plaintiffs that Carmack converted their property, Oculus and Iribe infringed ZeniMax's trademarks, and held Oculus, Luckey, and Iribe liable for "false designation" of the origin of their trademarks. Although the jury did not award damages on the trademark infringement and conversion claims, the jury found that Oculus should pay $50 million, Luckey should pay $50 million, and Iribe should pay $150 million for false designation of origin. Defendants have indicated their intent to appeal the verdict. Meanwhile, Zenimax has indicated its intent to seek an injunction to prevent Oculus from further use of its computer code.

>> *continues on next page*

IMPORTANT LESSONS

For companies involved in VR or in other emerging technologies, the Oculus action has a number of important lessons.

The $500 million total jury award fell short of the billions of dollars the plaintiffs sought to recover, but it is, of course, still a significant amount of damages. It is also important to keep in mind that a damages award, in these circumstances, is only part of the cost of litigation. Preparing and going to trial, the amount of executive time involved in a lawsuit of this nature (Facebook's chief executive officer, Mark Zuckerberg, testified in person in court for several hours in the Oculus case), and the accompanying publicity all weigh heavily on the defendants. There is also the risk that an injunction could force a company to stop the use and/or sale of its emerging technology or to revise its technology to be non-infringing.

In a situation such as this, where a number of hardware manufacturers are all striving to create similar technology at once and have employees that have moved between the companies, there is increased risk that one party will, either accidentally or purposefully, infringe on another's intellectual property or other rights. Therefore, it is imperative that companies do proper diligence on the intellectual property that they want to create or acquire, and any related contractual restrictions, including NDAs and restrictive covenants.

Second, the risk of litigation in the VR space is real. There is a great deal of money involved and entrepreneurs, inventors, and business people will seek to protect their inventions and investments by going to court, if they deem that necessary. In an emerging market with a potentially significant first-mover advantage, litigation is one tool for getting, and staying, out in front of the competition. Thus, as developers and other businesses seek to capitalize on the growing VR market, they need to carefully analyze the positions and motivations of their competitors to assess their risk profile.

Finally, this case illustrates the care that must be taken when hiring a former employee of a competitor who is bound by an NDA. The jury found that Oculus must pay $200 million for its failure to comply with the NDA initially signed between Zenimax and Luckey, the obligations of which Oculus took on, according to the jury award, by manifesting its acceptance of the NDA when Luckey began working for Oculus. When hiring from a competitor, be wary of more than just intellectual property risks; your company may face exposure from related contractual rights and other potential wrongdoing. Perhaps paradoxically, the very reason a former employee of a competitor is valuable – that is, his or her proprietary knowledge – is the same reason the legal risk is elevated.

FOR MORE INFORMATION

Richard S. Eisert
Partner/Co-Chair, Intellectual Property
212.468.4863
reisert@dglaw.com

Marc J. Rachman
Partner, Litigation
212.468.4890
mrachman@dglaw.com

Josh J. Gordon
Associate, Intellectual Property
212.468.4834
jgordon@dglaw.com

or the D&G attorney with whom you have regular contact.

Davis & Gilbert LLP
212.468.4800
1740 Broadway, New York, NY 10019
www.dglaw.com

© 2017 Davis & Gilbert LLP