

**UNITED STATES DISTRICT COURT  
NORTHERN DISTRICT OF TEXAS  
DALLAS DIVISION**

ZENIMAX MEDIA INC. and ID  
SOFTWARE LLC,

Plaintiffs,

v.

OCULUS VR, LLC, PALMER LUCKEY,  
FACEBOOK, INC., BRENDAN IRIBE and  
JOHN CARMACK,

Defendants.

Case No.: 3:14-cv-01849-K

Hon. Ed Kinkeade

**DEFENDANTS' RESPONSE TO PLAINTIFFS' MOTION FOR ENTRY OF PERMANENT INJUNCTION**

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## INTRODUCTION

ZeniMax's injunction motion proceeds as though the jury found in favor of ZeniMax on every one of its claims and awarded it every dollar of damages it requested. In reality, the jury awarded damages on just three of the eight claims that ZeniMax took to trial and rejected the trade-secrets claim that was the centerpiece of ZeniMax's case. And as Oculus explained in its renewed motion for judgment as a matter of law, those three claims are riddled with insurmountable problems: legal bars, insufficient evidence of liability, and a total failure of proof on damages. The verdict cannot stand, and without it, there is no basis for the entry of injunctive relief.

But even taking the verdict at face value (for purposes of this motion only), the decision to grant or deny injunctive relief is not a close question. In the decade since the Supreme Court's seminal decision in *eBay v. MercExchange*, 547 U.S. 388 (2006), federal courts have routinely concluded that injunction requests like ZeniMax's should be denied. Courts do not enjoin a product simply because some part of that product supposedly infringes an intellectual-property right, especially where, as here, the plaintiff does not make a competing product and has offered to license its intellectual property to the defendant. If the verdict stands, the proper remedy is money damages, not an equitable decree that would impose significant and unfair hardship on Oculus's customers, employees, and business partners.

ZeniMax has the burden of proof on each of the four injunction factors, and all four weigh against ZeniMax's motion. Most fundamentally, ZeniMax cannot show it is suffering continuing harm. An injunction is a prospective remedy. Proof of an ongoing or imminent injury is an indispensable prerequisite to any kind of forward-looking relief. Yet ZeniMax tried a backward-looking case, focusing its proof on events that took place in 2012 and early 2013: e-mails between Oculus and John Carmack, excerpts from the earliest iterations of Oculus's source code, and

Oculus's Kickstarter video and PowerPoint presentation to potential investors. Irreparable harm cannot be presumed; the plaintiff must prove it. ZeniMax has offered no proof of ongoing harm.

Second, ZeniMax cannot demonstrate that monetary damages are inadequate compensation for its alleged injuries. Since *eBay*, courts have uniformly found that damages provide adequate redress for almost any injury that is purely financial. Equity will intervene only to remedy injuries that cannot be readily quantified. ZeniMax sought a monetary remedy both before and after litigation, quantified its alleged damages, and presented them to the jury. Injunctive relief is particularly inappropriate where, as here, the plaintiff's business does not compete with the defendant's business. ZeniMax has failed to show how its business of producing mass-market AAA video games could be harmed by Oculus's production of virtual-reality platforms and headsets. As a result, if ZeniMax had suffered any injury, it could be remedied by money damages.

ZeniMax fares no better on the final two injunction factors. The sweeping injunction ZeniMax seeks would impose undue hardship on Oculus and its employees, business partners, and customers. And it would not serve—indeed, it would disserve—the public interest to issue an injunction only to have ZeniMax turn around and wield it as leverage in future licensing negotiations. Moreover, the injunction that ZeniMax seeks is vastly overbroad, and ZeniMax's proposed “alternative” remedy of an ongoing royalty lacks any foundation in the evidence.

## ARGUMENT

### **I. ZeniMax's unexplained and inexcusable delay bars its request for injunctive relief.**

At the threshold, ZeniMax's decision to delay moving for an injunction nearly three years since filing suit—and more than four years since having notice of its claims—warrants the denial of its motion. It is well settled that “[a]bsent a good explanation,” a “substantial period of delay [] militates against the issuance of a preliminary injunction. *High Tech Med. Instrumentation, Inc. v. New Image Indus., Inc.*, 49 F.3d 1551, 1557 (Fed. Cir. 1995) (17-month delay); *accord*

*Gonannies, Inc. v. Goupair.com, Inc.*, 464 F. Supp. 2d 603, 609 (N.D. Tex. 2006) (Lindsay, J.) (six-month delay); *Wireless Agents, LLC v. T-Mobile, USA, Inc.*, 2006 WL 1540587, at \*5 (N.D. Tex. June 6, 2006) (Fitzwater, J.) (two-year delay).

For two reasons, the same logic applies to ZeniMax's request for a permanent injunction. One, the delay demonstrates that there is no real "urgency to the request for injunctive relief." *High Tech Med.*, 49 F.3d at 1557. Two, it is "inequitable for the owner of a copyright, with full notice of an intended infringement, to stand inactive while the proposed infringer spends large sums of money in exploitation, and to intervene only when his speculation has proved a success." *Haas v. Leo Feist, Inc.*, 234 F. 105, 108 (S.D.N.Y. 1916) (L. Hand, J.).

This is a classic case of induced reliance and substantial prejudice. The conduct ZeniMax complains of took place in the summer and fall of 2012. Yet when ZeniMax filed this lawsuit in May 2014, it did not request injunctive relief. (*See* ECF 1 at 45). Over the entire life of the case, ZeniMax never once moved for a preliminary injunction. Instead, ZeniMax waited 33 months after filing suit before it moved for injunctive relief.

In the meantime, the individual defendants devoted years of their lives, and the corporate defendants invested billions of dollars, to bring an immersive virtual-reality experience to the world. Oculus employees hired scores of top-flight software engineers (Exh. A at 13–14; Exh. B at 28–29, 31–34; Exh. C at 63–64); wrote a huge amount of new code (Exh. C at 43–44); secured multiple rounds of financing (Exh. C at 55–56); rented office space in Irvine, California (Exh. C at 74); built out the supply chain and distribution channels necessary to commercialize the Rift (Exh. C at 60–62, 75–76); created innovative new hardware such as the Oculus Touch hand controllers (Exh. B at 39–40); expanded the company's strategic vision (Exh. B at 23–26, 35–38; Exh. C at 58–60); and committed funds to research and development (Exh. B at 30–31).

ZeniMax's requested injunction would cause enormous and unjust prejudice to the many people who contributed to Oculus's growth in the years before ZeniMax sought injunctive relief. Where, as here, the plaintiff's contribution "is so insignificant compared with the injury from stopping [defendant's] use of their enormous volume of independently acquired information . . . , an injunction would be unconscionable." *Dun v. Lumbermen's Credit Ass'n*, 209 U.S. 20, 23 (1908).

ZeniMax's delay also deprived Oculus of the opportunity to put to rest any contention about misuse of ZeniMax's source code at a time when Oculus's code base was still in its infancy. Oculus did not begin writing its own source code until the summer of 2012. (Exh. C at 78–79). ZeniMax claims that it knew Oculus was using its source code by September 2012. (ECF 963 at 3–4; Exh. D at 98). Of course, the evidence shows that Oculus did not use ZeniMax's source code. (ECF 1000 at 7–9). Regardless, if ZeniMax had notified Oculus in September 2012 that it planned to sue Oculus for copyright infringement and breach of the NDA, Oculus would have had the opportunity to purge anything it had ever gotten from ZeniMax from its premises and write new code from scratch. At that time, it would have been relatively straightforward for Oculus to design around the seven functionalities over which ZeniMax now asserts copyright protection. (Exh. E at 101–02, 103, 104–05, 106, 107; Exh. F at 110, 111–12).

But now, more than four-and-a-half years later, Oculus employees have spent hundreds of thousands of hours developing an enormous code base. To rewrite that code, Oculus would have to hire clean-room engineers to make myriad changes not just to the code fragments ZeniMax presented at trial, but to numerous other segments of interrelated and interdependent code. The process would be lengthy, burdensome, and costly. This added burden and expense could have been avoided if ZeniMax had timely asserted its rights. "[L]egitimate design-around efforts should always be encouraged as a path to spur further innovation." *TiVo Inc. v. EchoStar Corp.*, 646 F.3d

869, 883 (Fed. Cir. 2011). Instead, ZeniMax “unreasonably delayed in protecting its rights,” and because “its dilatoriness prejudiced” Oculus, the Court should deny its requested injunction. *See Conan Properties, Inc. v. Conans Pizza, Inc.*, 752 F.2d 145, 152–53 (5th Cir. 1985).

## **II. ZeniMax cannot satisfy any of the four injunction factors.**

ZeniMax’s request for the extraordinary remedy of a permanent injunction fails at every step of the traditional four-factor test. A plaintiff seeking injunctive relief must show that (1) irreparable injury is likely absent the injunction; (2) damages are inadequate to compensate for that injury; (3) the balance of hardships favors an injunction; and (4) the injunction serves the public interest. *eBay v. MercExchange*, 547 U.S. 388, 391 (2006). ZeniMax bears the burden of proving all four factors. *Miss. Power & Light Co. v. United Gas Pipe Line Co.*, 760 F.2d 618, 621 (5th Cir. 1985); *see also eBay*, 547 U.S. at 391. A “failure to succeed on any one of the elements results in denial of injunctive relief.” *Barton v. Huerta*, 613 F. App’x 426, 427 (5th Cir. 2015) (per curiam). ZeniMax cannot meet its burden on *any* of these elements, much less all of them.

### **A. ZeniMax’s claimed injuries are not irreparable.**

“A showing of irreparable injury is the sine qua non of injunctive relief.” *Siegel v. LePore*, 234 F.3d 1163, 1176 (11th Cir. 2000) (citation omitted). The moving party bears the burden of proving irreparable injury, and “[c]learly demonstrating irreparable harm is a heavy burden to overcome.” *Travelhost, Inc. v. Figg*, 2011 WL 6009096, at \*4 (N.D. Tex. Nov. 22, 2011) (Fitzwater, C.J.). ZeniMax has not overcome that burden on any of its three claims.

ZeniMax’s attempt to prove irreparable harm fails for the simple reason that ZeniMax cannot show it is suffering a continuing or ongoing injury. “The function of an injunction is to afford preventive relief, not to redress alleged wrongs which have been committed already.” *Lacassagne v. Chapuis*, 144 U.S. 119, 124 (1892). The irreparable-injury requirement “cannot be met where there is no showing of any real or immediate threat that the plaintiff will be wronged

again.” *City of Los Angeles v. Lyons*, 461 U.S. 95, 111 (1983). Thus, a plaintiff who cannot “show a real and immediate threat of future or continuing injury apart from any past injury” cannot obtain injunctive relief. *Aransas Project v. Shaw*, 775 F.3d 641, 648 (5th Cir. 2014). ZeniMax has offered no proof that it is currently suffering harm or faces imminent risk of future harm.

**1. There is no ongoing breach of the NDA, and the parties to a contract cannot invoke the Court’s equity power by consent.**

Zero. That was the amount of damages “in dollars and cents” that the jury found ZeniMax, “in reasonable probability, will sustain in the future” because of “Oculus’s failure to comply with” the NDA. (ECF 914 at 48–49, Q.27). Ignoring that finding, ZeniMax now contends that its future damages are, in actuality, enormous and irreparable. Nothing could be further from the truth.

ZeniMax’s breach-of-contract claim is entirely retrospective. In its motion, ZeniMax identifies six purported breaches of the NDA. Most of them took place more than four years ago; the most recent occurred a little less than three years ago. (See ECF 963 at 9 ¶¶ 13–18). None is still ongoing. An “injunction cannot issue solely upon a mere showing of past” misconduct, and ZeniMax “does not offer any evidence that [Oculus] is currently using any of [ZeniMax’s confidential information] or that it is likely to do so in the future.” See *Versata Software, Inc. v. Internet Brands, Inc.*, 2012 WL 3075712, \*2 (E.D. Tex. July 30, 2012) (Bryson, J.<sup>1</sup>).

The centerpiece of ZeniMax’s theory of irreparable harm—that Oculus “agreed that ZeniMax would be irreparably harmed by a breach of the non-disclosure agreement” and this agreement is “conclusive evidence” of irreparable injury (ECF 963 at 13, 14)—runs headlong into the overwhelming weight of the case law. The “parties’ consent cannot establish a right to an injunction if the equitable considerations do not otherwise dictate that an injunction should be

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<sup>1</sup> The Honorable William C. Bryson of the United States Court of Appeals for the Federal Circuit, sitting by designation.

entered.” *Versata Software*, 2012 WL 3075712, at \*3 (collecting cases). The Northern District has “reject[ed] the contention that a contractual stipulation between the parties is binding on the Court or can alone justify” an injunction. *Tex. Health & Human Servs. Comm’n v. United States*, 166 F. Supp. 3d 706, 712 (N.D. Tex. 2016) (Godbey, J.). Rather, “a provision in a contract providing that breach would cause irreparable harm is merely one factor to be examined in making the irreparable harm determination.” *Dickey’s Barbecue Restaurants v. GEM Inv. Grp.*, 2012 WL 1344352, \*4 (N.D. Tex. Apr. 18, 2012) (Lindsay, J.).

The approach ZeniMax proposes is particularly inappropriate in light of the Supreme Court’s holding in *eBay* that the appropriateness of injunctive relief cannot be determined by “a categorical rule.” 547 U.S. at 393. *eBay* makes clear that “the parties’ characterization of the consequences of a breach in an agreement entered into . . . years ago [cannot] dictate the manner in which the Court must exercise its equitable authority.” *Versata Software*, 2012 WL 3075712, at \*3. It is no surprise, then, that all three cases ZeniMax cites to support its position were decided before *eBay*. And one of those cases, in fact, repudiates ZeniMax’s position: “we are unaware of any Texas case holding that such agreements alone establish, for injunction purposes, that remedies at law will be inadequate.” *Wright v. Sport Supply Grp., Inc.*, 137 S.W.3d 289, 294 (Tex. App.—Beaumont 2004, no pet.). One boilerplate provision of an NDA authored by ZeniMax’s lawyers and executed years ago by a teenage Palmer Luckey is not conclusive evidence of irreparable harm.

## **2. ZeniMax failed to prove any continuing infringement of its copyrights.**

ZeniMax likewise has failed to prove irreparable injury on its copyright claim. The Copyright Act authorizes an injunction only “to *prevent* or *restrain* infringement of a copyright” in the future. 17 U.S.C. § 502(a) (emphasis added). By its terms, this statutory grant of authority is limited to imminent or ongoing infringement.

ZeniMax’s trial proof included no evidence of ongoing or imminent copyright

infringement. ZeniMax offered two types of evidence in support of its copyright claim: (1) testimony from Dr. David Dobkin, who compared portions of the source code John Carmack wrote for ZeniMax to portions of early versions of Oculus's source code written in 2012 and 2013; and (2) exhibits containing the source code that was the subject of Dr. Dobkin's testimony.<sup>2</sup> ZeniMax did not introduce exhibits containing more recent versions of Oculus's source code; the exhibits about which Dr. Dobkin testified are the only Oculus code in evidence.

Dr. Dobkin's testimony and the underlying exhibits were confined to very old versions of Oculus source code. The vast majority of the Oculus source code he testified about was written between September 2012 and March 2013; the most recent version was written in November 2013.<sup>3</sup> Dr. Dobkin did not testify about—and ZeniMax did not introduce exhibits containing—source code from the software development kits (“SDKs”) that were released with more recent Oculus products such as the Samsung Gear VR (released in November 2015) or the Consumer Version of the Rift (March 2016). Despite having taken extensive discovery on Oculus's source code that gave it access to the code Oculus had written all the way up through January 2016, ZeniMax never introduced any allegedly infringing code from current or recent Oculus products. Instead, ZeniMax presented an infringement case that relied exclusively on old, out-of-date code.

ZeniMax's failure to produce evidence that the current version (or even recent versions) of Oculus's SDK infringes ZeniMax's copyrights forecloses its request for an injunction. The Fifth Circuit has rejected a “fruit of the infringing tree” doctrine that would enjoin products developed

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<sup>2</sup> PX 301 (Oculus code); PX 109, PX 132, PX 1162, PX1429, PX1492, & PX1764 (ZeniMax code). *See* Exh. G. Each of these exhibits contains part of the source code that appeared on Dr. Dobkin's demonstrative slides and was the subject of Dr. Dobkin's testimony.

<sup>3</sup> Oculus uses the Perforce source code revision control system. As a part of its normal operation, Perforce records change history information, which includes the date on which every change to the source-code files is checked into the Perforce system. This change history information is reflected in the change logs associated with the source-code exhibits introduced at trial.

“with the benefit of earlier infringement.” *Alcatel USA, Inc. v. DGI Techs., Inc.*, 166 F.3d 772, 790 (5th Cir. 1999) (citing *Kepner-Tregoe, Inc. v. Leadership Software, Inc.*, 12 F.3d 527, 538 (5th Cir. 1994)); *see also* 4 NIMMER ON COPYRIGHT § 14.06[C][1][a] (Matthew Bender rev. ed.). Failure to show ongoing or threatened infringement is an absolute bar to an injunction under the Copyright Act. *See, e.g., Jane Doe No. 1 v. Backpage.com, LLC*, 817 F.3d 12, 29 (1st Cir. 2016) (citing *Harolds Stores, Inc. v. Dillard Dep't Stores, Inc.*, 82 F.3d 1533, 1555 (10th Cir. 1996)), *cert. denied*, 137 S. Ct. 622 (2017).

The only effort ZeniMax made to prove that more recent versions of Oculus’s source code were copied from ZeniMax’s source code was to elicit hasty, conclusory assertions from Dr. Dobkin that his analysis of Oculus’s old code would also apply to newer versions of Oculus’s code. At several points in his testimony, Dr. Dobkin stated (without explanation or elaboration), “What I present today would be based on one exemplary version, but I did analyze whether what I’m presenting goes forth for other versions as well.” (Exh. I at 130).<sup>4</sup>

This testimony is legally insufficient evidence of continuing copyright infringement. It suffers from two fatal flaws, one stemming from a rule of general application, the other from an evidentiary requirement that is specific to cases alleging copyright infringement.

First, an expert’s opinion that is “connected to existing data only by the *ipse dixit* of the expert” is not competent evidence. *In re C.F. Bean L.L.C.*, 841 F.3d 365, 370 (5th Cir. 2016) (citing *Gen. Elec. Co. v. Joiner*, 522 U.S. 136, 146 (1997)). An expert opinion that “offers nothing more than [an] unsupported conclusion” is legally insufficient to sustain liability. *Boyd v. State Farm Ins. Cos.*, 158 F.3d 326, 331 (5th Cir. 1998); *accord Guile v. United States*, 422 F.3d 221, 227 (5th Cir. 2005). Dr. Dobkin’s conclusory assertions—unsupported by analysis of any recent

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<sup>4</sup> *See also id.* at 131, 132, 133, 135, 136, 1375, 139–40.

source code—do not establish that later versions of Oculus’s code infringed ZeniMax’s copyrights.

Second, and more specifically, the jury could not make a finding of substantial similarity (an essential element of ZeniMax’s copyright-infringement claim) unless both the copyrighted work and the allegedly infringing work were in evidence so that the jury could “view the two works side-by-side.” *See King v. Ames*, 179 F.3d 370, 376 (5th Cir. 1999). In cases alleging copying of “copyrighted software,” just as in other copyright cases, “the law of this circuit prohibits finding copyright infringement without a side-by-side comparison of the two works.” *Bridgmon v. Array Sys. Corp.*, 325 F.3d 572, 577 (5th Cir. 2003).

The only pieces of Oculus’s source code that ZeniMax moved into evidence were the excerpts from the 2012- and 2013-vintage code that were the subject of Dr. Dobkin’s testimony. Oculus explained in its renewed motion for judgment as a matter of law why the snippets of code contained in those exhibits are legally insufficient to establish that Oculus’s 2012- and 2013-vintage code infringes ZeniMax’s copyrights. (ECF 998 at 13–14). But even assuming counterfactually that ZeniMax had proven infringement as to Oculus’s older code, that would not be enough to establish ongoing infringement because ZeniMax failed to bridge the evidentiary gap between Oculus’s older code and its current code. There were no exhibits in evidence the jury could use to make a side-by-side comparison between the code John Carmack wrote in 2012 and Oculus’s current or recent source code. As a consequence, the evidence presented to the jury is legally insufficient to support a finding of continuing or imminent infringement.<sup>5</sup>

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<sup>5</sup> Confusingly, the copyright portion of ZeniMax’s brief relies on a February 2013 e-mail in which John Carmack states that Oculus “wouldn’t exist as a funded company if it weren’t for our involvement.” ECF 963 at 19. That e-mail has nothing to do with source code. In it, Mr. Carmack discusses the role that the public demonstrations of *Doom 3: BFG* had played in securing publicity and financing for Oculus. (Exh. H). Those public demonstrations are not evidence of copyright infringement. All Oculus did in the demonstrations was display *Doom 3* on a Rift headset. Oculus neither had access to nor gave away copies of the *Doom 3: BFG* source code. (ECF 1000 at 7–9). Likewise, Oculus never gave away copies of the

**3. ZeniMax has suffered no injury at all that is cognizable under the Lanham Act, much less an injury that is ongoing and irreparable.**

ZeniMax’s attempt to show irreparable injury is perhaps weakest on its claim for false designation of origin, where it spends less than a page of its brief making its case. This half-hearted effort falls far short. The conduct ZeniMax complains of ceased years ago.

A Lanham Act “plaintiff must show that it *will suffer* irreparable harm if the injunction is not granted.” *Seven-Up Co. v. Coca-Cola Co.*, 86 F.3d 1379, 1390 (5th Cir. 1996) (emphasis added). “[P]ast harm is not a basis for” injunctive relief under the Lanham Act. *Hoop Culture, Inc. v. GAP Inc.*, 648 F. App’x 981, 986 (11th Cir. 2016). Where there is “no evidence that [the defendant] continues to” engage in the challenged conduct, but instead the evidence shows “that the defendant ha[s] ceased” its allegedly infringing activities, there is no basis to find irreparable injury. *Logan v. Burgers Ozark Country Cured Hams Inc.*, 263 F.3d 447, 465 (5th Cir. 2001).

There is no evidence—or even a claim—that Oculus is currently using ZeniMax’s trademarks or falsely designating the origin of any goods. ZeniMax’s motion catalogues a handful of examples of what it believes to be trademark infringement and false designation, but all of its examples center around the Kickstarter video (which was released in July 2012) and the PowerPoint deck Oculus presented to investors (which was in use in late 2012 and early 2013). Like the defendant in *Seven-Up*, Oculus no longer uses these materials. And like the materials at issue in *Seven-Up*, the video and the investor presentation are unlikely to have any future utility to Oculus’s business. Both were designed to help raise early funds, and Oculus is no longer in the market for capital. Four-and-a-half years is a lifetime for companies like Oculus and ZeniMax.

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*Doom 3*: BFG executable file. (Exh. C at 72–73). Nothing in Mr. Carmack’s e-mail (or the similar sentiment expressed by Mr. Luckey) has any bearing on the question of copyright infringement—certainly not on the question of continuing infringement.

(Exh. J at 145). Ancient history does not justify an injunction.

ZeniMax complains that the Kickstarter video remains available online, but it offers neither argument nor evidence that the Kickstarter is likely (now or in the future) to confuse consumers about the fact that Oculus—not ZeniMax—is the origin of the Rift. If the ability to locate a defunct advertisement on the Internet was enough to cause irreparable injury, “an injunction [would] automatically follow[] a determination that” the Lanham Act had been violated; that, of course, is not the law. *Herb Reed Enters., LLC v. Fla. Entm’t Mgmt.*, 736 F.3d 1239, 1249 (9th Cir. 2013).<sup>6</sup>

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ZeniMax’s failure to establish irreparable harm on any of the three claims on which it seeks an injunction is enough by itself to defeat its motion. “Absent a showing of irreparable harm, a plaintiff is not entitled to injunctive relief, even if the other three elements” of the four-factor test are found. *Ferring Pharm. Inc. v. Watson Pharm., Inc.*, 765 F.3d 205, 219 (3d Cir. 2014).

**B. Money damages are an adequate remedy for the injuries ZeniMax alleges.**

An injunction is almost never warranted in a commercial case unless the plaintiff and the defendant are competitors. If the parties are not engaged in competition, there is rarely any basis to conclude that the plaintiff is likely to suffer an injury for which it has no adequate remedy at law. Here, the trial record establishes that the only harm alleged is purely monetary harm. ZeniMax only ever sought monetary licensing payments for the seven copyrighted VR functionalities, and it never attempted to enter the market for VR platforms or hardware.

“Straight-forward monetary harm . . . is not irreparable harm.” *ActiveVideo Networks, Inc. v. Verizon Commc’ns, Inc.*, 694 F.3d 1312, 1338 (Fed. Cir. 2012). Money damages are inadequate

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<sup>6</sup> ZeniMax’s brief references trademarks, but ZeniMax moves for an injunction only on its claim for false designation of origin. See ECF 962 at 1; ECF 958-1 ¶ 13. In any event, the trademark claim is plagued by the same flaws as the false-designation claim. An injunction would be unwarranted for the same reasons.

only for certain kinds of injuries—injuries that are not purely financial and thus more difficult to quantify. Examples can include delayed entry to the market, lost market share, injury to business reputation, tarnished goodwill, erosion of brand integrity, or a hampered ability to compete. *See, e.g., High Tech Med.*, 49 F.3d at 1556; *Bianco v. Globus Med., Inc.*, 2014 WL 1049067, at \*5, \*8 (E.D. Tex. Mar. 17, 2014) (Bryson, J. sitting by designation); *Fractus, S.A. v. Samsung Elecs. Co.*, 876 F. Supp. 2d 802, 854 (E.D. Tex. 2012). Most of the time, a plaintiff who “does not compete with” the defendant “does not run the risk of” these kinds of injuries. *See High Tech Med.*, 49 F.3d at 1556. When the defendant’s conduct will not hamstring the plaintiff’s ability to compete in the marketplace going forward, any harm tends to be purely financial and therefore fully remediable by money damages. *E.g., Fractus*, 876 F. Supp. 2d at 854.

This is not to suggest that there is a per se rule requiring a competitive relationship before an injunction may issue; *eBay* rejects that kind of bright-line test. But as Judge Bryson has explained, when the plaintiff and the defendant are not competitors, it is all but impossible to articulate a coherent reason why money damages would be an inadequate remedy for whatever injury the plaintiff may have suffered. *Bianco*, 2014 WL 1049067 at \*4–\*8 (providing a detailed explanation, supported by citations to more than a dozen cases, of why a plaintiff who does not compete with the defendant typically cannot obtain injunctive relief); *see also, e.g., Nichia Corp. v. Everlight Americas, Inc.*, —F.3d—, 2017 WL 1521595, \*9–\*12 (Fed. Cir. Apr. 28, 2017).

ZeniMax does not offer any products that compete with Oculus’s virtual-reality platforms and headsets. ZeniMax employees acknowledged in a February 2013 e-mail that they “weren’t even making competitive products in the VR space.” (Exh. H). ZeniMax produces content: mass-market, AAA video games. (Exh. K at 152–53; Exh. D at 82–83). Platforms and content are complementary goods, which is why ZeniMax chose to enter into a co-promotion arrangement

with Oculus in the first place. (Exh. K at 148, 150–51, 158–60). At trial, ZeniMax’s CEO Robert Altman tried to suggest that ZeniMax competes in the virtual-reality space, pointing to e-mails he wrote in early 2013. (Exh. D at 87–90). But on this point, Mr. Altman’s actions spoke louder than his words. When Mr. Carmack offered to help ZeniMax enter the market for VR headsets, Mr. Altman declined. (Exh. K at 183–84; Exh. D at 84). As for VR platforms, ZeniMax has never made commercial use of the virtual-reality source code Mr. Carmack wrote while at id Software; it has neither used the code itself nor licensed it to others. (Exh. K at 185; Exh. D at 97). And after Mr. Altman ordered Mr. Carmack to stop working on virtual reality in January 2013, ZeniMax did not task existing employees with responsibility for virtual reality or hire new employees to work in that domain. (Exh. D at 92, 94, 95; Exh. F at 113–16). In short, ZeniMax introduced no evidence at trial to suggest that it has the appetite, resources, or competence to enter the market for virtual-reality platforms and headsets.

Instead, the record evidence shows that ZeniMax’s only objective was to obtain a monetary payment from Oculus. (Exh. L; Exh. D at 85–86). Its damages expert purported to quantify its damages (Exh. M), further foreclosing any argument that ZeniMax is suffering some kind of further unquantifiable harm. ZeniMax’s consistent attempts to seek only monetary compensation from Oculus—coupled with the absence of competition between ZeniMax and Oculus—confirm that ZeniMax has an adequate remedy at law on its three claims.

**1. Damages would be adequate if the NDA had been breached (which it has not) and ZeniMax had suffered any loss (which it did not).**

ZeniMax does not contend that Oculus’s alleged breaches of the NDA have caused ZeniMax to suffer a competitive injury. Instead, ZeniMax contends that “Oculus’s creation of a company based on ZeniMax’s confidential information constitutes irreparable injury.” (ECF 963 at 14). Oculus was not created using ZeniMax’s confidential information. Regardless, ZeniMax’s

legal remedies are adequate. Since ZeniMax does not compete in the markets for virtual-reality headsets or platforms, the creation of Oculus has not caused ZeniMax to suffer any of the difficult-to-quantify competitive injuries for which damages are sometimes inadequate. At worst, ZeniMax lost the opportunity to license its code to Oculus. That is precisely the kind of discrete, wholly past, purely financial injury that can be easily quantified and adequately remedied with a damages award. *Bianco*, 2014 WL 1049067, at \*5, \*8; *Fractus*, 876 F. Supp. 2d at 854.

ZeniMax cites a handful of cases in support of its claim that an injunction is needed to remedy Oculus's alleged breach of the NDA, but it never identifies the legal principle that decided those cases. The tie that binds them is simple: in every one, the defendant (typically a former employee of the plaintiff) had taken confidential information from the plaintiff and was using it to engage in direct competition with the plaintiff's business.<sup>7</sup> Under those circumstances, the ongoing competitive injury to the plaintiff is obvious and direct. ZeniMax, in contrast, does not (and could not) maintain that it is suffering an ongoing competitive injury.

## **2. Damages would be adequate under the Copyright Act.**

ZeniMax likewise has an adequate remedy at law on its copyright claim. Damages are especially likely to be an adequate remedy where the plaintiff "sought monetary compensation for

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<sup>7</sup> See *Retiree, Inc. v. Anspach*, 660 F. App'x 582, 584–85 (10th Cir. 2016) (plaintiff's former employee used plaintiff's proprietary spreadsheet after joining a competing retirement-planning firm); *N. Atl. Instruments, Inc. v. Haber*, 188 F.3d 38, 40–42 (2d Cir. 1999) (plaintiff's former employee targeted plaintiff's customer base on behalf of a competing company using a list of client contacts the former employee created while employed by the plaintiff); *Ticor Title Ins. Co. v. Cohen*, 173 F.3d 63, 66 (2d Cir. 1999) (a former vice president at the plaintiff title-insurance firm joined a new title-insurance company and started soliciting the plaintiff's customers); *Covidien LP v. Esch*, 2017 WL 111918, at \*1 (D. Mass. Jan. 11, 2017) (plaintiff's former employee formed a competing medical-device company); *Stoneeagle Servs., Inc. v. Gillman*, 2011 WL 13129085, at \*2 (N.D. Tex. Oct. 14, 2011) (Solis, J.) ("Plaintiff asserts that Defendants will use, or have already begun to use, its Trade Secrets and Confidential Information to directly compete with Plaintiff."); *Hosp. Staffing Sols., LLC v. Reyes*, 736 F. Supp. 2d 192, 200 (D.D.C. 2010) (plaintiff's former employee joined a competing hospitality-staffing company and shared plaintiff's confidential information with plaintiff's competitors); *Wright*, 137 S.W.3d at 293 (plaintiff's former employee joined a competing sporting-goods company and began making sales to plaintiff's customers).

[its] invention from the beginning.” *Bianco*, 2014 WL 1049067, at \*8. The trial record establishes that ZeniMax did exactly that. ZeniMax offered in writing to license its source code to Oculus in October 2012 (PX 97 at 3), and Mr. Altman confirmed at trial that he wanted to license ZeniMax’s code to Oculus (albeit for an unreasonable, unrealistic price) (Tr. Vol. 11 at 86–87). ZeniMax’s willingness “to enter into a licensing agreement is evidence that monetary relief is adequate to compensate for [any] future infringement.” *Id.* at \*3 (citing *High Tech Med.*, 49 F.3d at 1557).

ZeniMax’s claim that it has no adequate remedy at law for “Defendants’ creation of a business based on their infringement of ZeniMax’s copyrights” (ECF 963 at 17) is remarkably similar to the claim advanced by the plaintiff in *Bianco*, whose asserted irreparable injury was the defendant’s “creation and success of [a new] line of products.” *Id.* at \*4. But there, as here, the plaintiff was “not a direct competitor of [the defendant’s] in the [relevant] market,” so any acts of infringement [did] not leave the plaintiff “at risk of suffering ongoing competitive disadvantage.” *Id.* at \*8. The plaintiff thus had “failed to show that” it had suffered an “injury that cannot be fully compensated for by monetary relief.” *Id.* at 9.

ZeniMax cites just two cases in which courts entered injunctions under the Copyright Act, and not coincidentally, both involved direct competitors.<sup>8</sup> As a last gasp, ZeniMax invokes its statutory right to exclude others from using its copyrighted material, but this argument founders on both the law and the facts. Legally, the Supreme Court has rejected the notion that the right to exclude conferred by the Copyright Act is enough, without more, to justify an injunction. *eBay*, 547 U.S. at 392–93 (collecting cases). Factually, ZeniMax’s attempts to license its source code to

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<sup>8</sup> See *Aspen Tech., Inc. v. M3 Tech., Inc.*, 569 F. App’x 259, 262, 273 (5th Cir. 2014) (per curiam) (competing providers of specialized software for chemical and petrochemical companies); *Oracle USA, Inc. v. Rimini St., Inc.*, 209 F. Supp. 3d 1200, 1208–09 (D. Nev. Sept. 21, 2016) (competing providers of software support services), *injunction stayed*, No. 16-16832, ECF 26 (9th Cir. Dec. 6, 2016).

Oculus are “incompatible” with its belated assertion of its “right to exclude.” *High Tech Med.*, 49 F.3d at 155 (quotation omitted).

### **3. Damages would be adequate under the Lanham Act.**

Fifth Circuit case law is clear that damages are an adequate remedy under the Lanham Act where, as here, it has been several years since the defendant has used the allegedly infringing materials and there is good reason to believe the defendant will not have occasion to use them again in the future. *Logan*, 263 F.3d at 465; *Seven-Up*, 86 F.3d at 1390. ZeniMax cites only two cases in which an injunction issued under the Lanham Act, and in both cases the parties sold directly competing goods or services.<sup>9</sup> Since ZeniMax does not make a virtual-reality platform or headset that competes with Oculus’s, there is no reason to believe the jury’s verdict would not fully compensate ZeniMax if in fact it had suffered any injury.

ZeniMax does not invoke the Lanham Act as a basis to enjoin the distribution of any of Oculus’s hardware or software; the false-designation injunction would do nothing more than prohibit further use of the Kickstarter video and investor presentation. (ECF 958-1 ¶ 13). There is no need for the Court to enter an injunction to prohibit something that no one is doing.

### **C. The balance of hardships weighs against an injunction.**

The balance of hardships tilts heavily against ZeniMax’s request for an injunction. The fact that money damages would be an adequate remedy for any injury ZeniMax claims to have suffered “largely decides” the balance-of-hardships issue, “as it indicates that denial of an injunction would not work any undue hardship on [ZeniMax] with respect to [its] entitlement to meaningful and complete relief on [its] claim[s].” *Bianco*, 2014 WL 1049067, at \*9 (collecting

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<sup>9</sup> *ADT, LLC v. Capital Connect, Inc.*, 145 F. Supp. 3d 671, 696 (N.D. Tex. 2015) (Fish, J.) (competing home-alarm services); *Mary Kay, Inc. v. Weber*, 661 F. Supp. 2d 632, 640 (N.D. Tex. 2009) (Fish, J.) (competing sales of plaintiff’s cosmetics).

cases). ZeniMax has established no ongoing or future injury at all, and certainly not the kind of hard-to-quantify injury for which an award of money damages would not provide complete relief.

On the other hand, an injunction would impose undue hardship on Oculus, its employees, its customers, and its business partners. ZeniMax would have the Court “permanently enjoin[], on a worldwide basis,” all sales or distribution of “any products, in whole or in part, that utilize in any form” Oculus’s mobile SDK, PC SDK, Unity integration engine, or Unreal integration engine. (ECF 958-1 ¶ 11). An injunction so sweeping could risk impairing Oculus’s ability to compete in the marketplace. *See Int’l Jensen, Inc. v. Metrosound USA, Inc.*, 4 F.3d 819, 827 (9th Cir. 1993); *Am. Beverage Corp. v. Diageo N. Am., Inc.*, 936 F. Supp. 2d 555, 617 (W.D. Pa. 2013). The injunction ZeniMax requests is also overbroad, and “the difficulty in crafting an injunction to address specific legal violations that would not infringe upon Defendant’s ability to produce unprotectable elements . . . makes it improper for the Court to issue injunction relief,” *see Mon Cheri Bridals, Inc. v. Wu*, 2008 WL 4534191, at \*6 (D.N.J. Oct. 7, 2008), *aff’d*, 383 F. App’x 228 (3d Cir. 2010).

The cases ZeniMax cites to support its balance-of-hardships argument are inapposite and unhelpful. There is nothing to be gleaned about the proper balancing of hardships in this case from cases involving a high-school student who downloaded songs onto his mother’s computer (the defendant was judgment-proof, so damages were inadequate), *Lava Records LLC v. Ates*, 2006 WL 1914166 (W.D. La. July 11, 2006); a defaulting defendant who distributed six copyrighted songs online (by her default, the defendant admitted all allegations against her), *Warner Bros. Records, Inc. v. Briones*, 2005 WL 2645012 (W.D. Tex. Sept. 20, 2005); or defendants who were marketing products using the plaintiff’s recognized marks or featuring photographs of the plaintiff’s products in their own advertising, *Gruma Corp. v. Mex. Restaurants, Inc.*, 2013 WL

12134147 (E.D. Tex. Sept. 27, 2013); *Flowserve Corp. v. Hallmark Pump Co.*, 98 U.S.P.Q.2d 1979, 1989 (S.D. Tex. 2011). In addition to the obvious factual differences between those cases and this one, in all four of them the plaintiff had shown it was suffering an ongoing injury. ZeniMax has not made that showing. As such, the balance-of-hardships analysis is fundamentally different. In the absence of ongoing injury, when the time comes to weigh the balance of harms, there is nothing to put on ZeniMax's side of the scale. An injunction would impose costs, disruptions, and burdens on Oculus that far outweigh any potential benefit to ZeniMax.

**D. An injunction would not serve—indeed, it would greatly disserve—the public interest.**

ZeniMax's proposed injunction, "both in scope and effect," fails to "strike[] a workable balance between protecting the [plaintiff's] rights and protecting the public from the injunction's adverse effects," and that balance is the "touchstone of the public interest factor." *See Tex. Adv. Optoelectronic Solutions, Inc. v. Intersil Corp.*, 2016 WL 1615741, at \*5 (E.D. Tex. Apr. 22, 2016) (quotation omitted). By its nature, an injunction is a "harsh and abrasive remedy." *Steffel v. Thompson*, 415 U.S. 452, 463 (1974). "[N]egative effects on the public, practically and economically," are an unavoidable byproduct of injunctive relief. *i4i Ltd. P'ship v. Microsoft Corp.*, 598 F.3d 831, 863 (Fed. Cir. 2010), *aff'd*, 564 U.S. 91 (2011).

The injunction ZeniMax seeks would be sweeping in scope, and its motion takes no account of the collateral damage that such a broad decree would inflict. There is already substantial public concern over the potential negative consequences an injunction in this case could have on consumers and the public.<sup>10</sup> It bears repeating that the evidence ZeniMax presented at trial did not

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<sup>10</sup> *E.g.*, Jane Wakefield, *BBC News*, "Oculus Facing Legal Ban On VR Code Used In Its Products," (Feb. 24, 2017), available [here](#); Anthony Garreffa, *TweakTown*, "Oculus Rift, Gear VR Could Be Ripped Off The Market Soon," (Feb. 26, 2017), available [here](#); Stuart Thomas, *Game Debate*, "ZeniMax Files Injunction After \$500m Win Which May See Oculus Rifts Pulled Off Shelves," (Feb. 27, 2017), available

establish that any current or recent Oculus software actually “utilize[s] . . . any of [ZeniMax’s] Copyrighted Materials.” (ECF 958-1 ¶ 11). Thus, an injunction that prohibited the distribution of any such software would confer no benefit on ZeniMax. But such a broadly worded injunction would inevitably create risk, uncertainty, and confusion for Oculus’s business partners and customers. ZeniMax’s failure to “address how the public would be protected from the injunction’s adverse effects” causes the public-interest factor to “weigh[] against the issuance of an injunction.” *Tex. Adv. Optoelectronic*, 2016 WL 1615741, at \*5; *see also Fractus*, 876 F. Supp. 2d at 854.

ZeniMax argues that the public interest favors enforcement of its right to exclude under the NDA and the Copyright Act, but ZeniMax does not seek to enforce its exclusive rights. As noted above, ZeniMax offered to license its source code to Oculus and spent months trying to negotiate a licensing agreement. And while an injunction might give ZeniMax “leverage that could allow it to enhance [its] negotiating stance” with Oculus and other potential licensees, “that is not a permissible reason for a court to issue an injunction.” *Bianco*, 2014 WL 1049067, at \*8. Where “the plaintiff has not shown that an injunction would serve any purpose other than to increase its leverage in negotiations for a higher licensing fee,” the plaintiff “has failed to show that the public interest would be better served through an injunction.” *Ricoh Co. v. Quanta Computer, Inc.*, 2010 WL 1607908, at \*4 (W.D. Wis. Apr. 19, 2010). The reason is two-fold: “Utilization of a ruling in equity as a bargaining chip suggests both that such party never deserved a ruling in equity and that money is all that such party truly seeks, rendering monetary damages an adequate remedy in the first instance.” *MercExchange, LLC v. eBay, Inc.*, 500 F. Supp. 2d 556, 582 (E.D. Va. 2007).

“The history of equity jurisdiction is the history of regard for public consequences in

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[here](#); Aaron Mamiit, *Tech Times*, “ZeniMax Wants Oculus Rift Sales Stopped: Will Facebook Be Forced Into A Settlement?” (Feb. 25, 2017), available [here](#); Matthew Wilson, *Kit Guru*, “The ZeniMax/Oculus Lawsuit Could Have A Huge Impact On VR Industry,” (Jan. 18, 2017), available [here](#).

employing the extraordinary remedy of the injunction.” *R.R. Comm’n of Tex. v. Pullman Co.*, 312 U.S. 496, 500 (1941). An injunction would serve no one but ZeniMax, who would use it only as leverage to try to extract money from Oculus. The injunction would create a windfall for ZeniMax while detracting from the public’s enjoyment of Oculus’s groundbreaking products. The jury’s damages award (if it is upheld despite its many flaws) will ensure that “in the end, [ZeniMax] receives what it has consistently sought: money.” *MercExchange*, 500 F. Supp. 2d at 587.

### **III. ZeniMax’s requested injunction is impermissibly vague and overbroad**

Separate and apart from ZeniMax’s failure to carry its burden on any of the four injunction factors, its requested injunction is vague, overbroad, and improper. “Every order granting an injunction” must “state its terms specifically” and “describe in reasonable detail—and not by referring to the complaint or other document—the act or acts restrained or required.” Fed. R. Civ. P. 65(d)(1). An “ordinary person reading the court’s order should be able to ascertain from the document itself exactly what conduct is proscribed.” *Scott v. Schedler*, 826 F.3d 207, 211 (5th Cir. 2016). In addition, the injunction should be “no broader than necessary to prevent” the alleged harm. *Westchester Media v. PRL USA Holdings, Inc.*, 214 F.3d 658, 671 (5th Cir. 2000). An injunction “is overbroad if it is not narrowly tailored to remedy the specific action which gives rise to the order as determined by the substantive law at issue.” *Scott*, 826 F.3d at 211.

ZeniMax’s proposed injunction flunks Rule 65(d)’s requirements as to all three of ZeniMax’s claims. The proposal is vague because it fails to specify exactly what conduct is proscribed, and it is overbroad in prohibiting activities that ZeniMax has no legal right to prohibit.

On the claim for breach of the NDA, ZeniMax proposes to enjoin Oculus “from utilizing any and all of ZeniMax’s intellectual property and confidential information disclosed to Oculus pursuant to the Non-Disclosure Agreement.” (ECF 958-1 at 4 ¶ 12). There are three problems with this proposal. By referring to the NDA to “describe . . . the acts restrained,” it violates Rule

65(d)(1)(B). In addition, the proposal does not specify the intellectual property and confidential information to which it applies. It is nothing but a vague instruction to comply with the NDA, and a “general injunction which in essence orders a defendant to obey the law is not permitted.” *Meyer v. Brown & Root Constr. Co.*, 661 F.2d 369, 373 (5th Cir. Nov. 1981). Finally, ZeniMax’s proposal deviates from the terms of the NDA. The NDA allows Oculus to use ZeniMax’s “Proprietary Information” for any “Proper Purpose” (PX 1 § 2), while ZeniMax’s injunction would prohibit all use of ZeniMax’s Proprietary Information, full stop. An injunction “may not . . . exceed the legal basis of” the claim on which it issues. *See Scott*, 826 F.3d at 214. The same indefiniteness that makes the NDA invalid and unenforceable—its failure to define “Proper Purpose”—makes it impossible for the Court to craft a suitably specific injunction.

The problems with ZeniMax’s proposed copyright injunction—which would enjoin Oculus “on a worldwide basis” from “possessing,” “disclosing,” or “utilizing in any form or for any purpose any of ZeniMax’s copyrighted materials,” including “all computer code derived from the Copyrighted Materials or developed with reference to the Copyrighted Materials” (ECF 958-1 ¶¶ 8, 11)—are almost too numerous to list:

- ZeniMax’s claim that the jury’s verdict includes findings that Oculus infringed four specific copyrights (ECF 958-1 ¶ 8) is baseless. The jury did not make “specific findings as to which . . . copyrights [Oculus] had used.” *Contra Aspen Tech.*, 569 F. App’x at 273. Without specific findings on which copyrights have been infringed and how, there is no basis for an injunction that enjoins Oculus from infringing specific copyrights.
- ZeniMax likewise overreaches with its request that the Court specifically enjoin distribution of Oculus’s mobile SDK, PC SDK, Unreal integration engine, and Unity integration engine. (ECF 958-1 ¶ 11). Neither the jury’s verdict nor the evidence offered at trial establishes that each of these four products infringes each of the seven copyrighted functionalities.
- The Copyright Act does not give ZeniMax the exclusive right to possess, disclose, or use its copyrighted works. *See* 17 U.S.C. § 106. ZeniMax especially overreaches with respect to the source code for *DOOM 3: BFG*, which ZeniMax open-sourced to the entire world more than four years ago.
- The “in any form or for any purpose” language ignores fair-use rights, *de minimis* use,

potential licenses, and the first-sale doctrine. A court may not “enjoin acts declared . . . lawful.” *Lauf v. E.G. Shinner & Co.*, 303 U.S. 323, 328 (1938).

- Prohibiting the use of materials “derived from” or “developed with reference to” ZeniMax’s copyrighted materials would be inconsistent with the Fifth Circuit’s holding that a district court “lack[s] the authority to enjoin generically all future modifications of” copyrighted material. *See Kepner-Tregoe*, 12 F.3d at 538. “The primary objective of copyright” is to “promote the Progress of Science and Useful Arts” by “encourage[ing] others to build freely upon the ideas and information conveyed by a work.” *Feist Publ’ns, Inc. v. Rural Tele. Serv. Co., Inc.*, 499 U.S. 340, 349–50 (1991) (citations omitted).
- ZeniMax requests an injunction that applies on a worldwide basis, but the Copyright Act does not authorize extraterritorial injunctions. *See, e.g., Palmer v. Braun*, 376 F.3d 1254, 1258 (11th Cir. 2004) (collecting cases).

Finally, ZeniMax’s proposal to enjoin Oculus “from engaging in any ongoing acts of false designation of origin found to have been committed by the jury in its verdict” (ECF 958-1 ¶ 13) is the quintessential example of an impermissible “obey the law” injunction. *See Payne v. Travenol Labs., Inc.*, 565 F.2d 895, 897 (5th Cir. 1978). The jury’s verdict does not specify what acts of false designation it finds were committed, and the only act that ZeniMax notes—the Kickstarter video—is not ongoing. An injunction under the Lanham Act “should clearly specify the exact actions which are forbidden to the defendant. . . . An injunction which merely forbids a defendant from . . . ‘infringing upon plaintiff’s trademarks and trade secrets’ adds nothing to what the law already requires.” 5 MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 30:13 (4th ed.).

#### **IV. ZeniMax did not establish the predicates for an ongoing royalty.**

As a last ditch effort and in the alternative, ZeniMax requests “an ongoing royalty of 20 percent for at least ten years on revenues derived from products incorporating ZeniMax’s intellectual property.” (ECF 963 at 25). The Court should deny this request for four reasons.

First, an ongoing royalty is not appropriate in the absence of ongoing infringement, as an ongoing royalty is merely an alternative to “allow[ing] the parties to negotiate a license amongst themselves regarding *future use*” of patented or copyrighted materials. *Paice LLC v. Toyota Motor Corp.*, 504 F.3d 1293, 1315 (Fed. Cir. 2007) (emphasis added); *see also Shatterproof Glass Corp.*

*v. Libbey-Owens Ford Co.*, 758 F.2d 613, 628 (Fed. Cir. 1985) (ongoing royalty based on “continuing operations”). In this case, there is no evidence of ongoing copyright infringement, ongoing false designation, or ongoing breach of the NDA. An ongoing royalty would be improper.

Second, the evidence presented at trial forecloses an ongoing-royalty award. An ongoing royalty is not available where “the evidence presented by the parties” shows that “a hypothetical negotiation would likely have resulted in a one-time payment for a life-of-[copyright] license.” *Prism Techs. LLC v. Sprint Spectrum L.P.*, 849 F.3d 1360, 1377–78 (Fed. Cir. 2017). *See generally Lucent Techs., Inc. v. Gateway, Inc.*, 580 F.3d 1301, 1326 (Fed. Cir. 2009) (explaining the differences between “a running royalty license and a lump-sum license”). The evidence at trial established that in the fall of 2012, Oculus and ZeniMax were negotiating a lump-sum, life-of-copyright license under which ZeniMax would have received a one-time award of equity in Oculus in exchange for granting Oculus “a worldwide exclusive *perpetual* right and license” to ZeniMax’s source code. (Exh. O) (emphasis added). The jury’s decision to award ZeniMax just one-eighth of the damages it sought on its copyright claim does not change the fact that any copyright license agreement between ZeniMax and Oculus would have been for a “fully paid license[,] which cut[s] off [ZeniMax’s] claim of entitlement to future compensation.” *See Prism Techs.*, 849 F.3d at 1378.

Third, ZeniMax failed to introduce the evidence the Court would need to calculate an ongoing royalty. Most fundamentally, all of ZeniMax’s valuation evidence focused on the value of its trade secrets (whose value derives from being able to perform the supposedly secret virtual-reality functions), not its copyrights (whose value derives from the source code’s expressive elements). (Exh. P at 205–06, 213–14). The former is not a proxy for the latter. *See* ECF 998 at 18; *see also Bikram's Yoga Coll. of India, L.P. v. Evolation Yoga, LLC*, 803 F.3d 1032, 1039–40 (9th Cir. 2015) (the “functional principle underlying a work . . . is not eligible for copyright

protection” (quotation omitted)); *Sony Computer Entm't, Inc. v. Connectix Corp.*, 203 F.3d 596, 599 (9th Cir. 2000) (“functional elements” of “[c]opyrighted software” are “unprotected”). In addition, ZeniMax introduced none of the other evidence that would be needed to calculate an ongoing royalty: evidence concerning the impact of the jury’s existing damages award on a hypothetical negotiation, the costs of production, consumer demand, the value attributable to ZeniMax’s claimed property as compared with other features of Oculus’s products, the availability of non-infringing alternatives, and the price of other licenses. *See Paice LLC v. Toyota Motor Corp.*, 609 F. Supp. 2d 620, 625–31 (E.D. Tex. 2009).

Finally, ZeniMax’s proposed methodology for calculating an ongoing royalty is unreliable and unsound. The royalty rate of 20% appears to derive from Mr. Jackson’s conclusion that if the parties had negotiated a royalty in the fall of 2012, they would have agreed on a 20% equity award. (Exh. P at 211, 214). That conclusion ignores the relevant evidence, as Oculus explained in its renewed motion for judgment as a matter of law. (ECF 998 at 17–18). Nor would it be appropriate to grant ZeniMax a royalty on all “revenues derived from products [allegedly] incorporating ZeniMax’s intellectual property.” (*Contra* ECF 963 at 25). ZeniMax has not shown (and could not show) that the entire market value of Oculus’s products derives from ZeniMax’s five-year-old source code. *See Uniloc USA, Inc. v. Microsoft Corp.*, 632 F.3d 1292, 1318 (Fed. Cir. 2011) (quoting *Garretson v. Clark*, 111 U.S. 120, 121 (1884)); *see also supra* at 3–4 (cataloguing the independent value added by Oculus). Under these circumstances, an ongoing royalty based on the entire market value of Oculus’s products would be arbitrary, inequitable, and excessive.

#### CONCLUSION

For all of these reasons, the Court should deny ZeniMax’s motion in its entirety.

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**CERTIFICATE OF SERVICE**

On May 5, 2017, I hereby certify that the foregoing document was filed electronically in compliance with Local Rule CV-5(a). I hereby certify that I have served all counsel who are deemed to have consented to electronic service or by another manner authorized by Federal Rules of Civil Procedure 5(b)(2).

*/s/ Brett Rosenthal*  
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