

THE ACACIA ISSUE: A LOOK AT THE OPTIONS

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Introduction

Recently, Acacia Media Technologies Corporation, (“Acacia”), sent a round of letters directed to those in the adult Internet industry who have provided “access” to Websites allegedly violating their patent claims by streaming video. Most of these new targets fall into the category of affiliates or link lists, and do not actually stream any video from their sites. Acacia’s theory of liability in this case will be contributory or vicarious patent infringement. Initial reactions have ranged from shock and dismay, to depression and resignation to exit the adult industry completely. Once the initial effect wears off, it will be time to take a level-headed look at the various options available to webmasters prior to the stated deadline of November 30, 2003.

The following information must be prefaced by a disclaimer: This author is not a registered patent attorney, and thus does not intend to provide any commentary or advice on the enforceability of Acacia’s patents, or the merits of its claims. However, the Acacia issue has affected many of the author’s clients, thus resulting in a certain level of education and analysis, under the guidance of outside patent counsel. This article will not recommend any particular option over any other, but will attempt to set forth the various choices, and logical consequences thereof.

Any webmaster who has received the recent Acacia Media demand has the following basic options:

Option 1 - Accept the License Agreement

Acacia has provided a “grace period” until November 30, 2003, to accept the terms of its Webmaster License Agreement and/or Content Provider License Agreement for its DMT Technology. The terms of its Agreement can be found on www.AcaciaResearch.com. Several of the large adult media corporations have accepted the License Agreement, including Vivid Entertainment Group, Wicked Pictures, Platinum Bucks and LFP, Inc. (Hustler). Essentially, the License Agreement requires webmasters to pay Acacia a royalty fee amounting to a percentage of gross receipts realized from the Website containing the streaming content. This option essentially puts you into business with Acacia, with whom you will be sharing revenues. An accounting of revenues may be requested to confirm that Acacia is getting its “fair share.” This option will reduce the webmasters’ bottom line, but in a known percentage. For those webmasters who do not like to gamble, this option will eliminate all risk on a go-forward basis, and quantify any exposure to liability for past patent infringement.

Option 2 - Join the Defense Group

A number of adult media companies have joined a coalition of industry players who have chosen to stand and fight against the validity of Acacia’s patent claims. Some members of the group have already been sued, and are actively in litigation. The defense group has hired the renowned patent firm of Fish & Richardson, www.FR.com, to represent its interests in the Acacia litigation. Those who have not been sued can request an opinion letter from defense counsel, regarding the validity of Acacia’s patent claims in regard to the actual technology being used by any particular Website for streaming video. An Association has been formed to back the defense group called the Internet Media Protective Association, www.IMPAL.org. More information can be found on that site about joining the Association and/or the defense group.

Acacia, however, has claimed that some members of this group are conspiring to interfere with Acacia's attempts to negotiate License Agreements with defendants who choose to settle.¹

Option 3 - Hire Individual Patent Counsel

Webmasters affected by the Acacia issue always have the option of hiring their own personal patent attorney. Webmasters searching for such representation should make sure that any candidate for legal counsel is a "registered patent attorney." The field of patent law is extremely specialized. Attorneys should not dabble in a field like patent litigation. Webmasters should only consider patent attorneys who have had years of experience litigating patent claims in federal court. It is most advisable to seek a referral to such a legal specialist from your own general counsel or Internet attorney. Retaining private patent counsel is the best, and of course the most expensive, option. Any webmaster's unique situation can only be thoroughly evaluated by an experienced patent attorney who is focused solely on that client's particular circumstance. However, it should be noted that independently evaluating each of Acacia's patent "claims," and comparing those claims with the specific technology used for streaming video on any given Website, can be a time consuming and costly process that also requires the involvement of a computer engineer. There can be no question about the fact that Acacia realizes the time and expense required to properly evaluate its complex claims, which consequently makes acceptance of the License Agreement more attractive. However, it may be that after proper evaluation, it is determined that your method of video streaming does not infringe on Acacia's patents. If such is the ultimate conclusion, the cost of the analysis would be money well spent.

¹ C.Farrar, "Acacia Allowed to Add Conspiracy Charges, AVN.com (September, 2003); http://www.avnonline.com/issues/200309/newsarchive/news_091203_1.shtml

Option 4 - Negotiate with Acacia Independently

Any webmaster can pick up the phone and call Acacia, or send the company an email. Acacia has no obligation to negotiate on the terms of its License Agreement; however nothing prevents that from happening. Acacia can settle on different terms with different individual defendants. However, negotiating the resolution of a patent claim without legal counsel is dangerous business for several reasons. Initially, anything you say to a representative of Acacia could be considered an “admission” or “statement against interest” under the Federal Rules of Evidence, and therefore admissible in subsequent legal proceedings against you. There may be various settlement privileges that come into play, preventing the admissibility of such statements, however a webmaster treads on dangerous ground if he or she decides to get into a substantive discussion with a representative of Acacia regarding the issues of video streaming, or any other relevant legal fact. Attorneys can negotiate such issues without the fear of making binding admissions, or giving away sensitive information that could bear on potential defenses. It is therefore always advisable to utilize the services of an attorney when embarking on such negotiations. Another concern is the disadvantage that a webmaster is at, compared to a member of Acacia’s legal staff. Acacia holds all the cards in the negotiation, and discussing patent claims with its representatives will be similar to negotiating with someone who speaks another language. It may be difficult for the webmaster to know if any particular terms being proposed are fair or reasonable.

Option 5 - Wait and See Approach

Acacia has provided a grace period until November 30, 2003, within which to evaluate one’s options, and make a decision. Therefore, nothing must be done today, and a webmaster can take advantage of the grace period to learn as much as possible about the issue before

making any decisions. There are many sides to this story, and numerous complex legal, factual and technological issues are involved. Discussion boards are alive with debate surrounding this topic, and much can be learned by your fellow industry participants. A new Website has been created for the purpose of fighting “patent abuse” entitled: www.FightThePatent.com. Several industry leaders are calling for an organized opposition to Acacia’s claims, and such resistance is growing. On the other hand, a number of larger companies have accepted the License Agreement, which itself provides valuable information, by implication. Educating yourself regarding the details of this complex problem is essential in order to make a proper decision.

Option 6 - Do Nothing

Unfortunately, many affected webmasters will choose to bury their heads in the sand and take no action in response to Acacia letter. Many simply believe that this is “wrong” and so they should not have to spend any time or money in response to these claims. However, even the most frivolous legal claim must be taken seriously, since failure to act may result in the loss of rights or opportunities. For example, Acacia may withdraw its offer to accept the current License Agreement, and seek to hold many webmasters responsible for past infringement, spanning a period of several years. Damages in patent infringement case can be astronomical, depending on the specific situation. Some webmasters are hoping that the “court case” involving Acacia will be resolved soon, and that its patent claims will be invalidated. Such is an unrealistic expectation, however, since the litigation against the existing defendants is in its early stages. No substantive rulings have occurred to date regarding the enforceability of Acacia’s patents. It could be years before a final decision is handed down, once a trial has occurred and all appeals have been exhausted. Therefore, each webmaster must act in his or her own best interests now, without regard to how other defendants will fare in court.

Conclusion

In an era where financial success in the adult industry is becoming more and more elusive, the time and effort necessary to deal with these patent claims can result in tremendous resentment and despair. However, nothing has been able to significantly impact the viability of the adult Internet industry, despite attacks from within and without. The industry will continue to survive, and it is in Acacia's best interests that it does, if this company intends to base its future profits on royalties received from successful players. So, in a way, everybody is in this together. Webmasters should therefore take some time to carefully evaluate their options and make appropriate decisions, in their own best interests.

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