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## **David McCombs, Raghav Bajaj, Dina Blikshteyn, Jonathan Bowser, Eugene Goryunov, Angela Oliver in Legal Tech News – Navigating a New Realm: AI and Patent Law**

**David McCombs, Raghav Bajaj, Dina Blikshteyn, Jonathan Bowser\*,  
Eugene Goryunov, Angela Oliver**

Back in 1955, John McCarthy coined the term “artificial intelligence” to represent the science of developing intelligent machines. The following year, McCarthy established AI as a field when he organized the Dartmouth Conference to operate under the “conjecture that every aspect of learning or any other feature of [human] intelligence can in principle be so precisely described that a machine can be made to simulate it.” While AI as a term and science may not be new, certain legal issues surrounding the patenting of AI inventions certainly is at its infancy.

### **What are “AI Inventions”?**

The term AI inventions is an umbrella that covers two categories: inventions that utilize AI and inventions that are created by AI. The first category—inventions that utilize AI—broadly covers inventions of software and/or hardware used to run the AI. These inventions relate to AI algorithms, collection, storage, and use of training data (*i.e.*, input data into the AI), hardware used to execute the AI algorithms or operate with training data, and applications of AI (*i.e.*, uses for the data output by AI). In short, inventions that utilize AI “include anything under the sun that is made by man,” subject to exclusions for laws of nature, physical phenomena, and abstract ideas, of course.

The second category—inventions that are created by AI—on the other hand, encompasses solutions to problems identified by the AI itself or those identified to the AI by a human. One of the few examples available today are the solutions identified by Device for the Autonomous Bootstrapping of Unified Sentience (DABUS), a Creativity Machine. Its creators [describe DABUS](#) as the result of the constant combining and detaching of multiple disconnected neural networks that, eventually, coalesce into structure representing complex concepts. These concepts connect with other concepts to represent the anticipated consequence of any given concept in a manner reminiscent of what can be considered a stream of consciousness. Through this process, DABUS “invented” a new type of beverage container and a flashing device used to attract attention, both of which are subject of patent applications filed with the U.S. Patent and Trademark Office (USPTO), the

European Patent Office (EPO), and the U.K. Intellectual Property Office (UKIPO). All of these applications have since been rejected because the current patent law of the three jurisdictions limits inventors to “natural persons.”

### Challenges in Patenting AI Inventions

Each category of AI Inventions carries its own patentability challenges. Inventions that utilize AI, for example, are patentable assuming the claims meet all the necessary requirements of patentability, i.e., novelty, non-obviousness, and sufficient written description/enabling. In fact, DABUS, discussed above, is itself patented.

Applicants seeking to patent such inventions will face the ever-evolving patent-eligibility limitations in their applicable jurisdiction. For example, in the U.S., applicants must navigate agency and case law developments to avoid claiming patent-ineligible abstract ideas, especially where the claims are directed to algorithms or specific uses of what may be perceived as an existing technology.

Inventions that are created by AI, on the other hand, present additional challenges. U.S. patent law, for example, defines the act of invention as the mental step of conception. (Per *Townsend v. Smith*, conception is the “formation in the mind of the inventor of a definite and permanent idea of the complete and operative invention.” According to the USPTO, only a “natural person” can engage in the mental step of conception and, thus, only a “natural person” can be named an inventor.

The inquiry does not end here, however. A possible mechanism to secure patent protection in these circumstances may come down to how one views a solution to a problem that is created by AI. The premise is rather simple: A “natural person” developed the algorithm/wrote the code that created the AI. The “natural person,” or the AI itself, then identified a problem which, in turn, led to the AI to derive the solution. The question as to whether the solution is patentable, under the current legal rubric, is whether the “natural human” or the AI invented the solution? Did the “natural person”—one that created the AI—

invent the solution, because the solution could not have been identified by the AI but-for the “natural person” and the AI is merely reducing the solution to practice? Or, on the other hand, is the solution the result of the AI’s “organic” growth and maturation, which is outside of the control or direction of the “natural person”? The current state of the law does not provide a clear answer.

### Protecting Inventions that are Created by AI

The current challenges to patenting inventions that are created by AI do not mean that such inventions should be left unprotected. It is possible that legislative changes may be needed as the full scope of AI’s capabilities become better understood. In the meantime, however, trade secret protection may be a viable option where it is determined that patent protection is unavailable. The invention can be maintained as a trade secret so long as its public disclosure can be prevented. Knowledge of the invention can be limited to reduce the breadth of internal disclosure and employees “in the know” can be subject to non-disclosure agreements or other restrictions to reduce the likelihood of misappropriation. Of course, public disclosure may not be preventable, especially where the invention, or its use, is detectable outside of the organization. When this happens, the long-term viability of the trade secret may be jeopardized by the possibility of independent invention by another outside the organization or reverse engineering.

Another option is to file applications where both human and AI conceived different parts of the invention. Because; in this case; a “natural person” has conceived the invention, the USPTO should not reject these applications for lack of inventorship.

We are only beginning to scratch the surface of the various legal implications that AI will have on patent protection. While the current law permits patenting of inventions that utilize AI, significant challenges exist when it comes to patenting inventions that are created by AI. The good news is that these challenges are not insurmountable and can, and likely will change as more and more AI applications are being filed and AI takes a more prominent position on the center stage.

## Fast Tracking Your *Ex Parte* Patent Appeals May Be Appealing: United States Patent & Trademark Office (USPTO) Announces New Pilot Program

Kelvin Varghese, Jeffrey A. Wolfson



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Starting July 2, 2020, *ex parte* appeals to the Patent Trial and Appeal Board (PTAB) can be expedited under the new Fast-Track Appeals Pilot Program. It currently takes approximately

15 months for the PTAB on a typical appeal when decisions are issued in the order that the appeals are docketed, and this delay is often longer for certain technology centers. The new Pilot Program advances an appeal out of turn, and guarantees that the PTAB will issue a decision within 6 months of the appeal's entry into the program.

*Ex parte* appeals are available to patent applicants whose claims have been twice rejected during examination, which typically happens when an examiner issues a final rejection. Such appeal requires that the applicant file a Notice of Appeal and Brief on Appeal, as well as pay the Notice of Appeal fee and pay the appeal forwarding fee after the Examiner's Answer is issued. The applicant also has the option to file a reply brief after the Examiner's Answer, which is particularly useful when the Examiner raises new issues at this late stage. The PTAB obtains jurisdiction over the appeal once any reply brief is filed and the appeal forwarding fee is paid, or the time period to file the reply brief expires. The appeal is then docketed, and the PTAB issues an appeal docketing notice.

Appeals can be fast-tracked under the Pilot Program once the appeal docketing notice has been issued, and entry into the Pilot Program requires a separate \$400 fee and a petition that the USPTO recommends be electronically filed. Fast-track appeals are available only in original non-provisional applications (utility, design, and plant), excluding reissue applications and reexamination proceedings.

Oral hearings may be conducted in fast-track appeals under the PTAB's normal procedures. Unlike other

appeals, however, the date, time, and office location of the oral hearing in a fast-track appeal cannot be changed. This could pose a concern during pandemic travel restrictions, but alternatively, the oral hearing can be held by videoconference or telephone.

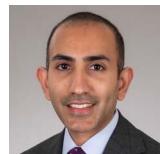
The USPTO will allow 125 appeals to be fast-tracked every three months, and the Pilot Program will run until the earlier of July 2, 2021, or once 500 appeals have entered, with the USPTO authorized to exercise its discretion to modify, terminate, or extend the Pilot Program.

The Pilot Program may be an appealing option for patent applicants interested in accelerating patent protection on valuable commercial inventions. The Pilot Program complements the existing Track One Prioritized Examination Program by offering expedited review from the second rejection of the claims up through the PTAB's review of an appeal.

Additional information about the Pilot Program can be found on the USPTO's website [here](#).

### **Kelvin Varghese in *IP & Technology Law Journal* - No Need to Neglect Nexus: Prosecution Lessons from FOX Factory v. SRAM**

Kelvin Varghese



Kelvin  
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On December 18, 2019, in *FOX Factory, Inc. v. SRAM, LLC*<sup>1</sup> ("Fox Factory"), the U.S. Court of Appeals for the Federal Circuit addressed the conditions under which a patent owner is entitled to the presumption of a nexus between a claimed invention and evidence of secondary considerations. Secondary considerations or objective indicia of non-obviousness, if present, must be considered in determining whether a patent claim is obvious.<sup>2</sup> Evidence of secondary considerations may help demonstrate that the claim is not obvious, even when the prior art would have suggested that the claim is obvious.<sup>3</sup> Secondary considerations include long-felt but unsolved needs, failure of others, unexpected results, commercial success, copying, licensing, and praise.<sup>4</sup>

To be relevant, secondary considerations evidence must be commensurate in scope with the claimed invention.<sup>5</sup> In that regard, there must be a “nexus,” or sufficient connection, between the claimed invention and the evidence of secondary considerations.<sup>6</sup> In some circumstances, the patent owner is entitled to a presumption of nexus, which makes it easier for the patent owner to demonstrate that a nexus exists between the claims and the evidence.<sup>7</sup>

In *Fox Factory*, the Federal Circuit reversed the holding by the Patent Trial and Appeal Board that the challenged claims in an *inter partes* review (“IPR”) were entitled to a presumption of nexus based on the commercial success of the patent owner’s product, because the patent owner had other patents directed to “critical” aspects of the product that were not recited in the challenged claims.<sup>8</sup>

The question of whether a patent owner is entitled to a presumption of nexus and the related question of whether the patent owner has established such a nexus, even without the presumption, typically arises when the validity of the patent is being challenged in an IPR (as in *FOX Factory*) or during litigation.<sup>9</sup>

While *FOX Factory* is instructive mostly for those forums, there are also prosecution lessons to be learned. In particular, *FOX Factory* suggests pursuing claims of different scope that cover different combinations of product features, keeping patent families alive long enough for there to be evidence of commercial success, and maintaining good communication with the patent owner about the product features. Such strategies may afford the patent owner flexibility to select during IPR or litigation which claims have better facts to demonstrate nexus.

### **Prosecution Strategy**

Obtaining multiple patents that cover different features in the same commercial product is a common prosecution strategy. For example, a commercial product may have multiple components, which will be referred to here as Features A and B for ease of reference. For a variety of practical and legal reasons, an applicant may wish to pursue different patent applications or different claims in the same patent application covering Features A and B, respectively.

For example, the reality of R&D is that engineers may develop Features A and B at different times. If a patent application is filed as each product feature is developed, the specification and claims in that application will be directed to only the respective product feature developed at the time of filing.

Furthermore, an applicant is often motivated to file as soon as each product feature is developed in order to be the first to file for protection on that feature. Further still, prior to commercial launch, it may be unclear whether Feature A, Feature B, or a combination of the two will make the product a commercial success.<sup>10</sup>

With applications typically drafted before commercial launch, the applicant may not be able to plan for nexus arguments at this early stage, and ensuring the patent owner has any infringement case at all is usually a higher priority than setting up good nexus arguments.

Patent owners often prefer independent claims directed to one product feature because a claim directed only to Feature A has a broader scope and may encompass more competitor products than a claim that requires both Features A and B.

Many applicants also prefer to file targeted applications directed to one product feature rather than an omnibus application that covers multiple product features because targeted applications are cheaper and faster to prepare.

Finally, even when omnibus applications are filed, restriction requirements have become so common that it may be harder for the applicant to pursue claims directed to multiple features in the same application.

### **Consequences of Fox Factory for Prosecution Strategy**

Tension has been introduced between how applicants typically approach prosecution to cover a commercial product and the ability to establish a presumption of nexus for patent claims directed to that product under *FOX Factory*. *FOX Factory* reaffirmed that a patent owner is entitled to the presumption of nexus only by demonstrating that the product is “coextensive” with the claimed invention.<sup>11</sup> “[I]f the patented invention is only a component of a commercially successful

machine or process,’ the patentee is not entitled to a presumption of nexus” because the product and the claimed invention are not coextensive.<sup>12</sup> Nexus may be presumed even if the product includes “additional insignificant features” that are not in the claimed invention.<sup>13</sup>

That is, the presumption of nexus could still apply to a patent directed to Feature A if Feature B is an insignificant feature. However, the fact that there is another patent directed to Feature B favors the conclusion that Feature B is not an insignificant feature.<sup>14</sup>

Thus, prosecution resulting in multiple patents covering different product features may harm the patent owner’s ability to argue for a presumption of nexus.

Pursuing different applications directed to different product features may also make it harder for the patent owner on the ultimate question of whether the nexus between evidence of secondary considerations and the claimed invention has been established, even without the presumption. Proving nexus requires “showing that the evidence of secondary considerations is the ‘direct result of the unique characteristics of the claimed invention.’”<sup>15</sup> If the claimed invention is directed to Feature A, the evidence of secondary considerations must also be attributable to Feature A (not Feature B or a combination of Features A and B).<sup>16</sup> This prevents the patent owner from relying on the same evidence of commercial success for a first patent directed to Feature A, a second patent directed to Feature B, and a third patent directed to the combination of Features A and B.<sup>17</sup>

While a patent owner may be more likely to cover competitors with a relatively broader patent directed only to Feature A, obtaining evidence of commercial success specifically attributable to Feature A will be an obstacle in establishing a nexus between the commercial success and that patent.

### **Prosecution Lessons from *Fox Factory***

How then can prosecution be tailored to help the patent owner both obtain broad coverage and make winning nexus arguments?

One lesson from *FOX Factory* is to pursue claims that cover different combinations of features. If a patent owner obtains claims directed to Feature A, claims directed to Feature B, and claims directed to the combination of Features A and B, then the patent owner can be strategic about which claims to assert. With respect to the presumption of nexus, the patent owner can then assert the claims it is confident can be shown to be coextensive with its product. *FOX Factory* suggests that the strongest case for the presumption of nexus is with claims directed to the combination of Features A and B for a product that has both Features A and B.<sup>18</sup>

On the ultimate question of nexus, even without the presumption, the patent owner can evaluate the evidence of commercial success and determine which product feature (or combination of product features) the evidence may be attributed to. This allows the patent owner to make nexus arguments about the particular claims that are best supported by the evidence, and if nexus arguments are less of a priority than building an infringement case against a competitor, the patent owner still has relatively broader claims that individually cover Features A and B to assert.

Pursuing claims of different scope depends on what is described in the specification, and varying claim scope becomes easier to pursue if the applicant files an omnibus application that describes all of its product features.

For example, in the first application and/or later-filed continuing applications, the applicant has maximum flexibility to choose independent and dependent claims directed to Feature A, Feature B, and the combination of Features A and B (e.g., the applicant may pursue an independent claim directed to Feature A and an independent claim directed to Feature B to cover each feature individually). In order to cover the combination of features, the application can include an independent claim directed to Features A and B, or one or more dependent claims directed to Feature B that depend from the independent claim directed individually to Feature A (or vice versa).

However, covering different combinations of product features with different applications is more challenging. Assuming the earliest application is directed to Feature A, the applicant will only be able to pursue claims directed to Feature A in that application.

However, if a later filed application directed to Feature B also includes a description of Feature A (e.g., a continuation-in-part or a completely separate application that incorporates the earlier application by reference<sup>19</sup>), the applicant may use the later filed application to pursue claims directed to Feature B alone and/or the combination of Features A and B.

*FOX Factory* also reaffirms the importance of keeping patent families alive with continuations or divisionals that are pending at least until after a product launches and preferably, until after there is evidence of commercial success. The applicant can use these continuing applications to pursue claims that are specifically directed to the product feature (or combination of product features) to make the claim “coextensive” with the product (i.e., for the presumption of nexus argument) and/or that the evidence of commercial success is attributable to (i.e., for a nexus argument, even without the presumption). Applicants typically keep continuing applications pending in order to pursue claims covering competitor products with one or more of the product features, and the ability to use those continuing applications to establish good nexus arguments is yet another reason to keep patent families alive.

Additionally, *FOX Factory* is a reminder for prosecution counsel to maintain good communication with the applicant throughout the life cycle of a product.

For example, during R&D, the applicant should be asked which combination of features is being considered for a product, as that information may be used to draft a specification that describes the combination of features (e.g., in an omnibus application or a continuation-in-part, or with an incorporation by reference to earlier applications), and the applicant is typically willing to share this information prior to launch (e.g., as part of a freedom to operate analysis).

The patent owner should also be intentional about gathering and maintaining specific evidence that tracks which product feature is driving commercial success, including, for example, customer surveys targeted to the product feature (or combination of product features) that is provided by an issued claim or for which protection is being pursued in a continuing application(s). After launch, prosecutors should inquire about product sales to learn what feature or combination of features is making the product a commercial success, which allows prosecutors to verify that claims directed to these feature(s) have already been obtained, or pursue such claims in continuations or divisionals.

During prosecution, nexus arguments can seem far off and be eclipsed by more imminent concerns. However, as discussed above, support for nexus arguments may still be obtained by taking steps that are good practice for other reasons.

As such, without much extra effort, applicants and prosecution counsel can work together to preserve the flexibility during IPR or litigation to make winning nexus arguments by pursuing claims directed to different combinations of product features, keeping continuing applications pending, and maintaining good communication.

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1. 944 F.3d 1366 (Fed. Cir. 2019).

2. See *Graham v. John Deere Co.*, 383 U.S. 1, 17-18 (1966); *Ormco Corp. v. Align Technology, Inc.*, 463 F. 3d 1299, 1311 (Fed. Cir. 2006).

3. See *Graham*, 383 U.S. at 17-18.

4. *Id.*; see also *Leapfrog Enters., Inc. v. Fisher-Price, Inc.*, 485 F.3d 1157, 1162 (Fed. Cir. 2007).

5. See *In re Kao*, 639 F.3d 1057, 1068 (Fed. Cir. 2011).

6. See *In re GPAC Inc.*, 57 F.3d 1573, 1580 (Fed. Cir. 1995); *Demaco Corp. v. F. Von Langsdorff Licensing Ltd.*, 851 F.2d 1387, 1392 (Fed. Cir. 1988) (explaining that the term “nexus” “designate[s] a legally and factually sufficient connection between the proven success and the patented invention, such that the objective evidence should be considered in the determination of nonobviousness”).

7. See Fed. R. Evid. 301.

8. 944 F.3d at 1376-78.

9. The nexus between claims and secondary considerations in the obviousness analysis can also come up during prosecution, but this is less common. See Manual of Patent Examination Procedure (“MPEP”) §§ 716.03, 2145.
10. Applicants may have some idea because those features are usually the ones worth the expense of preparing and prosecuting patent applications, but they cannot know definitively before the product is sold.
11. *Fox Factory*, 944 F.3d at 1373 (*quoting Polaris Indus., Inc. v. Arctic Cat, Inc.*, 882 F.3d 1056, 1072 (Fed. Cir. 2018)).
12. *Id.* (*quoting Demaco*, 851 F.2d at 1392).
13. *Id.* at 1374.
14. *Id.* at 1375.
15. *Id.* at 1374 (*quoting In re Huang*, 100 F.3d 135, 140 (Fed. Cir. 1996)).
16. See *id.* at 1373-74, 1378.
17. See *id.* at 1378.
18. See *id.* at 1373.
19. See MPEP § 608.01(p)(l).

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## Copyright Office Finds Aspects of the DMCA “Unbalanced” in Favor of Online Service Providers

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On May 21, 2020, the United States Copyright Office published a long-anticipated report assessing the efficacy of Section 512 of the Digital Millennium Copyright Act (“DMCA”). In the nearly-200-page report, the Copyright Office takes a critical look at the DMCA’s “safe-harbor” provisions, ultimately concluding that certain aspects of Section 512

have become “unbalanced” in the twenty years since it was enacted. According to the Copyright Office, the “balance” has shifted almost uniformly in favor of online service providers (OSPs) to the detriment of rightsholders who own copyrights.

OSPs and others may disagree with the Copyright Office’s characterization of this shift. Many OSPs devote significant resources to comply with the requirements of the DMCA safe harbor, and others have implemented measures that go beyond those required by the DMCA. As one example, in recent years major OSPs have implemented “fingerprinting” technologies that are able to prevent the posting of copyrighted material before it is even posted, even though the DMCA does not require OSPs to take such proactive measures.

Fundamentally, the report is based largely on anecdotal and qualitative information rather than quantitative data. The Copyright Office admits as much and observes that due to the private nature of the takedown system under Section 512, “it has been difficult to quantify the extent to which many of the concerns expressed about the current U.S. notice-and-takedown system . . . represent significant limitations in need of remedy.”

While the Copyright Office stops short of proposing wholesale reform to the DMCA, it identifies several key areas where it believes the law has become outdated. The report also makes several recommendations to Congress for adjustments to the law that, in the view of the Copyright Office, might better balance Section 512 and meet the goals of the DMCA safe-harbor provisions.

### ***The DMCA’s “Safe Harbor” Provisions***

Section 512 of the DMCA seeks to strike a balance between two competing interests. On one hand, Congress sought to foster innovation and legal predictability for OSPs who allow their users to post, transmit, or receive content by limiting their liability for copyright infringement due to third party copyrighted material contained within their users’ content. Congress also recognized the importance of protecting copyright rightsholders from rampant infringement made possible by the advent of widespread internet access, social media, and compressed digital media, like MP3.

To balance these divergent interests, Congress established a quid pro quo for OSP safe-harbor

protections under the DMCA. To avail themselves of statutory limitations on liability for the copyright infringement by their users, Section 512 requires OSPs to implement procedures to curb online copyright infringement and provide rightsholders with additional mechanisms for enforcing their copyrights.

Most notably, these requirements include the implementation of “notice-and-takedown” procedures, which mandate that OSPs establish a system for rightsholders to report potential third-party infringement on their platform. Additionally, OSPs must adopt policies to terminate repeat copyright infringers in appropriate circumstances.

#### ***Section 512 “Tilted Askew”***

A lot has changed in the past twenty years, and “the effect of societal and technological change on section 512 has long been evident” according to the Copyright Office. Its report suggests that, over the course of the last two decades, these changes have “tilted askew” the balance Congress intended to strike between the interests of rightsholders and OSPs, generally in favor of the service providers. This shift “has resulted in an increasing burden on rightsholders . . . while providing enhanced protections for OSPs in circumstances beyond those originally anticipated by Congress.”

To address this perceived imbalance, the Copyright Office made a number of suggestions to adjust or clarify Section 512, including the following:

#### *Eligibility for DMCA Safe Harbor Protection*

First, the Copyright Office suggests clarifying the eligibility requirements for the types of OSPs entitled to claim safe-harbor protection under the DMCA. While Congress intended Section 512 to be construed broadly to account for technological advancement, the report cautions that courts may have taken an overly expansive view of the types of entities entitled to safe-harbor protection, shielding OSPs from liability for nearly any activity remotely related to storage of user-generated content. In response, the Copyright Office recommends that Congress amend the DMCA to clarify the types of services that qualify for safe-harbor protection, and suggests a more cabined approach is appropriate.

#### *The DMCA’s Knowledge Requirement*

The report also takes a dim view of legal decisions interpreting the circumstances under which an OSP can be said to have knowledge of infringing conduct. To qualify for safe-harbor protection, an OSP must lack both “actual” knowledge of the existence of infringing material or activity on its service and “red flag knowledge”—an awareness of facts or circumstances from which infringing activity is apparent. Looking at several recent cases limiting red flag knowledge to knowledge of specific acts of infringement, the Copyright Office argues that courts have “set too high a bar” for red flag knowledge in a manner that Congress likely did not anticipate, effectively rendering the statute’s inclusion of red flag knowledge superfluous.

#### *Repeat Infringer Policy*

The Copyright Office also frets over the current state of OSPs’ obligations with respect to repeat infringers. Section 512(i) requires OSPs to adopt and implement policies to terminate access to “repeat infringers.” Unfortunately, Section 512(i) does not provide explicit guidance, which has allowed for flexibility as well as mischief. The Copyright Office points out that even the definition of “repeat infringer” can span a spectrum from “one who has been alleged to infringe one time” to “one who has been adjudged by a court to have infringed on multiple occasions.” The Copyright Office argues that lawmakers should better define “repeat infringer,” identify what “adoption” of a policy means and set explicit “minimum requirements” for the policy.

The Copyright Office argues in favor of strict policies and describes the current state of the law as a “bar . . . so low for OSPs as to be largely impractical.” The Copyright Office, in line with recent court decisions, suggests that a person should be considered a “repeat infringer” if the person is credibly alleged to have infringed on multiple occasions, as opposed to having been adjudicated an infringer in court.

There are reasons, however, to argue that the repeat infringer requirements for OSPs should be relaxed rather than strengthened as recommended by the Copyright Office. First, there are competing privacy concerns that are implicated if OSPs are required to

monitor the acts of specific individuals or affirmatively seek identifying information with which to track alleged infringers. Additionally, user access to many OSPs has become an essential service in modern life and thus terminating a user's access to an OSP, often without due process, could be a harsh punishment that should not be doled out lightly. This is especially true considering that many rightsholders generate infringement notices using third-party monitors and automated processes rather than a thorough investigation accounting for fair use and other available defenses.

### **Alternative Approaches to Section 512**

The Copyright Office also discusses the possibility for several alternatives that would represent more of a wholesale change of the system rather than tweaks to reset the "balance." For example, the report discusses the possibility of independent oversight, modeled on the UDRP virtual arbitration system used to combat cybersquatting, rather than the current private takedown system.

The Copyright Office also appropriately recognizes that foreign jurisdictions are tending to shift more of the burden of content moderation on OSPs rather than on copyright rightsholders. This is due, in part, to the fact that OSPs now have far more resources than they did during the infancy of the industry when the safe harbor was established. In response, however, the Copyright Office acknowledges the argument that OSPs and their advocacy groups contend that the relative strength of the United States as a preeminent home for OSPs is based, in part, on the protection provided by the DMCA safe harbor.

One new proposal that the Copyright Office devotes significant discussion to is a "notice-and-staydown" concept, by which an OSP is required to remove all infringing copies of a work after it has received a single takedown notice. Rightsholders argue that the current game of "whack-a-mole" encouraged by the DMCA is not sustainable due to rightsholders' often limited resources. Presumably, a "notice-and-staydown" regime would utilize, at least in part, the fingerprinting technology that many OSPs are already implementing.

OSPs argue that such an obligation would not only be costly to carry out but would have unintended consequences such as filtering out non-infringing content due to the somewhat nascent nature of current generation technological solutions. Requiring such resource-intensive takedowns would also create a high barrier to entry that may be unattainable for emerging OSPs, which could lead to further consolidation or stagnation in the industry. Ultimately, the Copyright Office concludes that further study is required before it can recommend a "notice-and-staydown" obligation.

While the Copyright Office's report should be considered in connection with any future discussion and analysis of the DMCA safe harbor, an act of Congress is required before the DMCA's current notice and takedown procedures are modified. While no near-term legislative action is anticipated, any such action will only take place after considerable lobbying from OSPs, copyright rightsholders, and other interested parties. Haynes and Boone will continue to monitor the situation and provide updates as it develops.

If you have questions regarding the issues discussed above, please contact one of the Haynes and Boone copyright lawyers identified below.

### **The Supreme Court Declines to Revamp Preclusion Law in *Lucky v. Marcel* Trademark Dispute**

Stephanie Sivinski



Stephanie Sivinski

In a unanimous opinion authored by Justice Sotomayor, the U.S. Supreme Court declined to redefine preclusion, reversing the Second Circuit's decision in trademark dispute *Lucky Brand Dungarees Inc. v. Marcel Fashion Group Inc.* The Second Circuit's opinion had attempted to expand res judicata beyond the well-recognized issue preclusion and claim preclusion, creating a new category it called "defense preclusion." The Supreme Court determined that a defense will only be precluded if it meets the requirements of issue preclusion or claim preclusion. Thus, defendants need not litigate to finality all

possible defenses, which could vastly increase the cost of litigation.

The dispute arises from three rounds of longstanding litigation between apparel companies Lucky and Marcel. The first round began in 2001 when Marcel sued Lucky for allegedly infringing Marcel's GET LUCKY trademark. The parties signed a settlement agreement in 2003, in which Marcel released its claims of infringement.

But in 2005, Lucky initiated a second round of litigation, suing Marcel and Marcel's licensees for allegedly infringing Lucky's trademarks. Marcel counter-claimed, alleging that Lucky was again infringing Marcel's GET LUCKY trademark. Lucky initially moved to dismiss Marcel's counterclaim because Marcel had released its GET LUCKY claims in the 2003 settlement agreement. Yet, the District Court denied the motion. Lucky chose not to re-raise the defense at trial, and the jury found Lucky had infringed Marcel's mark. The District Court entered a final judgment that enjoined Lucky from using the GET LUCKY mark but did not address Lucky's use of any other mark that contained the word "Lucky."

In 2011, Marcel filed the instant—and third—round of litigation. In this case, Marcel argued that Lucky's use of its own marks containing the word "Lucky" infringed Marcel's GET LUCKY mark. These allegations were different than those raised in 2005, which targeted Lucky's use of the specific phrase "Get Lucky," not merely the word "Lucky." Lucky initially won summary judgment that Marcel's 2011 claims were barred by the final judgment entered in the 2005 suit. The Second Circuit reversed, finding that the 2005 final judgment did not bar the 2011 claims because they were new—in other words, the infringement claimed in the 2011 suit arose after the infringement resolved by the final judgment.

On remand, Lucky moved to dismiss because Marcel's arguments were barred by the 2003 settlement agreement. The District Court agreed, but the Second Circuit again reversed, finding that a defendant should be precluded from raising an unlitigated defense that it should have raised earlier when four criteria are met:

"(i) a previous action involved an adjudication on the merits"; "(ii) the previous action involved the same parties"; "(iii) the defense was either asserted or could have been asserted, in the prior action"; and "(iv) the district court, in its discretion, concludes that preclusion of the defense is appropriate."

In reversing the Second Circuit, the Supreme Court re-recognized the traditional categories of res judicata: (1) issue preclusion, which prevents relitigating an issue actually decided in a prior case and necessary to the judgment, and (2) claim preclusion, which prevents parties from raising issues that could have been raised in a prior case but were not. Implicitly rejecting the Second Circuit's "new" defense preclusion test, the Supreme Court required that "any such preclusion of defenses must, at a minimum, satisfy the structures of issue preclusion or claim preclusion."

Lucky and Marcel agreed that issue preclusion did not apply, and the Court quickly dispensed with the argument that claim preclusion would prevent Lucky from raising the settlement agreement here. "At bottom, the 2011 Action involved different marks, different legal theories, and different conduct—occurring at different times." Therefore, the 2005 suit did not arise out of the same nucleus of operative facts, and Lucky's failure to raise the settlement agreement in 2005 did not preclude it from doing so here.

The Court's opinion was not revolutionary, as it reaffirmed the current state of the law everywhere but the Second Circuit. However, the Court did question whether preclusion could ever apply to defenses at all, where considerations other than merits—costs, amount in controversy, etc.—may determine which defenses are raised. The Court saved this question for another day where the "identity of claims" prong of the preclusion test was met.

While the Court's decision does not address substantive trademark issues, the Court notes that res judicata principles take on "particular force in the trademark context, where the enforceability of a mark and likelihood of confusion between marks often turns on extrinsic facts that change over time." So, while the Court's opinion may have ended the parties' two-decade-long dispute for now, there may still be future litigation between the parties.

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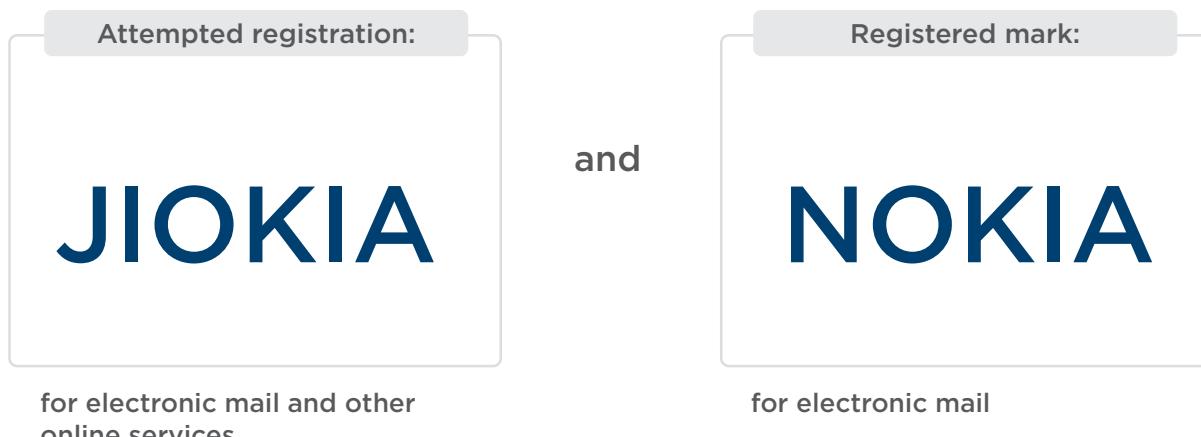
*Legal 500 U.S.* has included 12 Haynes and Boone lawyers and five practice areas in the 2020 edition of the legal directory. The firm is ranked in the Trademarks: Non-Contentious (including Prosecution, Portfolio Management Licensing) practice area.

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## IP QUIZ

### Trademark Trivia

#### Is there a likelihood of confusion?



#### According to the U.S. Trademark Trial and Appeal Board, the answer is YES.

The Board sustained an opposition brought by Nokia Corporation, finding a likelihood of confusion between the applicant's JIOKIA mark, covering electronic mail and other online services, and the opposer's NOKIA mark, covering electronic mail.

In the likelihood of confusion analysis, the Board first found that Nokia's mark is famous, evidenced by over a century of use, its 30% market share for mobile phones, its average \$3.5 billion in sales annually, and its millions of social media followers, among other factors. Nokia did not submit consumer surveys.

The Board next found the applicant's "electronic mail services, namely, electronic transmission of mail" to be identical to Nokia's "telecommunication and wireless communication services, namely, electronic mail" services, as well as the channels of trade and classes of purchasers, which weighted heavily in favor of finding a likelihood of confusion.

In assessing the similarity of the marks, the Board found that having the same last four letters indicated that "they will most likely rhyme when spoken" and "will sound quite similar," noting that it is possible that one mark could be aurally mistaken for the other "if a listener does not hear the first part of one of the marks well or in its entirety." Further, these common last four letters make the marks look similar. As for commercial impression, the Board found the fact that neither mark had a particular meaning or significance weighed in favor of confusion.

Based on these factors, the Board held that confusion was likely and sustained the opposition.

*Nokia Corporation v. Somasundaram Ramkumar*, Opposition No. 91238114 (May 22, 2020) [not precedential].

If you have any questions, please visit the Haynes and Boone Intellectual Property Law page of our website.



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