

AI REPORTER

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Steven M. Selna
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AI Update

Much of the AI conversation in June focused on the Trump Administration's "Big Beautiful Bill" and its proposed 10-year moratorium on state AI regulation. The provision received major pushback in both the Senate and several state Attorneys General, particularly from Republicans who argued that it undermined states' rights and disproportionately benefited Big Tech. The Senate ended up overwhelmingly voting to remove this provision from the bill.

Meanwhile, OpenAI continues to face legal challenges, with a new copyright infringement lawsuit filed by IYO over its acquisition of IO Products. The lawsuit alleges that OpenAI misused confidential information, resulting in brand confusion. Additionally, OpenAI requested a New York judge to overturn an order requiring the company to preserve all output log data related to several ongoing copyright cases. The company argued that retaining user data from ChatGPT conversations undermines user control and privacy.

Elsewhere on the litigation front, we saw the filing of a wave of new copyright lawsuits. Reddit sued Anthropic, alleging that the company used posts from its platform without authorization to train the Claude chatbot. Getty Images filed a lawsuit against Stability AI, accusing it of unlawfully using copyrighted images to train its Stable Diffusion system. Deloitte is also facing a copyright infringement lawsuit over its use of the name "Zora AI," which Zora Labs claims misled users into believing there was a connection with its company.

These and other stories appear below.



Sydney E. Allen
Associate

AI in Business

The battle for creativity in Hollywood's AI era

As GenAI becomes increasingly integrated into filmmaking, Hollywood faces a deepening divide over its role in creative expression. While some filmmakers embrace AI as a tool to democratize production and enhance storytelling, others fear it threatens artistic integrity and job security. The debate reflects broader concerns about authenticity, ownership, and the future of human creativity in an industry historically driven by personal vision and craftsmanship. As technology evolves, Hollywood must navigate a complex landscape where innovation collides with tradition and the definition of creativity itself is up for debate.

Source: CNet

Meta rolls out AI ad tools for SMBs

The move is intended to assist small to medium-sized businesses by providing resources for ad creation and management. Meta's AI tools will enable brands to create ads from scratch, including imagery, video and text, as well as optimize targeting for Facebook and Instagram users. The company also plans to incorporate AI-powered personalization.

Source: PYMNTS

Meta secures 20-year nuclear energy deal to power AI infrastructure

Meta signed a 20-year agreement with Constellation Energy to secure nuclear power for its AI and computing needs, increasing the output of Constellation's Clinton Clean Energy Center by 30 megawatts starting in 2027. This deal is part of a trend in which tech companies are turning to nuclear energy to power their data centers. The agreement will also preserve 1,100 local jobs and generate \$13.5 million in annual tax revenue.

Source: The Journal Record (sub. req.)

Insilico and Huadong use AI to disrupt key cancer mechanism

Insilico Medicine, in collaboration with Huadong Medicine Company, used AI to design small-molecule inhibitors that disrupt the interaction between MYC and WDR5 proteins, a key mechanism driving up to 70% of human cancers. The breakthrough, achieved using Insilico's GenAI platform, offers a promising new angle for therapeutic intervention in cancer treatment, targeting previously 'undruggable' proteins.

Source: Drug Target Review

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AI in Business

Apple study reveals AI collapse on complex tasks

Apple researchers identified significant limitations in large reasoning models (LRMs), which experience a 'complete accuracy collapse' when faced with highly complex problems. The study found that while standard AI models perform better in low-complexity tasks, both standard models and LRMs struggle with high-complexity tasks. This raises questions about the pursuit of artificial general intelligence (AGI). Gary Marcus, a U.S. academic, described the findings as 'pretty devastating,' questioning the current race towards AGI.

Source: The Guardian

Transforming finance with Agentic AI

As reported by IBM, Agentic AI is transforming the financial services industry by automating and personalizing complex processes, including customer onboarding, Know Your Customer, Anti-Money Laundering, fraud detection, and risk assessment. However, it also presents challenges like goal misalignment, misuse of APIs, and data privacy concerns. The technology's ability to make autonomous decisions and execute plans with minimal human intervention is seen as a key driver for streamlined operations and enhanced customer engagement through hyper-personalization and dynamic pricing.

Source: Fintech News

OpenAI moves to shield Windsurf IP from Microsoft

OpenAI and Microsoft are experiencing tensions in their partnership, with OpenAI accusing Microsoft of anticompetitive behavior and seeking a federal regulatory review of its contract. The conflict centers around OpenAI's \$3 billion acquisition of AI coding startup Windsurf, as OpenAI aims to prevent Microsoft from accessing Windsurf's IP, which could enhance Microsoft's GitHub Copilot. OpenAI is also trying to reduce its reliance on Microsoft for cloud services, despite needing Microsoft's approval for its for-profit conversion.

Source: TechCrunch



Carlo Lipson
Associate

AI **Litigation & Regulation**

LITIGATION

OpenAI fights data retention order in ongoing AI copyright battle

OpenAI requested a New York federal judge overturn an order requiring the preservation of all output log data for several copyright lawsuits. The order mandates OpenAI to retain user data from ChatGPT conversations, which the company claims undermines user control over their data and infringes on user privacy rights. This legal battle is part of a larger dispute over the application of copyright law to AI, with significant implications for technology and content industries. OpenAI's initial request that the magistrate judge overturn the order was denied, following assurances that user data would not be publicly accessible.

Source: Bloomberg Law (sub. req.)

Anthropic faces Reddit lawsuit over illegal data usage

The lawsuit alleges Anthropic used Redditors' posts in its training data without authorization, violating Reddit's user agreement. Anthropic has faced multiple legal challenges questioning its ethical practices regarding its AI chatbot, Claude. The lawsuit highlights issues of data security and transparency in AI development, as Anthropic's bots reportedly accessed Reddit's website over 100,000 times since 2024.

Source: Gizmodo

Getty Images challenges Stability AI in court

Getty Images initiated a copyright lawsuit against Stability AI at London's High Court, accusing the AI company of unlawfully using its images to train its Stable Diffusion system. Stability AI denies the allegations, arguing the dispute centers on technological innovation and freedom of ideas. The case could set a precedent for AI-related copyright law, as the outcome may impact transparency, data security, and the ethical use of AI by tech companies.

Source: Reuters (sub. req.)

IYO sues OpenAI over alleged trademark infringement

The lawsuit follows OpenAI's \$6.5 billion acquisition of IO Products. Technology company IYO Inc. claims the name "IO" is a homophone of its own and that the new company's product concept—an interface-free, wearable tech device—mirrors IYO's IYO ONE. IYO alleges OpenAI and its partners used confidential insights to develop a competing product, causing brand confusion and jeopardizing IYO's funding and market position. IYO warns that without swift resolution, it may lose critical investor support and market momentum.

Source: Law 360 (sub. req.)

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AI **Litigation & Regulation**

Disney and Universal sue Midjourney over AI-generated copyright violations

The entertainment giants allege Midjourney's image-generation platform unlawfully replicates and distributes their iconic characters and scenes without permission or compensation. The complaint argues Midjourney's AI acts as a "virtual vending machine" for pirated content, undermining the creative investments of studios that shaped American pop culture for over a century. The plaintiffs warn that such AI-generated reproductions threaten the foundation of U.S. copyright law and the economic incentives that support the entertainment industry.

Source: NPR

Zora Labs sues Deloitte over alleged trademark infringement

The lawsuit accuses the firm of trademark infringement over its use of the name "Zora AI." Zora Labs claims Deloitte's branding and domain name (zora.ai) mislead users into believing a connection with Zora Labs, which has operated under the "Zora" name since 2020 and launched AI tools in 2024. The complaint further alleges Deloitte's use of the "TM" symbol falsely implies a partnership or endorsement. The lawsuit includes claims of trademark infringement, unfair competition, deceptive practices, and cybersquatting.

Source: Law 360 (sub. req.)

Independent artists challenge AI music firms over copyright violations

Independent country singer Tony Justice filed two class-action lawsuits against AI music companies Udio and Suno, alleging the companies unlawfully used copyrighted music by independent artists to train their AI models. Justice argues that while major labels took legal action, independent creators—who rely heavily on licensing and streaming—were most affected and left without representation. He also claims Udio and Suno exploited publicly available music without proper licensing, much of which is owned by independent artists. Justice further emphasizes that once AI systems ingest copyrighted material, it cannot be removed, calling the practice severe abuse. The lawsuits aim to represent independent artists with U.S. copyright registrations whose music has been available on streaming platforms since 2021.

Source: Law 360 (sub. req.)

Appeals court to review AI copyright dispute

The Third Circuit will review Ross Intelligence's appeal of a ruling that found it infringed Thomson Reuters' Westlaw copyrights by using its content to train an AI legal research tool. Ross argues the material is sufficiently original to be protected by copyright and that its use qualifies as fair use. While the case does not involve generative AI, it may carry broader implications for using copyrighted data to train AI systems.

Source: Law 360 (sub. req.)

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AI **Litigation & Regulation**

Cerence shareholder suit dismissed over procedural failings

A federal judge dismissed a shareholder derivative lawsuit against former executives of AI software company Cerence, citing the plaintiffs' failure to make a required presuit demand on the board or prove it would have been futile. The suit alleged executives inflated revenue by pulling forward future sales, misleading investors, and boosting short-term financials at the expense of long-term performance. However, the court found no compelling reason to revisit its prior ruling in a related case, which held that certain omissions of the alleged pull-forward scheme did not make the statements materially false. The judge also found no evidence that Cerence's board was aware of or involved in any fraudulent conduct. As a result, the case was dismissed without addressing the underlying claims.

Source: Law 360 (sub. req.)

REGULATION

Utah passes law on AI-powered mental health chatbots

The law sets privacy and advertising guidelines for sensitive conversations handled by mental health chatbots. The law reflects a broader trend among states to scrutinize AI technologies, particularly in healthcare, to ensure patient privacy and data security. The law is designed to safeguard users while enabling the benefits of AI-driven mental health support.

Source: Law 360 (sub. req.)

California State Senate approves AI Bill of Rights

Senate Bill 420, also known as the California Artificial Intelligence Bill of Rights, aims to establish a regulatory framework that ensures AI systems respect human rights and promote fairness, transparency, and accountability. The legislation addresses the lack of federal oversight and aims to prevent tech companies from operating AI without accountability. The bill's approval highlights California's commitment to ethical AI development and the impact of state-level regulations on industries operating across multiple states.

Source: California Senator Steve Padilla

U.K. Lords amend AI data bill for creators' rights

The U.K. government faces pressure from the House of Lords to provide copyright protection for artists against AI companies. The Lords voted to amend a data bill requiring AI companies to disclose the copyrighted material used for training their models. This amendment aims to ensure transparency and protect creative industries. The future of the data bill is uncertain unless the Commons accepts the amendment or proposes an alternative.

Source: The Guardian

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AI **Litigation & Regulation**

FDA to expand AI integration in medical device regulation

The FDA's initiative is expected to enhance data analysis, decision-making, and the evaluation of complex medical device submissions. AI will help identify patterns in large datasets, improve risk assessments, and support the review of innovative medical devices with AI functionalities. The FDA emphasizes transparency and accountability in integrating AI tools, which could address challenges posed by sophisticated technologies while maintaining safety standards. Further implementation strategies are expected as the FDA develops policies around this initiative.

Source: Gene Online

Senators, AGs push back on AI regulation freeze

A bipartisan group of senators and state attorneys general is opposing a proposed 10-year federal ban on state-level AI regulation, warning the absence of federal oversight would leave consumers unprotected. They argue the moratorium-buried in a budget bill-could nullify vital state laws addressing AI misuse, such as deepfakes, rental pricing algorithms, and voice

mimicry protections like Tennessee's "Elvis Act." Critics say tying broadband funding to state compliance and bypassing proper legislative channels undermines public policy, while allowing unchecked AI development favors Big Tech at the expense of consumer safety.

Source: Law 360 (sub. req.)

Senate introduces bipartisan bill to combat AI deepfake financial scams

A bipartisan Senate bill, the Preventing Deep Fake Scams Act, was introduced to combat financial scams using AI deepfakes. The bill proposes a task force led by federal financial regulators to study AI-powered fraud, data, and identity theft. The task force, chaired by the Treasury secretary, will include heads or designees from the Federal Reserve, Consumer Financial Protection Bureau, and other financial institutions. The legislation aims to protect vulnerable groups, such as seniors, families, and small business owners, from scammers using AI to impersonate family members and steal money.

Source: CyberScoop

Benesch
***AI* Insights**

The Intersection of Social Media, AI, and Product Liability

State governments, public school districts, and individuals are suing social media companies, such as TikTok and Snapchat, alleging that defects in their algorithms and platform features cause psychological and physical harm, especially to young users.

These cases raise novel questions about technology regulation and consumer protection and are testing the boundaries of product liability doctrine. Courts have yet to decide whether these companies are liable for alleged harm, but they have issued several rulings narrowing the scope of litigation theories that can survive dismissal.



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Source: Benesch

Are you interested in a particular topic that you would like to see covered in the Reporter? If so, please let us know.



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