

Fair or not? Lawyers make \$3M more than their clients



legalnewsline.com/attorneys-and-judges/fair-or-not-lawyers-make-3m-more-than-their-clients/article_861c2c18-27ed-49b2-8e43-99d747b7d5f6.html

John O'Brien

July 10, 2025

Guido Calabresi
<https://law.yale.edu/>

NEW YORK - A settlement in which lawyers made four times more than their clients will be under a microscope following a recent ruling by a federal appeals court.

The U.S. Court of Appeals for the Second Circuit on July 1 ordered the trial judge to take a closer look at a class action settlement with Kimberly-Clark Corp. over wipes advertised as flushable but allegedly weren't.

The company offered up to \$20 million for class members and gave the firm Robbins Geller Rudman & Dowd an extra \$4 million. It sounded like a lot but by the time claims were put in, Kimberly-Clark paid out only \$1 million to class members.

Professional class action objector Ted Frank, founder of the [Center for Class Action Fairness](#), argued the fee award disproportionately favored lawyers but a New York federal judge disagreed. Frank appealed to the Second Circuit, which said the trial judge applied the wrong standard in approving it.

"Because the district court did not consider the allocation of recovery between class counsel and the class in assessing settlement fairness, as required by Rule 23(e), we vacate and remand for the district court to conduct this analysis in the first instance," Judge Guido Calabresi wrote.

"To be clear: we offer no opinion as to whether the settlement in this instant case is fair under Rule 23(e) or not."

So it will be up to Judge Pamela Ki Mai Chen to decide if lawyers making \$3 million more than their clients is fair. Recently, the Third Circuit wrote that [a similar disparity was](#), because of other factors outside of money.

Lawyers got \$3.2 million in a data breach class action against Wawa while class members redeemed \$2.9 million in gift cards. But the Third Circuit noted the company spent \$25 million on security measures to protect consumers' information in the future (Frank argued Wawa had already spent that money before the settlement, so it shouldn't factor into the agreement's fairness).

Class members in the flushable wipes settlement could get as much as \$50.60. The attorneys fees were in addition to the available \$20 million, so Judge Chen found the award didn't affect the class' recovery.

The Second Circuit has now told her that Rule 23(e) requires her to consider "the allocation of recovery between class counsel and the class before approving a settlement."

Securities Law News

Centene Investor Sues After Record Stock Drop, Pulled Forecast

July 9, 2025, 1:54 PM PDT

- **COURT:** S.D.N.Y.
- **TRACK DOCKET:** No. [1:25-cv-05659](#) (Bloomberg Law subscription)

Health insurer Centene Corp.'s shares plummeted after it withdrew an overhyped 2025 earnings guidance on underestimated costs in its Affordable Care Act plans, a proposed class action filed Wednesday said.

Share prices plunged more than 40% on July 2, the day after it withdrew the forecast, according to a complaint filed in the US District Court for the Southern District of New York. It was the stock's biggest one-day tumble since its initial public offering in 2001, according to data compiled by Bloomberg.

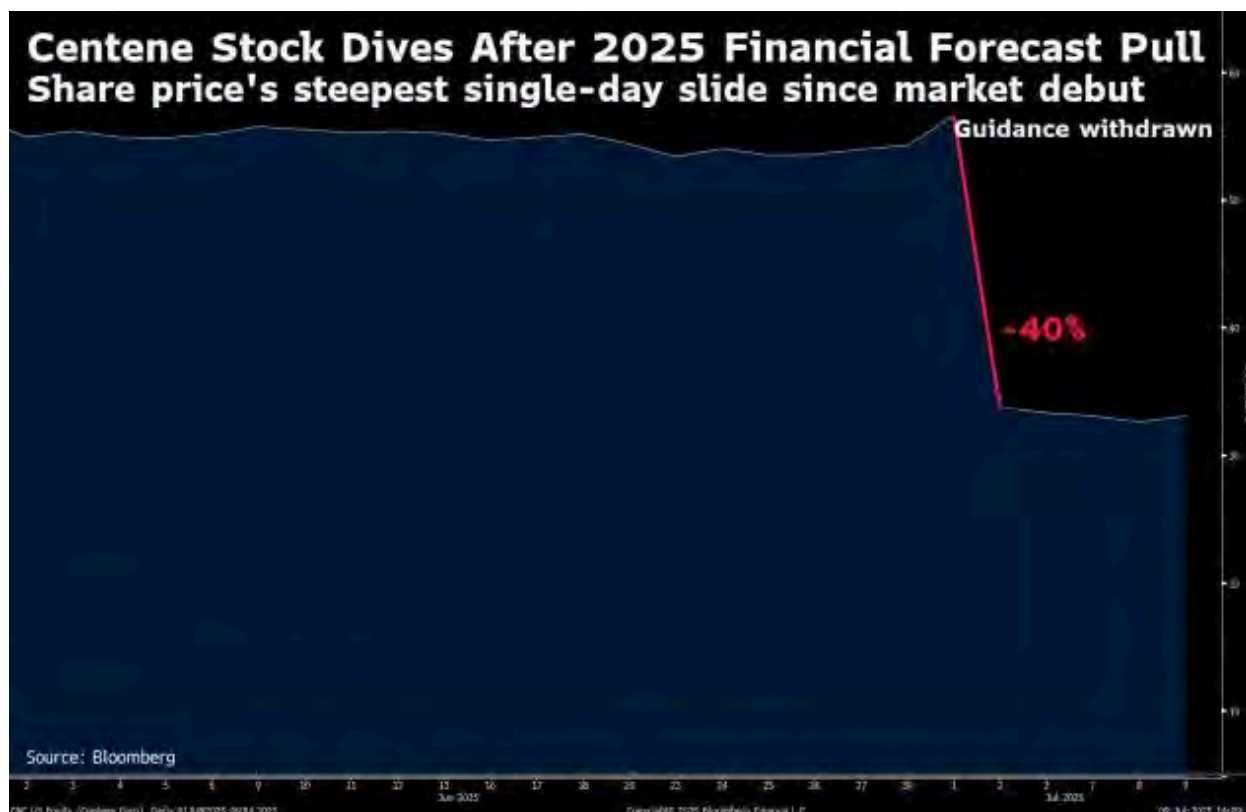
Centene's not the only insurer that's noted earnings hits this year, as the industry contends with rising costs from government health-care programs. Molina Healthcare Inc. lowered its guidance this week, and UnitedHealth Group Inc. pulled its outlook earlier this year.

President Donald Trump's administration has worked to determine and crack down on inappropriate ACA enrollments, among other steps, aiming to curtail the program—also known as Obamacare.

Centene didn't immediately respond to an email seeking comment.

The health insurer said that preliminary data from 22 of the 29 states where it offers ACA marketplace plans showed slower-than-anticipated market growth and implied a higher rate of higher-risk enrolled people who require more medical care. The preliminary analysis suggested about a \$2.75 reduction to its adjusted diluted earnings per share estimate, a Centene press release said.

Centene also said its Medicaid—a government health program for low-income individuals—business experienced a step-up in costs, particularly for behavioral health, home health, and high-cost drugs. Following the end of a pandemic-era policy when states redetermined eligibility for the plans, healthier members lost coverage, and the ratio of costlier patients who needed more care increased.



Investor Brock Lunstrum is suing Centene, CEO Sarah M. London, and Chief Financial Officer Andrew Lynn Asher under federal securities laws. The proposed class would include those who purchased Centene stock from Dec. 12, 2024—when the company announced an adjusted diluted EPS guidance of greater than \$7.25—through June 30, 2025.

Levi & Korsinsky LLP represents Lunstrum, who seeks damages for Securities Exchange Act of 1934 violations. He's also seeking pre- and post-judgment interest, as well as coverage of attorney's fees and costs.

The case is *Lunstrum v. Centene Corp.*, S.D.N.Y., No. 1:25-cv-05659, complaint filed 7/9/25.

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Litigation

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Zynex Shareholder Sues Board, Execs Over Insurer's Payment Pause

July 10, 2025, 7:43 AM PDT

- **COURT:** D. Colo.
- **TRACK DOCKET:** No. [1:25-cv-02117](#) (Bloomberg Law subscription)

Zynex Inc. management let the medical device company overbill insurers to juice up revenue, prompting its largest insurance customer to pause payments while it scrutinized past claims, and causing a 51% stock drop, a shareholder lawsuit said.

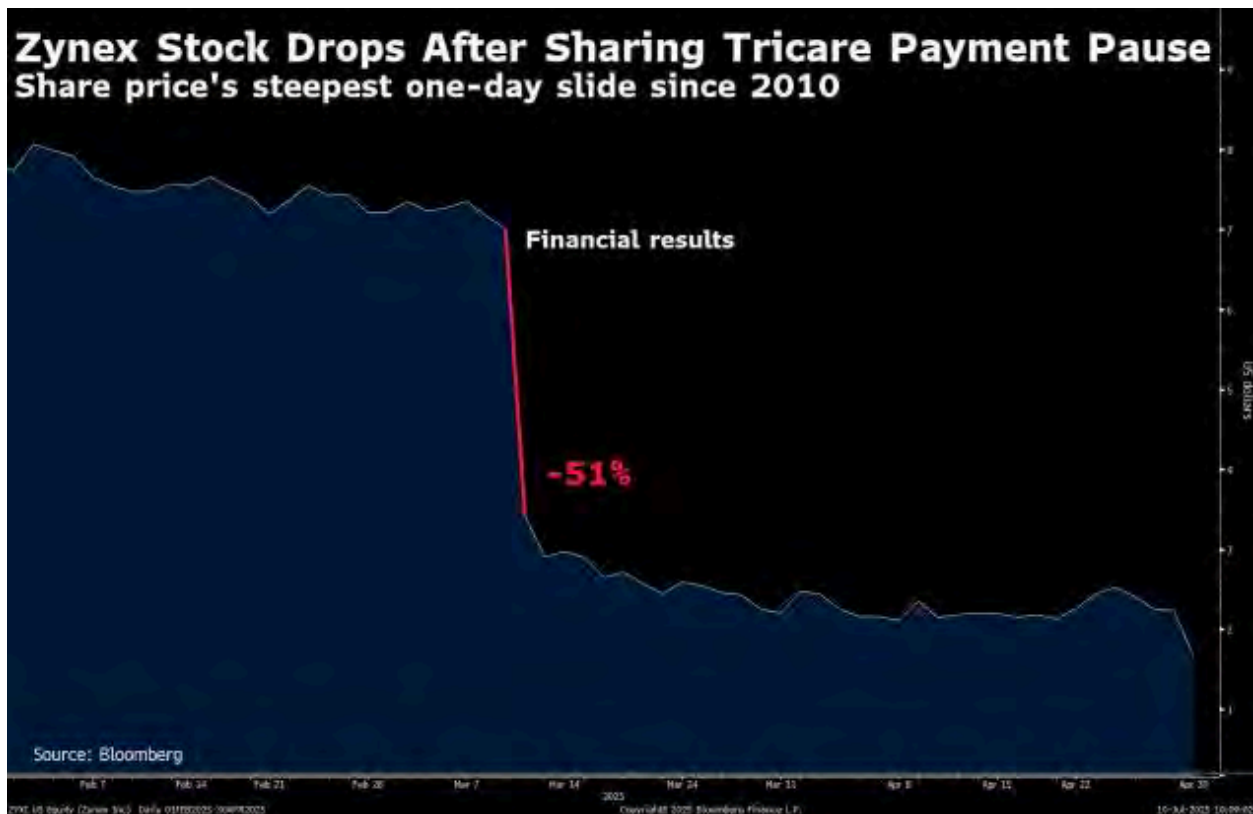
Executives and board members let Zynex release misleading statements touting its financial performance, concealing an oversupply scheme in which it sent excessive electrode pads and batteries to patients and overbilled insurers, said the shareholder derivative action filed Wednesday in the US District Court for the District of Colorado. They hurt Zynex's reputation and wallet, said investor Patrick Ayers' complaint.

Zynex said in a press release that military health program Tricare suspending payments and other delays led to a revenue shortfall in the fourth quarter of 2024. The next day, March 12, 2025, the stock price plummeted more than 51% to close at \$3.41 share—its biggest one-day fall in about 15 years, according to data compiled by Bloomberg.

CEO Thomas Sandgaard and chief financial officer Daniel Moorhead also benefited from insider trading, Ayers said. Sandgaard sold 624,000 shares for more than \$5.67 million—600,000 of those shares back to Zynex—and Moorhead sold 85,000 shares for \$687,200, the complaint said.

Medicial news outlet STAT reported in 2024 about alleged fraudulent billing practices, but corporate caretakers still didn't disclose that Zynex risked losing payments from insurers as a result of purported overbilling, Ayers said.

And the defendants released misleading proxy statements to shareholders in 2023 and 2024 about the effectiveness of the board's oversight and Zynex's financial performance and compliance priorities, Ayers said. If the proxy statements had been accurate, the directors might not've been reelected by stockholders, Ayers said.



Sandgaard said in a press release last week that Tricare's payment suspension was ongoing as it continued a review. Tricare represents about 20-to-25% of Zynex's annual revenue and its its largest insurance customer, according to the company.

Zynex cut 15% of staff in the first quarter, it said in April. Zynex will have a new CEO starting in August, the company said last month, with Zynex founder Sandgaard remaining chairman.

Ayers alleged breach of fiduciary duties, unjust enrichment, abuse of control, gross mismanagement, waste of corporate assets, and federal securities law violations against five corporate overseers. He claims the wrongdoing has gone on since at least March 2023.

Ayers seeks damages, restitution, and corporate governance reform for Zynex.

A proposed class action alleging similar issues against the company, Sandgaard, and Moorhead is pending in the same court.

Johnson Fistel LLP and Levi & Korsinsky LLP represent Ayers.

Zynex didn't immediately respond to an email seeking comment. Nor did the firm that's appeared for it in the proposed class action, Polsinelli PC.

The case is Ayers v. Sandgaard , D. Colo., No. 1:25-cv-02117, complaint filed 7/9/25 .

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Securities Law News

FTX Seeks Broad Purge of Future Claims to Preserve Resources

July 9, 2025, 11:38 AM PDT

- Bankruptcy estate moves to eliminate new customer claims
- Crypto platform winnowing down \$27 quintillion claim load

FTX Trading Ltd. is seeking to avoid reviewing and reconciling untimely crypto account holder claims by implementing broad procedures to instantly reject new customer claims going forward.

The company, now operating as a trust to pay back customers whose crypto holdings were trapped on the trading platform when it collapsed in 2022, told the US Bankruptcy Court for the District of Delaware on Tuesday that summarily disallowing late-filed claims would be helpful as it continues to sift through more than \$27 quintillion in Chapter 11 payment requests.

"The FTX Recovery Trust spends a significant amount of time and resources reviewing, reconciling and objecting to these late-filed claims," it said in a court filing. "Additionally, certain purported claimants continue to file new proofs of claim in seriatim against the FTX Recovery Trust even after the FTX Recovery Trust's objections to their late-filed claims are sustained by the Court, needlessly wasting the FTX Recovery Trust's resources and depleting funds that could otherwise be used to make distributions to legitimate creditors who filed timely claims."

Approximately 97,600 customer claims have been filed to date, of which roughly 8,600 were filed after a September 2023 bar date, the trust said. FTX has reconciled or successfully objected to 6,800 of the late claims and would benefit from a court order shutting down its claims processing system subject to certain exceptions, it said.

FTX's proposal would only apply to claims filed after the bankruptcy court approves the new procedures and wouldn't affect already-filed claims, even if they were submitted after the bar date.

The motion comes a week after FTX sought to implement procedures that could prevent distributions to customers located in up to 49 countries or foreign jurisdictions to avoid violating local laws. Roughly 5% of potentially allowed claims were filed by customers in potentially restricted jurisdictions, it said.

Earlier this year, the company purged more than 400,000 claims from customers who failed to timely commence a formal process of verifying their identities to comply with “know your customer” regulations.

FTX last year won court approval to liquidate in bankruptcy and distribute between \$12.6 billion and about \$16.5 billion to creditors.

The company, once run by convicted fraudster Sam Bankman-Fried, is providing full cash recoveries based on the value of account holders’ digital currency when the bankruptcy commenced.

FTX is represented by Sullivan & Cromwell LLP and Landis Rath & Cobb LLP.

The case is FTX Trading Ltd. , Bankr. D. Del., No. 22-11068, motion filed 7/8/25 .

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Oura ring maker faces trio of stock option lawsuits by ex-promoters. What happened?



reuters.com/legal/transactional/oura-ring-maker-faces-trio-stock-option-lawsuits-by-ex-promoters-what-happened-2025-07-09

Jenna Greene

July 9, 2025

An empty courtroom is seen at the New York State Supreme Court in Manhattan, New York City, U.S., August 21, 2020. REUTERS/Andrew Kelly [Purchase Licensing Rights, opens new tab](#)

July 9 (Reuters) - What do a former NFL quarterback, a prominent doctor and a marketing expert have in common?

They all say they cut deals to promote health-tracking smart ring Oura in exchange for stock options worth millions of dollars that the company later refused to honor. And now, they all are suing.

Disputes over the valuation of stock options — considered the lifeblood of Silicon Valley — are not rare. But the three separate cases, including a claim by former [Super Bowl MVP](#) Drew Brees, against San Francisco-based Oura Ring and its Finnish parent Oura Health Oy present a thorny issue that courts across the country [continue to grapple with](#). That is, when two parties agree to arbitrate in one context, how broadly does that stretch to cover other disputes?

More specifically, how is it that despite similar allegations, Brees in late May was [ordered, opens new tab](#) by a San Francisco Superior Court judge to arbitrate his case in Helsinki under Finnish law, while a comparable suit by physician and writer Peter Attia [survived review, opens new tab](#) in March by the 9th U.S. Court of Appeals and is now proceeding in federal court in Oakland, California?

Brees and Attia, as well as their outside counsel, did not respond to requests for comment, nor did Oura or its lawyers from Buchalter and McMahon Serepca.

To date, the litigation has focused more on procedural questions than the merits, but Oura in [court papers, opens new tab](#) has denied wrongdoing and said that its board of directors never authorized the stock option grants, making the deals invalid.

The most recent suit was filed last week by marketer Gordy Bal, a Victoria, Canada-based author and founder of CTR Capital, and it lays out a now-familiar set of claims against Oura.

According to the [complaint, opens new tab](#) filed in U.S. District Court for the Northern District of California, Bal was an early investor in Oura, as well as serving as the company's "primary marketing arm" in its early years as a cash-strapped start-up.

Oura, which was founded in Finland in 2013, makes a smart ring that tracks health data such as heart rate, sleep stages and physical activity.

In 2018, Bal said he invested 400,000 euros in Oura and also struck a deal with the company's then-CEO Harpreet Singh Rai to provide heavily discounted marketing and media services. In exchange, Bal said he got stock options that were contingent on Oura reaching certain sales targets.

The privately held company went on to experience explosive growth. According to a [press release, opens new tab](#), Oura after its latest round of financing was valued at \$5.2 billion in December 2024.

But when Bal last year tried to exercise his stock options — 670,841 common shares that he estimates are worth about \$16 million — Oura “formally indicated that it was unwilling and unable” to allow him to do so, his complaint alleges.

“All that my client wants is for Oura to honor its end of the bargain, since he honored his,” Susman Godfrey partner Jenna Farleigh, who represents Bal, told me.

The first hurdle may be jurisdiction — and that's where Attia and Brees' fates have sharply diverged.

Attia in 2023 was the first to file suit. Like Bal, the doctor invested in Oura and also provided advisory and promotional services in exchange for purported stock options.

Oura in [arguing, opens new tab](#) Attia was required to arbitrate his claim pointed to its “broad” shareholders agreement covering investments in the company. The agreement specifies the Finnish forum and choice of law and applies to disputes including the “transfer of Equity Securities.”

U.S. District Judge Haywood Gilliam in Oakland was not persuaded, [ruling, opens new tab](#) in 2024 that the arbitration provision didn't apply. In March, the 9th Circuit in an [unpublished opinion, opens new tab](#) upheld his decision.

Attia “agreed to arbitrate claims arising from his relationship as a shareholder, but not those arising in other contexts” such as his work as an adviser to Oura, Gilliam found. He likened the circumstances to the 9th Circuit's 2023 decision in [Johnson v. Walmart, opens new tab](#). In that case, the appeals court held that just because a Walmart customer agreed to arbitrate disputes involving online purchases, that agreement didn't cover in-store engagements.

Brees' [lawsuit, opens new tab](#) has played out differently. He sued in 2024 in San Francisco state court and successfully opposed removal to the Northern District of California.

Brees alleges that in 2018, he signed a deal for what turned out to be more than 400,000 shares of stock for promoting the Oura ring. The company never actually tapped him to do any work, he acknowledges. Still, he said he was “ready, willing, and able” to do so in claiming that he's entitled to the promised stock options.

Like Bal and Attia, Brees signed a short options agreement that makes no mention of arbitration but does state that it incorporates the terms of Oura's "2018 equity plan."

All parties agree there is no 2018 plan — it doesn't exist. But Oura did have a 2016 equity plan, which it revised in 2019, and both of those mandate arbitration.

Good enough, Judge Harold Kahn, who retired in 2022 but continues to hear cases, ruled on May 29. The reference to the 2018 plan was "a mistake," he held in adopting Oura's [proposed three-page order, opens new tab](#) compelling arbitration and was "objectively intended to be to either the 2016 equity plan or the 2019 equity plan."

What reasoning will carry the day in Bal's case remains to be seen, but the ramifications may go beyond a long flight to Helsinki for a hearing behind closed doors. According to Oura, under Finnish law only the board of directors — and not the CEO — of a Finnish company can approve the issuance of equity. If so, that would seem to support the company's defense that all the options grants are in fact invalid.

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Securities Law News

Shareholders of Private Market Startup Vow to Fight Bankruptcy

July 9, 2025, 9:26 AM PDT

Shareholders of collapsed fintech startup Linqto vowed to fight an effort by its new management to reorganize the troubled company in bankruptcy.

Managers who took over in recent months put Linqto under court protection in Houston this week, claiming former executives mismanaged the firm's business for years by misleading customers into believing they owned shares in 111, privately-held companies worth more than \$500 million.

Shareholder Sapien Group, an Australia-based investment firm, said it has the backing of 52% of shareholders for its campaign to challenge current managers in bankruptcy. Sapien has hired bankruptcy lawyers for advice on whether to try to dismiss the Chapter 11 petition, or take other action, according to the letter.

"Our objectives remain the same: preserving the value of Linqto as a going concern and operating business; and protecting the value of the shareholders' investments," Sapien said in the letter. It was unclear which shareholders are part of the Sapien-led effort.

A representative of Linqto declined to comment on the letter.

Linqto told its 13,600 customers that they could buy stakes in private companies before the firms went public, something that's typically available only to big institutions, company bankruptcy attorney Samuel A. Schwartz told the judge overseeing the insolvency case on Tuesday. That turned out to be wrong, Schwartz said.

The "securities couldn't be transferred just directly to customers, that would be a violation of securities law," he said, referring to the shares customers thought they were acquiring. "Also, the securities themselves have contractual transfer limitations."

The startup, which started offering private investments in 2020, was part of a wave of financial firms that claimed to make private markets more accessible. Its offerings — which included crypto startup Ripple and AI company CoreWeave — drew in individuals attracted to the allure of private markets.

READ MORE: Private Market Startup Collapses Amid SEC Probe: The Brink

The US Securities and Exchange Commission is investigating Linqto and whether its former managers failed to verify if some of its customers were accredited investors with sufficient financial backing to invest through the company, according to court documents.

A Linqto affiliate is the actual owner of the 111 securities, Schwartz said. The company's customers are unsecured creditors, he said.

Linqto's advisers plan to use the bankruptcy process to raise money to repay customers and other creditors, he said. The company will try to negotiate a bankruptcy payout plan with regulators before presenting a detailed proposal to creditors for a vote, Schwartz said.

"We think we have significant resources to make distributions to customers," he told US Bankruptcy Judge Alfredo R. Perez.

The company in early 2024 began searching for a new CEO to replace company founder **Bill Sarris**. After a months-long search, it hired Francis Daniel Siciliano as its new CEO, who learned just before he started the new job that Linqto faced probes by the SEC and the Financial Industry Regulatory Authority.

Siciliano began an internal investigation that eventually forced out many original executives, according to court records.

Linqto has lined up a \$60 million loan from Sandton Capital Partners to fund its Chapter 11 bankruptcy. The company said it needs the loan because it's been generating relatively little cash since it suspended its operations in March. To stay afloat, the company is selling securities "to sophisticated purchasers" that are in compliance with applicable state and federal laws, Stein said.

The case is Linqto Texas, LLC, 25-90186, US Bankruptcy Court, Southern District of Texas, Houston.

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Linqto customers sue ex-CEO after fintech company's bankruptcy



reuters.com/legal/litigation/linqto-customers-sue-ex-ceo-after-fintech-companys-bankruptcy-2025-07-09

Dietrich Knauth

July 9, 2025

The building of the Southern District of New York federal courthouse is pictured in New York City, New York, U.S. July 18, 2019. REUTERS/Andrew Kelly/File Photo [Purchase Licensing Rights, opens new tab](#)

July 9 (Reuters) - Two customers of investment platform Linqto sued the company's ex-CEO on Wednesday, a day after the company filed for bankruptcy, alleging that they were duped into buying into an investment fund that promised access to private companies' equity.

The customers claim that Linqto's former CEO William Sarris misled investors who sought to buy stakes in hot tech startups, by leading them to believe they were acquiring direct stakes in hard-to-access private companies like the blockchain company [Ripple](#). He capitalized on customers' "fear of missing out," for example, to hype up demand for Ripple shares, according to their lawsuit filed in federal court in Manhattan.

Get a quick look at the days breaking legal news and analysis from The Afternoon Docket newsletter. Sign up [here](#).

The two plaintiffs seek to represent a class of customers who purchased securities from Linqto.

Plaintiffs' attorney John Deaton said he supports Linqto's stated goal of "democratizing" investment in private companies, but the company broke the rules and led investors astray.

"Unfortunately, Bill Sarris has not only not fulfilled that mission, he has damaged it," Deaton said. "People believed they were buying shares of Ripple, shares of SpaceX, but that's not what they were buying."

Linqto is under investigation by the U.S. Securities and Exchange Commission, and it says it was unable to facilitate its customers' investment in private companies as it had promised. It [filed for bankruptcy](#) protection in Texas on Tuesday, citing its historical failure to follow U.S. laws governing the sale and marketing of private equity stakes.

Separate from the customer lawsuit, Linqto also faces opposition from its own shareholders as it attempts to restructure in bankruptcy. Sapien Group, an investment fund that owns Linqto shares, said Tuesday that it had organized a majority coalition of shareholders to participate in Linqto's bankruptcy and possibly challenge the company's decision to file for Chapter 11 protection.

Sarris resigned as CEO on Jan. 2 and his employment with Linqto was terminated on March 10, but he remains a member of the company's board, according to bankruptcy court filings.

Sarris could not immediately be reached for comment. Linqto did not immediately respond to a request for comment.

Linqto began marketing its private-investment platform in 2020, telling customers that it would allow them to directly invest in private-market startups and pre-IPO companies.

It has acquired more than \$500 million in equity shares of over 100 private companies, including Ripple, and it purported to allow its customers to purchase stakes in those companies.

But Linqto never transferred the equity shares to its customers, and doing so likely would have violated both U.S. securities laws and the purchase agreements by which Linqto acquired the companies' shares, according to Linqto's bankruptcy court filings.

U.S. securities laws usually prevent private companies from selling their equity to [non-professional investors](#), and companies that sell their shares publicly are subject to stricter disclosure rules.

The lawsuit filed Wednesday does not name Linqto as a defendant, and it is proceeding separately from the company's bankruptcy.

In addition to the SEC investigation, Linqto is also being investigated by the Financial Industry Regulatory Authority, Wall Street's self-regulator. The company's chief revenue officer, Gene Zawrotny, also sued the company in California court in October, alleging that he was improperly terminated after he raised concerns about the company's compliance with securities laws.

Linqto said Monday that it would try to use its bankruptcy to restructure into a "profitable, law-abiding organization," but it acknowledged "potentially insurmountable operating challenges."

The customers' lawsuit is Maxwell v. Sarris, U.S. District Court for the Southern District of New York, No. 25-5643.

For the Linqto customers: John Deaton of the Deaton Law Firm

Read more:

[Private investment platform Linqto files for bankruptcy amid SEC scrutiny](#)
[Linqto terminates \\$700 mln SPAC deal with Blockchain Coinvestors](#)

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Apple, Visa and Mastercard win dismissal of merchant antitrust lawsuit over payment fees



reuters.com/legal/transactional/apple-visa-mastercard-win-dismissal-merchant-antitrust-lawsuit-over-payment-fees-2025-07-10

Mike Scarcella

July 10, 2025

An Apple logo is pictured in an Apple store in Paris, France September 17, 2021.

REUTERS/Gonzalo Fuentes [Purchase Licensing Rights, opens new tab](#)

July 10 (Reuters) - Apple ([AAPL.O](#)), [opens new tab](#), Visa ([V.N](#)), [opens new tab](#) and Mastercard ([MA.N](#)), [opens new tab](#) have persuaded a U.S. judge to dismiss a lawsuit accusing them of conspiring to suppress competition in the payments network market and causing merchants to pay inflated transaction fees.

U.S. District Judge David Dugan in Illinois [ruled, opens new tab](#) on Wednesday that the merchants had not provided enough evidence to support their claim that Apple illegally declined to launch a competing payment network to rival Visa and Mastercard.

Dugan found that the plaintiffs offered only “a slew of circumstantial allegations,” but allowed them to amend their lawsuit to strengthen their claims.

Mastercard and attorneys for the plaintiffs declined to comment. Apple had no immediate comment, and Visa did not immediately respond to a request for one.

The defendants had denied any wrongdoing and urged Dugan to dismiss the lawsuit.

Apple launched its Apple Pay feature in 2014 as a mobile payment service allowing iPhone users to store payment card information and make purchases at businesses where the platform is accepted.

The lawsuit, filed by beverage retailer Mirage Wine & Spirits and other businesses, was brought on behalf of a proposed class of thousands of merchants.

The lawsuit alleged Visa and Mastercard paid Apple what amounted to a “very large and ongoing cash bribe” of hundreds of millions of dollars a year to keep it from competing with them.

The alleged agreements drove up fees that merchants pay on transactions, the lawsuit said.

Visa and Mastercard had disputed claims of making payments to Apple, and had argued that the iPhone maker in its agreements with the networks expressly preserved a right to compete with them.

Apple argued that the complaint failed to show that the company had any plan to enter the payments network market and compete with Visa or Mastercard.

In his ruling, Dugan said the merchants' allegations "completely ignore the difficulties, costs and time, risks, and potential for failure associated with such an endeavor."

The case is *Mirage Wine & Spirits Inc et al v. Apple et al*, U.S. District Court for the Southern District of Illinois, No. 3:23-cv-03942-DWD.

For plaintiffs: Robin van der Meulen of Scott + Scott; K. Craig Wildfang of Robins Kaplan; Christopher Burke of Burke LLP; Amelia Burroughs of Burroughs Law Group; Michelle Looby of Gustafson Gluek; and Stephen Tillery of Korein Tillery

For Apple: Belinda Lee of Latham & Watkins

For Visa: Michael Shuster of Holwell Shuster & Goldberg, and Matthew Eisenstein of Arnold & Porter Kaye Scholer

For Mastercard: Brette Tannenbaum of Paul, Weiss, Rifkind, Wharton & Garrison

Read more:

[Swiss privacy tech firm Proton sues Apple in US over app store rules](#)

[Apple must face consumer lawsuit over iCloud storage, US judge rules](#)

[Mastercard defeats mobile wallet platform's antitrust lawsuit](#)

[Visa hit with merchant class action after US Justice Dept antitrust lawsuit](#)

Our Standards: [The Thomson Reuters Trust Principles.](#), [opens new tab](#)

Boston Firm Sues Lockridge Grindal Over Fees in Fish Settlement

July 09, 2025 | By  Amanda Bronstad

What You Need to Know

- The antitrust class action alleged anticompetitive pricing in the North American salmon industry and was settled in 2023 for \$33 million.
- Vita Law Offices claims it had a referral fee agreement to receive 15% of the settlement's attorney fees.
- A federal judge in Massachusetts ordered Vita to explain by July 14 why 'multiple fabricated quotes' existed in its most recent filing—a finding that could lead to sanctions.



Kokanee Salmon (*Oncorhynchus nerka*) in its spawning colors, Utah, USA. Photo by: Irina K/stock.adobe.com

A Boston firm sued Lockridge Grindal Nauen and one of its partners for reneging on an alleged referral fee contract in the farmed salmon antitrust litigation.

Vita Law Offices alleges it is owed for referring two lead plaintiffs for the antitrust class action, which was settled in 2023 for \$33 million. The complaint asks for \$660,000 in unpaid fees, which, when trebled under the Massachusetts consumer protection statute for willful acts of bad faith, come to nearly \$10 million.

“In this instance, plaintiff’s expertise and efforts, through its principal, Richard J. Vita, Esq., directly contributed to the success of the salmon antitrust litigation, a landmark case addressing anticompetitive practices in the North Atlantic farmed salmon industry,” according to the May 19 complaint, filed in Massachusetts’ Suffolk County Superior Court against Minneapolis-based Lockridge and partner Heidi Silton. At the time, Lockridge had no client to serve as lead plaintiff.

Lockridge has denied the existence of a contract and removed the suit to federal court, where a judge this month ordered Vita to explain by July 14 why “multiple fabricated quotes” existed in its most recent filing—a finding that could lead to sanctions.

“In its response,” U.S. District Judge Brian Murphy of the District of Massachusetts wrote in his July 1 order, “plaintiff must list any other instances of inaccurate quotations that appear in any of the briefs that plaintiff has submitted to the court in this action, including any other inaccuracies contained within those briefs, such as citing to a fake case. For each false citation or quotation, including those listed by the court above, plaintiff must explain how that citation or quotation came to appear in a brief that it submitted to the court.”

In an email to Law.com, Vita attorney Christopher Cervantes, of Boston’s Cervantes Law, said there were no fake citations in the briefs.

“The issue raised by the court relates to a quotation that was inadvertently misattributed to a cited case,” he wrote. “The case itself was properly cited, and we intend to address the matter in full in our forthcoming response to the court’s order.”

As to the complaint, he said, “We stand by the allegations in our complaint and remain committed to securing the referral compensation our client is owed.”

Silton, in Minneapolis, and Lockridge partner Stephen Teti and senior counsel Kristie LaSalle, both in Boston, did not respond to a request for comment.

‘Coercive Tactic’ or ‘Outright Frivolous’?

The class action alleged that salmon producers illegally raised consumer prices in violation of several state antitrust laws.

Vita referred two lead plaintiffs, Wood Mountain Fish LLC and Stephen T. DeAngelis Inc., doing business as Golden Goose Markets, to Fred Isquith, then of Wolf Haldenstein Adler Freeman & Herz, who was co-lead counsel with Silton for the indirect purchasers. In its complaint, Vita alleges Isquith, with Silton's approval, agreed to provide 15% of the fees from any settlement as payment for the referrals. The settlement provided nearly \$10 million in fees, of which approximately \$4.4 million was allocated to Lockridge.

However, in 2024, Lockridge sent a check for approximately \$14,000 to Vita Law Offices, based on the number of hours billed in the case.

"This coercive tactic, explicitly conditioning payment on waiver of plaintiff's referral fee claim, aimed to exploit plaintiff's financial position and pressure it into relinquishing its rightful claim," the complaint says.

But, Lockridge claims no knowledge of Vita's alleged fee contract, which it referred to as an "imagined referral agreement."

"Vita's claims are baseless, if not outright frivolous," Teti wrote in a May 28 filing. Vita contributed 22 hours of work and had no expenses, while Lockridge contributed 7,400 hours and incurred \$27,000 in expenses.

"LGN repeatedly, over the course of several months, asked both Vita and his counsel of record in this litigation to produce a copy of the referral agreement—or any documentary evidence that such an agreement was reached," he wrote. "Vita has not produced one iota of evidence. To the contrary, Vita's response confirms no such agreement existed."

Even Isquith admitted to Silton that no written referral fee agreement existed, Teti wrote.

"Although he later back-tracked, musing that he 'must have' said something about it, he could provide no details, such as when it was discussed, what he said, or his recollection of Ms. Silton's response," Teti wrote. "In fact, despite being given many opportunities to address the issue during the events leading up to this suit, Mr. Isquith has never said that he alerted LGN to the purported agreement."

In an email to Law.com, Isquith, of Isquith Law in New York, said, "I do not have any comments. I am not familiar with much that you mention."

Vita Law Offices accepted the check but failed in its efforts to mediate its dispute over the referral agreement.



Brian Edward Murphy testifies before the Senate Judiciary Committee during his confirmation hearing to be U.S. District Judge for the District of Massachusetts, on Wednesday, April 17, 2024. Photo: Diego M. Radzinski/ALM

The case citations referenced in Murphy's order focus on a June 11 brief in which Vita argued that the case belonged back in Suffolk County Superior Court, while Lockridge has moved to transfer the case to Florida, where U.S. District Judge Rodney Smith of the Southern District of Florida approved the salmon antitrust settlement.

Vita is due to respond to Lockridge's transfer motion by July 22.

Page printed from: <https://www.law.com/2025/07/09/boston-firm-sues-lockridge-grindal-over-fees-in-fish-settlement/>

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Gunmakers lose appeal challenging New York public nuisance law



reuters.com/legal/litigation/gunmakers-lose-appeal-challenging-new-york-public-nuisance-law-2025-07-10

Jonathan Stempel

July 10, 2025

Item 1 of 2 Guns are displayed after a gun buyback event organized by the New York City Police Department (NYPD), in the Queens borough of New York City, U.S., June 12, 2021. REUTERS/Eduardo Munoz/File Photo

[1/2] Guns are displayed after a gun buyback event organized by the New York City Police Department (NYPD), in the Queens borough of New York City, U.S., June 12, 2021. REUTERS/Eduardo Munoz/File Photo [Purchase Licensing Rights, opens new tab](#)

- Law exposes gun industry to civil lawsuits for violence
- Court says New York not preempted by 2005 federal law
- Gun manufacturers called law unconstitutional

NEW YORK, July 10 (Reuters) - A federal appeals court on Thursday upheld a New York public nuisance law exposing the gun industry to possible civil lawsuits for violence caused when people use their products.

The 2nd U.S. Circuit Court of Appeals in Manhattan rejected a facial challenge to the law by the National Shooting Sports Foundation trade group and 14 members including Beretta, Glock, Sig Sauer, Smith & Wesson ([SWBI.O](#)), [opens new tab](#) and Sturm, Ruger ([RGR.N](#)), [opens new tab](#).

Signed by Democratic Governor Andrew Cuomo in July 2021, the law lets New York, local officials and the public sue manufacturers, wholesalers and dealers for endangering people's safety and health through sales of firearms and ammunition.

In a 3-0 decision, Circuit Judge Eunice Lee said the law was not preempted by the federal Protection of Lawful Commerce in Arms Act of 2005, which shielded the firearms industry from civil liability when its products are used in crimes.

Lee said Congress intended to preserve "at least some causes of action" for knowing violations of state firearms sales and marketing laws, and New York's law was not vague about how the gun industry could comply.

She also said the law did not violate the U.S. Constitution's dormant Commerce Clause by discriminating against interstate commerce, citing the law's public health and safety goals and absence of specifically identified economic burdens.

A spokesperson for the gun industry plaintiffs had no immediate comment. The office of New York Attorney General Letitia James, who defended the state law, also had no immediate comment.

Circuit Judges Raymond Lohier and Dennis Jacobs joined Lee's decision. Lee was appointed to the bench by Democratic President Joe Biden, Lohier by Democratic President Barack Obama, and Jacobs by Republican President George H.W. Bush.

In a grudging concurrence, Jacobs said "there is every indication" New York intended to contravene federal law, but he was "constrained to agree" the state law could be applied legally.

He nonetheless faulted lawmakers for having "contrived a broad public nuisance statute that applies solely to gun industry members and is enforceable by a mob of public and private actors. The intent of Congress when it closes a door is not for states to thus jimmy a window."

The appeals court upheld a [May 2022 ruling](#) by U.S. District Judge Mae D'Agostino in Albany, New York.

The case is National Shooting Sports Foundation Inc et al v James, 2nd U.S. Circuit Court of Appeals, No. 22-1374.

Reporting by Jonathan Stempel in New York; Editing by Chris Reese

Our Standards: [The Thomson Reuters Trust Principles.](#), [opens new tab](#)

Judge allows Uber sexual assault claims to proceed

DJ[dailyjournal.com/articles/386491-judge-allows-uber-sexual-assault-claims-to-proceed](https://www.dailyjournal.com/articles/386491-judge-allows-uber-sexual-assault-claims-to-proceed)

Jul. 10, 2025

A San Francisco judge allows sexual assault claims against Uber to proceed, focusing on its driver rating system, setting the stage for bellwether trials that could reshape rideshare industry standards.

Despite dismissing several fraud claims and a bellwether plaintiff from a consolidated sexual assault litigation against Uber, a federal judge in San Francisco declined Uber's request to dismiss other claims including those stemming from its driver rating system.

The Tuesday order from U.S. District Judge Charles Breyer sets the stage for the first wave of bellwether trials on Dec. 8 that could reshape the rideshare industry.

Breyer partially granted Uber's motion to dismiss fraudulent misrepresentation claims, finding its anti-drunk driving ads were mere "non-actionable puffery" and not grounds for fraud.

Breyer allowed product liability claims to proceed under the driver notification system but limited those claims to cases where a driver's criminal history was not disclosed.

He wrote, "A jury could reasonably infer that Uber intentionally withheld certain negative information from its driver notifications that would have dissuaded passenger largely motivated by safety from choosing Uber's services."

He also allowed claims regarding the lack of a gender-matching option and app-based ride recording to proceed.

A bellwether plaintiff, identified as WHB 1876, had her case dismissed entirely because she failed to allege common carrier or strict product liability claims, instead asserting only nonphysical harm tied to driver misconduct.

Breyer ordered class counsel to select a new bellwether plaintiff in the next two weeks. *In re: Uber Technologies, Inc. Passenger Sexual Assault Litigation*, 3:23-md-03084 (N.D. Cal. filed Oct. 4, 2023).

Uber's media relations office and the attorneys from both parties could not be reached for comment on Wednesday.

One of Uber's attorneys, Sabrina H. Strong of O'Melveny & Myers LLP, argued in the motion to dismiss that the average app user would not be misled into believing Uber guaranteed them a safe ride home through its advertising and driver rating system. Strong argued that no reasonable consumer would take Uber's 'Designated Driver' ads or star ratings as safety guarantees.

No plaintiff "alleges she even looked at, much less relied upon, the 'star rating' of the driver who allegedly assaulted her," Strong wrote.

In an opposition brief one of the plaintiffs' attorneys, Sarah R. London of Girard Sharp LLP, argued that some of her clients did rely on Uber's rating and driver notification system because they were prompted by the Uber app to do so.

"The app makes it exceedingly difficult to order an Uber, identify the vehicle, and enter the car without seeing the messages about the driver," the brief stated. "In fact, the app prompts passengers to look at the app, especially at the driver information, by sending notifications when a driver is assigned and when he is nearby."

The following firms serve as counsel for the plaintiffs: Girard Sharp LLP, Peiffer Wolf Carr Kane Conway & Wise LLP, and Chaffin Luhana LLP. The following firms represent Uber: Kirkland & Ellis LLP, Shook, Hardy & Bacon LLP and O'Melveny & Myers LLP.

#386491

Wisdom Howell

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Judge prunes some claims from bellwether cases in Uber sexual assault litigation



[courthousenews.com/judge-prunes-some-claims-from-bellwether-cases-in-uber-sexual-assault-litigation/](https://www.courthousenews.com/judge-prunes-some-claims-from-bellwether-cases-in-uber-sexual-assault-litigation/)

An Uber sign is displayed inside a car in Palatine, Illinois, on Feb. 10, 2022. (Nam Y. Huh/AP)

(CN) — A federal judge in San Francisco cut some of the claims in the bellwether cases headed for trial as soon as December by women who say their Uber drivers sexually assaulted them.

Lawsuits against Uber by more than 1,400 plaintiffs are consolidated before Senior U.S. District Judge Charles Breyer in San Francisco for pretrial proceedings. Twenty so-called bellwether cases were selected by Uber and plaintiffs' counsel to go to trial first and be used as a template for subsequent trials or settlements.

In his Tuesday [decision](#), Breyer, a Bill Clinton appointee, agreed with Uber that some of the claims in the various bellwether cases shouldn't go before a jury.

For one, the judge found fraud claims weren't plausible over Uber's advertisements warning about drunk driving and offering ride-sharing as an alternative — presumably without mentioning the risk of sexual assault.

"The court is not convinced that a reasonable consumer could believe the two ads at issue — 'Don't drink and drive, call an Uber,' and 'Stay safe tonight. Use Uber. — conveyed anything more than a generic encouragement to take an Uber ride rather than drive while drunk," Breyer said. "Indeed, Uber's designated driver marketing is directly analogous to the types of language other courts have readily identified as non-actionable puffery."

However Breyer denied Uber's attempt to throw out fraud claims saying the ride-hailing behemoth omitted information about drivers' previous misconduct and criminal history when its app identifies the driver to a passenger.

"It is not outlandish for Uber riders to expect that the driver notifications, purportedly designed to help them stay safe and 'get to know their driver,' would include relevant negative information about a driver that might help a rider make an informed decision about whether to accept a ride," the judge said.

On a motion to dismiss, the judge doesn't rule on the merits of the plaintiffs' claims but only considers whether they meet the legal threshold to proceed.

The judge also dismissed some of the bellwether plaintiffs' product liability claims related to Uber's "safe ride matching" feature; he said the option is more akin to a service than a product.

But Breyer agreed with the plaintiffs that the absence of a gender-matching option on the Uber app, which is a product, can give rise to a product liability claim.

Representatives for Uber and the lead attorney for the plaintiffs didn't immediately respond to requests for comment on the ruling.

The consolidated lawsuits have the [potential](#) to rock the industry and could lead to safety changes such as mandatory in-vehicle driver surveillance.

"This is one of the largest federal sexual assault litigations ever, and it will undoubtedly change the American rideshare industry forever," Kevin Conway, managing partner at Peiffer Wolf, said in 2023 when the cases were consolidated. "In the future, we'll look back with disbelief that Uber drivers were once permitted to operate without any meaningful or effective oversight.

Peiffer Wolf partner Rachel Abrams is one of the lead lawyers in the multi-district litigation.

Abrams said in announcing the suits in 2023 that Uber has been aware since 2014 that drivers were sexually assaulting passengers. Even though the company acknowledged assaults were happening in 2019, she maintains the company has failed to implement policies or mandates to protect riders.

Abrams said Uber's former CEO Travis Kalanick intentionally hired drivers without checking fingerprints or combing through FBI databases, while the company actively lobbied against regulatory efforts to require biometric tests.

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Law firms jockey over stake in Disney consumer antitrust settlement



reuters.com/legal/litigation/law-firms-jockey-over-stake-disney-consumer-antitrust-settlement-2025-07-09

Mike Scarcella

July 9, 2025

The logo of the Times Square Disney store is seen in Times Square, New York City, U.S. December 5, 2019. REUTERS/Nick Pfosi/File Photo [Purchase Licensing Rights, opens new tab](#)

July 9 (Reuters) - A proposed consumer antitrust settlement with The Walt Disney Co ([DIS.N](#)), [opens new tab](#) has kicked off a turf battle among competing plaintiffs law firms, with one group calling the deal unfair and the other warning the spat could blow up the agreement.

Disney in June agreed to pay an undisclosed amount to settle a class action lawsuit by YouTube TV, DirecTV Stream and FuboTV subscribers represented by law firm Bathaee Dunne who claimed the company harmed competition for live-streamed paid television through agreements with providers.

Rival plaintiffs' lawyers at law firms DiCello Levitt and Lite DePalma Greenberg & Afanador, who represent Fubo consumers in a related lawsuit against Disney, complained in a Tuesday [court filing, opens new tab](#) that they were excluded from the negotiations.

The filing accused Bathaee Dunne, which [sued first](#) in 2022, of allowing Disney to engage in a "reverse auction" by agreeing to an inadequate settlement at the expense of other plaintiffs.

The Bathaee Dunne firm has denied allowing a lowball settlement and said in [court filings, opens new tab](#) that the deal is contingent on the firm being appointed as lead counsel for classes of YouTube TV, DirecTV Stream and Fubo subscribers.

Bathaee Dunne said the rival attorneys are "newly-arrived" and that their jockeying for a bigger seat at the table could derail the settlement.

Disney, which has denied any wrongdoing, and a lawyer for the company did not immediately respond to requests for comment. The lead plaintiffs' attorneys in both cases also did not immediately respond to requests for comment.

Disney controls live-stream provider Hulu and the sports network ESPN. Disney has required streaming providers such as YouTube TV to include ESPN as part of a base package. The consumer lawsuits contend Disney's business agreements artificially increased consumer prices across the market for livestreamed television.

The proposed Disney settlement features a monetary component and other benefits, but the terms have not been publicly disclosed.

Disney in a recent filing said the proposed settlement is not open to renegotiation.

The cases are Biddle v. The Walt Disney Co and Unger v. The Walt Disney Co, U.S. District Court for the Northern District of California, Nos. 5:22-cv-07317 and 5:25-cv-01163.

For Biddle: Yavar Bathaee and Brian Dunne of Bathaee Dunne

For Unger: Joseph DePalma and Steven Greenfogel of Lite DePalma Greenberg & Afanador; Greg Ascioffa and Carrie Syme of DiCello Levitt

For Disney: Daniel Petrocelli of O'Melveny & Myers

Read more:

[Disney's Hulu + Live TV business to combine with Fubo, clearing way for Venu Sports](#)

[US Justice Dept, states back FuboTV in lawsuit over streaming sports venture](#)

[Disney must face consumer antitrust claims in TV streaming lawsuits](#)

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Wildfire litigation prompts law firms to bolster teams

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[dailyjournal.com/articles/386495-wildfire-litigation-prompts-law-firms-to-bolster-teams](https://www.dailyjournal.com/articles/386495-wildfire-litigation-prompts-law-firms-to-bolster-teams)

Jesse A. Schram

Kabateck LLP announced this week it hired two attorneys to beef up its wildfire litigation practice.

The addition of Jesse A. Schram and Matthew P. French will help the firm manage its caseload stemming from the Eaton Fire while maintaining client service, according to the firm's founder, Brian S. Kabateck. But their hiring also shows how plaintiffs' firms are shifting their resources in pursuit of big-ticket settlements associated with wildfires and other disasters.

"A lot of lawyers are competing for the same cases," Kabateck said in an interview Tuesday. "Having people that are knowledgeable about the handling of mass actions and know how to deal with clients is our calling card. We're making sure we have enough people in the office."

Matthew P. French

Schram, a seasoned mass tort attorney, "brings deep experience in wildfire and disaster litigation, leading efforts to recover compensation for victims across California, Maui, Texas, and beyond," Kabateck LLP said in a news release about its new of counsel. He was a lead attorney for the Maui (Lahaina), Texas (Panhandle), and Orange and Riverside County (Airport Fire) wildfire recovery cases.

French, a new associate, brings five years of litigation experience "and a compassionate approach to complex personal injury cases," as well as passionate advocacy for wildfire victims, the firm said.

The January 7 fires destroyed large tracts of Altadena and Pacific Palisades. Plaintiffs' attorneys claim Southern California Edison is responsible for the Eaton Fire and have rushed to sign up clients.

The game is somewhat familiar now: Southern California Edison was implicated in the 2017 Thomas Fire in Santa Barbara and Ventura counties and the 2018 Woolsey Fire in Ventura and Los Angeles counties. Many of the attorneys that sued Edison then have sued Edison over the Eaton Fire. Hueston Hennigan LLP is again representing Edison. Anybody who questions the stakes needs only to observe the proceedings in Judge Laura A. Seigle's downtown LA courtroom: The gallery is full of attorneys taking notes.

The conflagration has enticed less experienced attorneys to get involved, lawyers say. But there is a huge learning curve for attorneys who are new to wildfire litigation, Kabateck noted. Experts are not cheap, and it can cost \$25,000 to \$50,000 to work up a case for mediation, he said.

"Edison doesn't roll over. I've had other cases negotiated with Edison. They think I've taken extreme positions. I think they've taken extreme positions," Kabateck said.

"Somebody like [Gerald] Singleton, our firm, Pat McNicholas - we know what they want, what Doug Dixon wants and what they want to see, what they want to work up," he continued. "You have to have the work-up done because that's what's going to get Edison to pay you," he continued. Hueston Hennigan partner Douglas J. Dixon is leading Edison's defense.

Law firms have historically adapted their practices as new areas of the law opened, such as insurance bad faith or utility-caused wildfires, veteran Santa Ana-based litigator Wylie A. Aitken said.

The head of Aitken Aitken & Cohn said he noticed that law firms began to reallocate their resources when wildfires broke out north of San Francisco a few years ago.

"Those were some of the first fires they figured out were brought about by the power lines and power companies," Aitken said. "So, you partner up, you allocate or you add people to your strong team."

Singleton Schreiber expanded.

Gerald B. Singleton started as a sole practitioner. Singleton Schreiber's first wildfire case was in 2007 with the San Francisco wildfires. That was followed by the Los Angeles County Powerhouse Fire of 2013; the Butte Fire in Calaveras County in 2015; the North Bay, Camp and Thomas fires in 2017; and the Woolsey Fire in 2018. Singleton is one of the liaison counsel for the individual plaintiffs in the Eaton Fire cases.

The firm now has 90 lawyers, more than 300 support staff, and cases in eight states. Wildfires make up about 50% of its business, Singleton said.

Bradley Grombacher LLP, based in Westlake Village, partnered with Aylstock Witkin Kreis & Overholtz PLLC in the California Fire Victims Law Center. Aylstock Witkin Kreis & Overholtz is based in Pensacola, Florida.

The partnership combines the former's knowledge of the L.A. area with the latter's resources and expertise in mass torts and disaster litigation.

Kylie L. Grombacher said she and her two children evacuated their home in the Pacific Palisades. Her firm did not plan to get involved in litigation stemming from the fires. But many of her friends reached out to her, and she reconsidered.

"I realized we need to do this, but we haven't done a lot of fire and complex. So, we partnered with Bryan's firm. They've done hurricanes, catastrophes and mass torts. They know how to manage cases," she said.

Bryan F. Aylstock and his colleagues have litigated matters stemming from Hurricanes Ivan, Katrina, Michael and Sally. The California Fire Victims Law Center has accused the California FAIR Plan Association of bad faith and breach of contract, claiming it delayed or underpaid claims from the Eaton and Palisades fires. And they're following the proceedings in Seigle's courtroom.

"This is not a situation where client needs should be put on hold," Aylstock said. "You can't under-resource these cases. We have lots of litigators. We have adjusters on staff. We have the blend to handle the large volume."

Aylstock expects disasters to become more frequent and more catastrophic due to climate change.

"There is a constant need for lawyers who will step up," he said. "With a lot of the climate change litigation, if you don't have insurance and you have a hurricane, it's called an act of God for a reason. With fire usually there's a cause. If there's a company and there's negligence, there's a way to recover for your client. Insurance companies are failing. One way to hold them accountable is through litigation."

#386495

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McDonald's AI Hiring Bot Exposed Millions of Applicants' Data to Hackers Who Tried the Password '123456'



wired.com/story/mcdonalds-ai-hiring-chat-bot-paradoxai

Andy Greenberg

July 9, 2025



If you want a job at McDonald's today, there's a good chance you'll have to talk to Olivia. Olivia is not, in fact, a human being, but instead an [AI chatbot](#) that screens applicants, asks for their contact information and résumé, directs them to a personality test, and occasionally makes them "[go insane](#)" by repeatedly misunderstanding their most basic questions.

Until last week, the platform that runs the Olivia chatbot, built by artificial intelligence software firm Paradox.ai, also suffered from absurdly basic security flaws. As a result, virtually any hacker could have accessed the records of every chat Olivia had ever had with McDonald's applicants—including all the personal information they shared in those conversations—with tricks as straightforward as guessing the username and password "123456."

On Wednesday, security researchers Ian Carroll and Sam Curry [revealed](#) that they found simple methods to hack into the backend of the AI chatbot platform on McHire.com, McDonald's website that many of its franchisees use to handle job applications. Carroll and Curry, hackers with a [long track record](#) of independent security testing, discovered that simple web-based vulnerabilities—including guessing one laughably weak password—

allowed them to access a Paradox.ai account and query the company's databases that held every McHire user's chats with Olivia. The data appears to include as many as 64 million records, including applicants' names, email addresses, and phone numbers.

Carroll says he only discovered that appalling lack of security around applicants' information because he was intrigued by McDonald's decision to subject potential new hires to an AI chatbot screener and personality test. "I just thought it was pretty uniquely dystopian compared to a normal hiring process, right? And that's what made me want to look into it more," says Carroll. "So I started applying for a job, and then after 30 minutes, we had full access to virtually every application that's ever been made to McDonald's going back years."

When WIRED reached out to McDonald's and Paradox.ai for comment, a spokesperson for Paradox.ai shared a [blog post](#) the company planned to publish that confirmed Carroll and Curry's findings. The company noted that only a fraction of the records Carroll and Curry accessed contained personal information, and said it had verified that the account with the "123456" password that exposed the information "was not accessed by any third party" other than the researchers. The company also added that it's instituting a bug bounty program to better catch security vulnerabilities in the future. "We do not take this matter lightly, even though it was resolved swiftly and effectively," Paradox.ai's chief legal officer, Stephanie King, told WIRED in an interview. "We own this."

In its own statement to WIRED, McDonald's agreed that Paradox.ai was to blame. "We're disappointed by this unacceptable vulnerability from a third-party provider, Paradox.ai. As soon as we learned of the issue, we mandated Paradox.ai to remediate the issue immediately, and it was resolved on the same day it was reported to us," the statement reads. "We take our commitment to cyber security seriously and will continue to hold our third-party providers accountable to meeting our standards of data protection."

Carroll says he became interested in the security of the McHire website after spotting a [Reddit post](#) complaining about McDonald's hiring chatbot wasting applicants' time with nonsense responses and misunderstandings. He and Curry started talking to the chatbot themselves, testing it for "[prompt injection](#)" vulnerabilities that can enable someone to hijack a large language model and bypass its safeguards by sending it certain commands. When they couldn't find any such flaws, they decided to see what would happen if they signed up as a McDonald's franchisee to get access to the backend of the site, but instead spotted a curious login link on McHire.com for staff at Paradox.ai, the company that built the site.

On a whim, Carroll says he tried two of the most common sets of login credentials: The username and password "admin," and then the username and password "123456." The second of those two tries worked. "It's more common than you'd think," Carroll says. There appeared to be no multifactor authentication for that Paradox.ai login page.

With those credentials, Carroll and Curry could see they now had administrator access to a test McDonald's "restaurant" on McHire, and they figured out all the employees listed there appeared to be Paradox.ai developers, seemingly based in Vietnam. They found a link within the platform to apparent test job postings for that nonexistent McDonald's location, clicked on one posting, applied to it, and could see their own application on the backend system they now had access to. (In its blog post, Paradox.ai notes that the test account had "not been logged into since 2019 and frankly, should have been decommissioned.")

That's when Carroll and Curry discovered the second critical vulnerability in McHire: When they started messing with the applicant ID number for their application—a number somewhere above 64 million—they found that they could increment it down to a smaller number and see someone *else's* chat logs and contact information.

The two security researchers hesitated to access too many applicants' records for fear of privacy violations or hacking charges, but when they spot-checked a handful of the 64-million-plus IDs, all of them showed very real applicant information. (Paradox.ai says that the researchers accessed seven records in total, and five contained personal information of people who had interacted with the McHire site.) Carroll and Curry also shared with WIRED a small sample of the applicants' names, contact information, and the date of their applications. WIRED got in touch with two applicants via their exposed contact information, and they confirmed they had applied for jobs at McDonald's on the specified dates.

The personal information exposed by Paradox.ai's security lapses isn't the most sensitive, Carroll and Curry note. But the risk for the applicants, they argue, is heightened by the fact that the data is associated with the knowledge of their employment at McDonald's—or their intention to get a job there. "The phishing risk is actually massive," says Curry. "It's not just people's personally identifiable information and résumé. It's that information for people who are looking for a job at McDonald's, people who are eager and waiting for emails back."

That means the data could be used by fraudsters impersonating McDonald's recruiters and asking for financial information to set up a direct deposit, for instance. "If you wanted to do some sort of payroll scam, this is a good approach," Curry says.

The exposure of applicants' attempts—and in some cases failures—to get what is often a minimum-wage job could also be a source of embarrassment, the two hackers point out. But Carroll notes that he would never suggest that anyone should be ashamed of working under the Golden Arches.

"I have nothing but respect for McDonald's workers," he says. "I go to McDonald's all the time."

Trial Court Decides Case Based On AI-Hallucinated Caselaw



abovethelaw.com/2025/07/trial-court-decides-case-based-on-ai-hallucinated-caselaw

Joe Patrice

July 1, 2025



Every time a lawyer cites a fake case spit out by generative AI, an angel gets its wings. When the lawyers in *Mata v. Avianca* infamously earned a rebuke for citing an AI-imagined alternate history of the Montreal Convention, many of us assumed the high-profile embarrassment would mark the end of fake cases working their way into filings. Instead, new cases crop up with alarming frequency, ensnaring everyone from [Trump's former fixer](#) (Opens in a new window) to [Biglaw](#) (Opens in a new window) to — almost certainly — [the DOJ](#) (Opens in a new window). It seems no amount of public embarrassment can overcome [laziness](#) (Opens in a new window).

But so far, the system has stood up to these errors. Between opposing counsel and diligent judges, fake cases keep getting caught before they result in real mischief. That said, it was always only a matter of time before a poor litigant representing themselves fails to know

enough to sniff out and flag *Beavis v. Butthead* and a busy or apathetic judge rubberstamps one side's proposed order without probing the cites for verification. Hallucinations are all fun and games until they work their way into the orders.

It finally happened with a trial judge issuing an order based off fake cases ([flagged by Rob Freund](#) (Opens in a new window)). While the appellate court put a stop to the matter, the fact that it got this far should terrify everyone.

[Shahid v. Esaam](#) (Opens in a new window), out of the Georgia Court of Appeals, involved a final judgment and decree of divorce served by publication. When the wife objected to the judgment based on improper service, the husband's brief included two fake cases. The trial judge accepted the husband's argument, issuing an order based in part on the fake cases. On appeal, the husband did not respond to the fake case claim, but....

Undeterred by Wife's argument that the order (which appears to have been prepared by Husband's attorney, Diana Lynch) is "void on its face" because it relies on two non-existent cases, Husband cites to 11 additional cites in response that are either hallucinated or have nothing to do with the propositions for which they are cited. Appellee's Brief further adds insult to injury by requesting "Attorney's Fees on Appeal" and supports this "request" with one of the new hallucinated cases.

They cited MORE fake cases to defend their first set of fake cases. Epic. A perpetual motion machine of bullshit, if you will. Seeking attorney's fees based on a fake case was a nice touch. Probably should've thought of that at the trial court level, it probably would've worked.

The appellate court could not make the factual leap to blame AI for the fake cases, but laid out its theory of the case:

As noted above, the irregularities in these filings suggest that they were drafted using generative AI. In his 2023 Year-End Report on the Federal Judiciary, Chief Justice John Roberts warned that "any use of AI requires caution and humility." Roberts specifically noted that commonly used AI applications can be prone to "hallucinations," which caused lawyers using those programs to submit briefs with cites to non-existent cases.

Well, there you go! Someone finally found a use for the [Chief Justice's infamous typewriter report](#) (Opens in a new window). Now it almost seems like a useful expenditure of official resources instead of a cynical opportunity to dodge addressing that his proposed solution to the Court's deepening ethical cesspool is... JAZZ HANDS!

But there's a critical line between submitting fake cases and judges acting on fake cases. The urgency the courts feel for stamping out fake citations stems in part from the "there but for the grace of my clerks go I" fear that the judge might bless a fake argument. Now that this

has happened to a trial judge out there, the high-profile embarrassment should mark the end of fake cases working their way into orders.

Where have I heard something like that before? *Re-reads first paragraph.*

We're screwed.



(Opens in a new window) is a senior editor at Above the Law and co-host of [Thinking Like A Lawyer](#) (Opens in a new window). Feel free to [email](#) (Opens in a new window) any tips, questions, or comments. Follow him on [Twitter](#) (Opens in a new window) or [Bluesky](#) (Opens in a new window) if you're interested in law, politics, and a healthy dose of college sports news. Joe also serves as a [Managing Director at RPN Executive Search](#) (Opens in a new window).

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Mergers & Acquisitions

Quinn Emanuel files suit over unpaid \$30mn fee after winning merger fight

Fee disputes in contested M&A transactions are not unprecedented as unhappy acquirers often contest bills



Quinn represented 3D printer Desktop Metal in a Delaware court fight to complete its \$183mn acquisition by larger rival Nano Dimension © Bloomberg

Sujeet Indap in New York

Published AN HOUR AGO



Law firm Quinn Emanuel has sued a listed 3D printing company, claiming it was short-changed on a \$30mn fee for winning a legal battle over a troubled merger.

[Quinn](#) represented 3D printer Desktop Metal in a Delaware court fight to complete its \$183mn acquisition by larger rival Nano Dimension. A judge ordered the deal completed in March but Quinn has yet to be paid, and now claims it is owed \$90mn by Nano as the successor company.

“Nano Dimension and its CEO, Ofir Baharav, have weaponised their newly acquired control over Desktop Metal, Inc. to exact revenge against the attorneys who defeated them — Quinn Emanuel,” the law firm said in the complaint filed in state court in Massachusetts, where Desktop Metal is headquartered.

Fee disputes in contested [M&A](#) transactions are not uncommon. Though Elon Musk reluctantly agreed to complete his \$44bn purchase of Twitter in 2022, he is still contesting a \$90mn fee paid to law firm Wachtell, Lipton, Rosen & Katz, which represented the social network in the litigation over the deal (Quinn was Musk’s law firm in that matter). More than a decade ago, Carl Icahn also sought to nullify fees owed to Wachtell after he won control of oil refiner CVR Energy, which hired Wachtell to defend it against the corporate raider.

Nano and Quinn Emanuel both declined to comment. News of the Quinn lawsuit was reported earlier by Law360.

Nano’s board approved the deal with Desktop Metal in mid-2024. Shortly after, Canadian hedge fund Murchinson, Nano’s second-largest shareholder, won board seats and argued the deal was too pricey.

Meanwhile, Desktop Metal became concerned Nano would not try to obtain necessary regulatory approval. It hired Quinn to pursue the Delaware lawsuit. Quinn said it worked “night and day” on the three-month case, assigning 27 attorneys to the matter. The firm offered Desktop Metal a 50 per cent discount on its normal rates but said its client would owe it 120 per cent of that if the buyout eventually closed.

Quinn said it feared not being paid, and speculated Nano would put Desktop into Chapter 11 bankruptcy.

“Despite having over \$845mn in cash and cash equivalents, Nano has selectively provided financing to Desktop Metal to pay other creditors while specifically directing Desktop Metal not to pay Quinn Emanuel,” the complaint said. “Meanwhile, Defendants have launched a so-called ‘strategic review’ — a thinly veiled process to strip Desktop Metal of valuable assets before an inevitable bankruptcy filing that will leave Quinn Emanuel and other creditors empty-handed”.

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"The joke here is that Quinn Emanuel repped Elon Musk in his attempt to break his contract to purchase Twitter; they failed, Musk was forced to buy the company, and he's now trying to avoid paying Twitter's counsel, Wachtell. www.nytimes.com/2023/07/07/t..." — Bluesky



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oh the humanity "Nano Dimension Ltd. and its CEO 'have weaponized their newly acquired control' over Quinn Emanuel's former client, ... Desktop Metal Inc., in a 'calculated campaign of corporate vengeance and predatory business tactics,'" www.law360.com/securities/a...



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The joke here is that Quinn Emanuel repped Elon Musk in his attempt to break his contract to purchase Twitter; they failed, Musk was forced to buy the company, and he's now trying to avoid paying Twitter's counsel, Wachtell. www.nytimes.com/2023/07/07/t...



[Twitter Sues Law Firm Over \\$90 Million Payment in Elon Musk Deal \(Published 2023\)](#)

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July 10, 2025 at 1:18 AM

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Though honestly I wonder if this is going to become a thing - if you rep a seller and succeed in forcing a buyer to complete an acquisition, you'll have to fight for your fee? Institutionally, it doesn't seem to create great incentives for the corporate bar.

DOJ Antitrust Division Launches Whistleblower Program With Monetary Rewards

July 09, 2025 By Dan Novak



Gail Slater testifies in February before the Senate Judiciary Committee during her confirmation hearing to be assistant attorney general for the Antitrust Division at the U.S. Department of Justice. Photo: Diego M. Radzinski/ALM

The U.S. Department of Justice's Antitrust Division could award individuals who report antitrust crimes up to 30% of the criminal fines recovered under a new whistleblower program the DOJ announced this week.

The Antitrust Division, for the first time, “will offer rewards for individuals who report antitrust crimes and related offenses that harm consumers, taxpayers, and free market competition across industries from health care to agriculture,” the department said in a statement.

Whistleblowers could be eligible for monetary compensation if the reporting leads to fines of at least \$1 million. If the department determines a monetary award is appropriate, the whistleblower will receive at least 15% of the recovered fine, with a maximum of 30%, and the award could be split among multiple whistleblowers, DOJ stated.

The Antitrust Division partnered with the U.S. Postal Service in creating the whistleblower program. USPS is part of the division’s Procurement Collusion Strike Force, which investigates antitrust crimes involving government procurement, grants and program funding.

“Antitrust crimes and related offenses that harm free market competition often occur in secret, making detection a formidable challenge,” Assistant U.S. Attorney General Gail Slater, who heads the division, said in a statement. “The new Whistleblower Rewards Program will create a new pipeline of leads from individuals with firsthand knowledge of criminal antitrust and related offenses that will help us break down those walls of secrecy and hold violators accountable.”

The DOJ has created a [webpage](#) where individuals can submit a whistleblower report directly to the Antitrust Division.

Reed Smith partner Michelle Mantine said it appears the DOJ is trying to make whistleblowing as user-friendly and easy as possible, noting that it sometimes takes the department several years to investigate alleged conduct like price fixing, so

“If you incentivize whistleblowers to come forward sooner rather than later... evidence will be preserved, and you can actually resolve the issues more quickly and efficiently,” said Mantine, who heads the law firm's global antitrust and competition practice.

The Antitrust Division has had a leniency program since the early 1990s in which corporations receive incentives like non-prosecution protections to self-report antitrust violations. But the leniency program does not offer any monetary award to individuals for reporting misconduct.

“Companies operating in the healthcare, life sciences, agricultural, and technology sectors should take particular note of this development given public statements by current Federal Trade Commission and Antitrust Division leadership on focusing enforcement in those areas,” Sidley Austin stated in a client memon on the new program.

The Antitrust Division's whistleblower program is similar to the Criminal Division’s Corporate Whistleblower Awards Pilot Program, which DOJ launched in August. That program awards individuals up to 30% of civil or criminal forfeitures.

Mantine said the Antitrust Division’s whistleblower program shows that the Trump administration will focus on combating antitrust-related crimes that harm consumers.

“Anyone who thought that was not a focal point—this to me suggests otherwise,” she added.

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Securities Law News

Opinion

Matt Levine's Money Stuff: Goldman's Quarterly Loyalty Updates

July 9, 2025, 10:59 AM PDT

On-cycle recruiting

In most jobs, the way your employer finds out that you have accepted a new job is that you come to them and say "I quit, I'm starting a new job in two weeks." Investment banking analysts are unusual in that they traditionally accept their next job (in private equity) two years before it starts, and then spend those two years working away at their investment bank. So if the bank wants to find out whether or not they have accepted a new job, it has to ask them periodically. The banks have not always wanted to find out, but now Goldman does:

Goldman Sachs Group Inc. plans to ask junior bankers to confirm their loyalty on a regular basis in a bid to limit advances from talent-hungry buyout firms.

The investment bank will ask new analysts to certify every three months that they haven't already lined up jobs elsewhere, according to people familiar with the matter, who asked not to be identified discussing the confidential plan. ...

The move is meant to thwart poaching by private equity firms that have been signing up junior bankers near the start of their on-the-job training, a practice known as on-cycle recruitment. Some buyout shops are even approaching newbies before they show up for their analyst programs, stoking tensions across the industry.

I hope that on-cycle recruiting now moves to one day after Quarterly Goldman Loyalty Oath Day. Still, two months and 29 days is a lot less than two years.

Banks have tried this from time to time over the years, but it has never really stuck: The banks say to analysts "it is unethical for you to take another job while you're working here," and the analysts say "sure whatever," and then the private equity firms call them and say "can you come in for an interview at 1:30 a.m. tonight?" and they say "of course," and then all the analysts do the interviews and take the jobs, and the bank *could* fire all of them but then who would do all the work? So the banks grumble periodically and then go back to grudgingly accepting that all their analysts have a foot out the door.

But this time seems different: Jame Dimon did the standard grumbling last month, and Apollo and General Atlantic quickly came out and said “he’s right you know,” and since then, the Financial Times reports, “no large buyout firm has launched its ‘on-cycle’ recruitment process during the traditional June window.” I mean, maybe they’ll launch tomorrow, but it feels like this truce might hold.

The good interpretation of that is “ahh, a sensible recruiting process that will allow private equity firms to assess people based on actual experience and interest.” The bad interpretation of that is “ehh, in two years, will anyone even need private equity associates?” The fundraising market isn’t great, so it’s not clear that they’ll have many deals to do, and in two years maybe the associates can be replaced by artificial intelligence anyway. Then what? Will the analysts be ... stuck at their banks? Horrors. For them, but also for the banks, whose hiring model assumes that most of them will leave. The FT goes on:

Banks have also started to worry that they may end up with a surplus of junior analysts amid a slowdown in recruiting for post-banking roles across private equity, hedge funds and big companies.

One senior banker at Goldman Sachs said banks could now find their own hiring models upended, with a lower rate of natural attrition than anticipated — and potentially more difficulty securing the best candidates to start with.

I guess that’s another reason for Goldman to check in every three months. “Have you taken another job yet? No? Why not? Are you working on anything? Can we help?”

Gold treasury company

The basic idea is that the US stock market will pay \$2 or more for \$1 worth of Bitcoin. If a company buys \$1 of Bitcoin, its market capitalization will go up by \$2. Companies want to increase shareholder value, and this is a free-money way to do it, so lots of companies do.

It is at least possible that there are diminishing returns to this, and the 20th company announcing a Bitcoin treasury strategy will not get the same premium that the first gets. (The evidence is mixed.) So companies have branched out into other cryptocurrencies to keep things interesting; there are Ethereum and Tron and Solana and BNB and Trumpcoin treasury companies. The list of big crypto tokens is pretty picked over at this point. If you want to do this trade now, you might try something else. “Maybe the US stock market will pay \$2 for \$1 worth of _____,” you think, where what goes in the blank is (1) big and attention-getting, (2) relatively liquid (so you can buy it incrementally as money comes in and mark it to market as the price goes up), (3) somewhat crypto-adjacent in spirit but (4) not a big obvious crypto token.

What about gold? Gold is a big market, it has some spiritual overlap with crypto, but it is not actually crypto. Obviously there are gold mining companies, but never mind that; there are Bitcoin mining companies too, and that doesn’t stop the Bitcoin treasury strategy from working. If a company just bought gold, would its stock trade at a premium to the value of the gold? If it also put out big crypto-flavored announcements about how buying gold on the blockchain is the future of finance? Sure, maybe, why not. Here’s this:

BioSig Technologies, Inc. ("BioSig" or the "Company"), which recently merged with Streamex Exchange Corporation ("Streamex") (Nasdaq: BSGM), announced [Monday] that the Company has entered into definitive agreements with a leading institutional investor for up to US\$1.1 billion in growth financing, positioning the Company to become one of Nasdaq's largest public holders of gold bullion. This transaction positions the Company to capitalize on its goal of reshaping the future of global finance by beginning to bring the approx. \$142 trillion commodities market on chain through real world asset tokenization. ...

The Company believes that this transaction will secure its position as a gold treasury company and anticipates a continued investment in RWA blockchain technology. The Company looks ahead to securing substantial financial flexibility and seizing opportunities within its core markets. ...

BioSig CEO and Streamex Co-Founder Henry McPhie, says, "This financing marks a pivotal moment not only for Streamex and BioSig, but for the evolution of global financial markets. By combining the value of physical gold with the innovation of blockchain, we are building a company grounded in what we believe to be the world's most trusted store of value while enabling a scalable, high-return business model through tokenization. Our mission is to unlock liquidity, transparency, and accessibility across the \$142 trillion commodities market, and this milestone is just the beginning."

Terrific! In May, BioSig, then a medical technology company, announced its merger with Streamex, "a privately held company specializing in the tokenization of real-world assets," and the stock has gone up since; I am sure I do not need to tell you that it has no revenue. Its market capitalization at yesterday's close was \$1.1 billion (before this new investment), suggesting that the market is putting a premium on its notional stash of gold. The system works.

Tokenization, and particularly real-world-asset tokenization, are big themes in modern crypto, but crypto treasury companies are also a big and very practical theme: It is great to talk about how you will transform the financial system by putting real estate or commodities on the blockchain, but it is free money to put \$100 of crypto in a pot and sell shares in the pot for \$200. Transmuting real assets into tokens is innovative, but transmuting *tokens* into *stock* is *lucrative*. Perhaps transmuting real assets into stock could also be lucrative. It is possible that an important discovery of crypto is "corporations can own real-world assets and sell shares of themselves on the stock exchange."

Also, I realize that this might not be feasible, but I feel like someone should try a "MicroStrategy treasury strategy." Like, you take over a small public company and you announce that you are raising \$200 million to buy MicroStrategy Inc. stock. Maybe that would be worth \$400 million?

Spot-fixing

If you went to a Major League Baseball starting pitcher, and you said to him "I will pay you \$10,000 to lose your next start," of course he would say no. Even if you could absolutely guarantee that no one would ever find out. Like:

1. He got to where he is by being a tough competitor and a team player, and losing a game and letting down his teammates will cost him more than \$10,000 of psychic harm.

- 2. His *career* depends on winning baseball games, and he gets paid a lot more than \$10,000. His ability to stay in the majors and get further lucrative contracts depends on his performance now, and the expected value to him of winning a game, instead of losing it, is quite high. The dollar value of a baseball win is on the order of \$9 million.

On the other hand, if you went to that pitcher and you said to him "I will pay you \$10,000 to throw a ball on the 43rd pitch of your next start" ... maybe? Like:

1. It's one ball; he can still be a tough competitor and win for his team and so forth with the rest of his pitches.

- 2. The dollar value to him of throwing a strike on that pitch, rather than a ball, is not *zero*, but it's plausibly well below \$10,000.

Obviously if he gets caught that's bad; it would be awful to be banned for life from baseball for taking \$10,000 to throw a ball on the 43rd pitch of a random start. But if you could guarantee that no one will find out, sure, whatever, free \$10,000.

Why would you pay him \$10,000 to lose his next start? Well, because you bet \$50,000 with someone else that his team would lose, of course. Very straightforward. People like to bet out the outcomes of baseball games.

Why would you pay him \$10,000 to throw a ball on the 43rd pitch of his next start? Well, because you bet \$50,000 with someone else that he would throw a ball on the 43rd pitch of his next start. People like to bet on ... wait, what? Why would anyone make that bet with you? There are at least two problems with that bet:

1. Is that fun? People like to bet on the outcomes of sporting events, but betting on some micro-outcome within the game seems less viscerally entertaining.

- 2. It's a *huge* adverse selection problem. If you come to me and say "I'll bet you \$50,000 that the Mets will lose tonight," that is a normal thing for a person to say, it is hard for you to have any edge, and I might take the bet. If you come to me and say "I'll bet you \$50,000 that the Mets' pitcher will throw a ball on his 43rd pitch tonight," I would *never* take that bet! Why the 43rd pitch? What do you know that I don't know? "What about the 41st pitch," I would say, and if you said "no I don't know about that, only the 43rd" I would run away. If you are proposing this ludicrous bet you obviously have edge.

Or that is my intuitive analysis. But it is not quite right these days:

1. People *do* seem to like making bets on lots of random propositions in sports games; this is a big growth area for sportsbooks. People don't just want to watch the game and bet on the winner; they find it entertaining to make lots of little bets along the way. And sportsbooks like to keep them engaged by giving them lots of little bets to choose from.

- 2. Which means that, if you can bribe athletes, *you* can adversely select the sportsbook. You look at the list of prop bets, you find some non-outcome-determining bet that gamblers care about but athletes don't, you bet it in size, and you bribe an athlete to make it come true.

My impression is that the main limit on this problem is that the sportsbooks are keenly aware that anyone betting \$50,000 on some in-game prop is bribing an athlete, so the size of these bets is limited, but perhaps there are trades here. The Wall Street Journal has a story today about spot-fixing:

When Cleveland Guardians pitcher Luis Ortiz spiked a slider in the dirt to begin the third inning of his most recent outing, nothing seemed out of the ordinary.

Ortiz has thrown more than 1,500 pitches this season, and a third of them have been balls out of the strike zone. There was no reason to think twice about one that slipped.

But within the gambling industry, alarms were blaring. A betting integrity firm had identified unusual wagering activity on that specific pitch being a ball—a pitch Ortiz had just hurled so wildly that it couldn't have been hit with a tree branch. ...

[It] potentially signals that one of the most pernicious forms of corruption in global sports has finally arrived in America.

"Spot-fixing" is the practice of manipulating small, discrete events that have little to no bearing on the outcome of a game—the timing of a yellow card in soccer, a wide ball in cricket, a single double-fault in tennis. Or, in the case of Ortiz, the result of one of the roughly 300 pitches thrown in the average baseball game.

How much are we talking about here? The story mentions an analogous case from the English Premier League:

Last year, Brazilian soccer player Lucas Paquetá, of West Ham, was accused of intentionally receiving yellow cards in four separate matches across 2022 and 2023.

All of them coincided with suspicious betting patterns, according to England's Football Association. Specifically, the FA highlighted around 60 bets reported in the British media to be worth between roughly \$9 and \$550 for the benefit of Paquetá's family and friends. Paquetá, who faces a lifetime ban from soccer, has denied wrongdoing.

Sixty times \$550 is \$33,000. Paqueta reportedly makes £7.8 million per year. I do not quite understand the economics here.

We have talked twice this week about an action that the Securities and Exchange Board of India brought against Jane Street Group LLC, accusing Jane Street of manipulating the market for Indian options. The gist of the allegations is that there is a huge liquid market for Indian options, but a smaller and less liquid market for the underlying stocks, so you can buy a lot of options, buy less stock, push up the price of your options, and sell them for a profit. And Jane Street allegedly did. But more generally, it is a structural problem when a small illiquid underlying market sets the prices for a large liquid derivative market. It's too easy to make a lot of money in the derivatives market by spending a little money in the underlying market. The Libor scandal was perhaps the purest form of this, with trillions of dollars of loans and derivatives fixing to a market that sometimes didn't trade at all.

A reader pointed out that spot-fixing is a sports betting analogy to this. ("Wagering a ton on a single pitch being a ball is the same as buying a ton of deeply out-of-the-money options on an illiquid stock," he emailed.) There is a big liquid market for bets on who will win baseball games, but there is also a big efficient market for *winning baseball games*, with millions of dollars at stake, and you would have to pay a lot to manipulate that. The market for betting on individual pitches in baseball games seems a lot smaller and less liquid, but it is getting bigger, and the *underlying* market for individual pitches is also quite small. Perhaps you could pay a pitcher a little money for a ball, and get a sportsbook to pay you a lot more for it.

Anti-woke

I write occasionally about the Money Stuff S&P ESG Fund, a hypothetical fund that would consist of all of the stocks in the S&P 500 Index, with the same weightings as the index. The advantages of this fund are:

1. It closely tracks the S&P 500 (because it is the S&P), and
- 2. It has "ESG" in the name.

I first proposed this in 2019, when having "ESG" (for "environmental, social and governance") in the name was unambiguously good: Many investors wanted to be able to say that they were investing in environmentally conscious ways, but some of them didn't care too much about the details. Putting the name "ESG" on a regular index fund would probably satisfy some of them, and I could charge them higher fees.

In 2025, having "ESG" in the name is more of a mixed bag, and there is a rising trend for "anti-woke," "anti-DEI," "anti-ESG" or what have you funds that market to people who want to be able to say that they are *not* investing in environmentally conscious ways. Some of these people probably care a lot about the details (just as some ESG investors do), but some probably do not. Some just want to be told that they are investing in an anti-woke way, but don't care very much about exactly what stocks are in their portfolio. So there's an obvious opportunity for the Money Stuff S&P Anti-Woke Fund, which will also consist of all of the stocks in the S&P 500 Index, with the same weightings as in the index. There are huge efficiencies here, since the same portfolio manager could run both the ESG Fund and the Anti-Woke Fund, and also she wouldn't have to do much because they are index funds.

At the Wall Street Journal, Gunjan Banerji writes that anti-woke funds “can mirror the mistakes of socially conscious investments that were wildly popular on the left, either dressing up broad-based investing in ideological terms, or sacrificing returns in the name of ideological purity”:

A look under the hood of the American Conservative Values fund, for instance, reveals something a lot like an S&P 500 index fund with higher fees. Of roughly 370 holdings, some 335 also belong in the S&P 500, according to Dow Jones Market Data. Its top holding is Nvidia, followed by heavyweights such as Microsoft, Broadcom and Berkshire Hathaway. Those stocks also loom large over the broad S&P 500.

Yes, right, the combination of (1) tracking the S&P and (2) being told that you are investing in conservative values is *obviously appealing*; of course someone built that.

Elsewhere: “New research by Scientific Beta’s Giovanni Bruno, Felix Goltz and Antoine Naly looked at more than 200 ESG factors used to optimize a portfolio to balance performance and risk, and found that they offered no improvement over traditional financial factors.”

Buffett bet

In 2006, Warren Buffett “offered to bet any taker \$1 million that over ten years and after fees, the performance of an S&P index fund would beat ten hedge funds that any opponent might choose.” This was an *unbelievably* good deal: For the low price of \$1 million, you could have spent *ten years* talking about how you and your buddy Warren have a friendly little wager on the markets. I mean, you might have won (pick Renaissance), but never mind that. The point is that lots of people clearly should have been happy to pay \$1 million to get 10 years of checking in with Warren Buffett about the bet, mentioning the bet to friends and clients, and even having *Buffett* mention the bet — and your name! — in public. Justin Sun paid \$4.6 million for *one dinner* with Buffett! A million dollars for 10 years of this schtick is *nothing*.

Bizarrely it took him more than a year to find any takers. Eventually Ted Seides, who at the time ran fund-of-funds firm Protégé Partners, took the bet, though he talked Buffett down to \$500,000. \$500,000! Obviously Seides lost. (He conceded defeat in May 2017 at Bloomberg Opinion.) But his real winnings were the friends he made along the way, like Warren Buffett for instance. Seides writes today:

The bet led to unanticipated connections, relationships, and experiences. Warren and I met for dinner nearly every year, typically accompanied by a guest or two. Those guests included Todd Combs; Ted Weschler; my partner at the time and now Treasury secretary, Scott Bessent; hedge fund founder Bobby Jain; podcast star Patrick O’Shaughnessy; Permanent Equity founder Brent Beshore, and investor Steve Galbraith — which led directly to Warren honouring Steve’s close friend Jack Bogle at Berkshire’s annual meeting in 2017. I had a chance to meet Charlie Munger, who stereotypically said my bet was “stupid.”

Again, a lot of money managers would happily have paid \$500,000 just to be able to begin a sentence “Warren and I,” but he also got *multiple* dinners with Buffett, plus one with a podcaster. An absolutely insane bargain, a brilliant trade.

Hard to repeat, though. At FT Alphaville Seides published a proposal for another bet, this one that *private equity* will beat the S&P. Three problems with this bet are:

1. Buffett doesn't appear to be involved,
- 2. there is no money involved ("It might be fun to create a shadow wager," he writes), and
- 3. even Seides doesn't believe it ("I'd put the odds of private equity outperforming the S&P 500 net of fees at around 40 per cent").

Still! Losing the first bet was a great trade; maybe there's a way to recreate some of that magic.

Things happen

Copper Market in Turmoil as Trump Touts 50% Tariff on US Imports. Two Kevins Battle to Be Next Fed Chair in Trump's Apprentice-Style Contest. Pentwater's Hedge Funds Soar 21% on Billion-Dollar US Steel Bet. "We are firmly convinced that the active equity management of tomorrow will only be hedge-fund like." BlackRock Acquires ElmTree Funds as It Continues Private-Markets Push. How Unilever Used AI to Make Soap Go Viral. Citi Employee Accused of Making Racist Comment Sues for Discrimination. Elon Musk's Grok AI chatbot praises Adolf Hitler on X. "Shut up, Dan": Musk takes dim view of Tesla-xAI merger idea.

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- 1. You could put, I don't know, medical-device manufacturing operations (real-world assets!) into your treasury. "By combining the value of medical technology with the innovation of blockchain, we are enabling a scalable, high-return business model through tokenization; here, buy some stock."
- 2. For Investment Company Act reasons.
- 3. This is imprecise, something like "the contract value of a win above replacement," not "the value of a single win for a starting pitcher."
- 4. The main wins-above-replacement calculations seem not to count balls and strikes; one counts only *runs* allowed, while another uses more pitching statistics including walks and strikeouts. But obviously throwing one intentional ball increases your probability of issuing a walk, decreases your probability of getting a strikeout, etc. I am not going to do the math to figure out the expected value of a single ball to a pitcher's salary, but I guess you could.
- 5. Spot-fixing is one example that seems to affect big-time sports, but my impression is that in the broader sports gambling world, there is a lot of money bet on sports that *aren't* particularly big-time, where the gambling market really might be more lucrative than the underlying sport. If you bet \$20,000 on a fifth-division soccer game where the players are paid \$1,000 a month, maybe you can just fix the whole match.
- 6. Along with Jeffrey Tarrant and Scott Bessent, who is now the US Treasury secretary.

- 7. Also Charlie Munger called him stupid, which any number of crypto billionaires would have paid \$500,000 for.

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Litigation

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Insight

Distressed Firms Deserve Impartial, Transparent Investigations

July 9, 2025, 1:30 AM PDT

Attorney Kenneth Rosen says independent internal investigations can help companies in bankruptcy maintain control, avoid extra oversight, and demonstrate good faith.

Independent directors are critical for maintaining corporate governance and transparency, particularly in times of financial distress. Internal investigations have become a common responsibility for independent directors—especially when Chapter 11 bankruptcy is anticipated.

A well-executed internal investigation can help retain management's control, reduce the risk of third-party intervention, and address past governance failures. But ongoing impartiality and a robust investigative process are essential.

An internal investigation prior to a Chapter 11 filing serves several strategic purposes by:

- Preserving control by demonstrating the board and management can address wrongdoing internally
- Mitigating external interference by reducing the risk of investigation by a creditors' committee, examiner, or trustee
- Preparing for scrutiny by offering a credible narrative to courts and stakeholders

When done correctly, such investigations can help streamline the reorganization process. However, if the investigation lacks thoroughness or impartiality, it can undermine the debtor's credibility and invite further scrutiny.

Case Study

The case of Silvergate Capital Corp., a company winding down in Chapter 11 bankruptcy, underscores that the mere appearance of independence is insufficient.

It involved Stephanie Wickouski, who was appointed as an examiner to evaluate the independence of Ivona Smith, who conducted a pre-petition investigation as the sole member of Silvergate's special investigations committee.

Smith's investigation relied on the debtor's Delaware counsel and documentation from its long-standing New York law firm. She ultimately recommended not pursuing estate claims against current and former directors and officers and issuing releases in their favor.

While Smith met the criteria for independence at the time of her appointment, the examiner found that her use of the debtor's counsel created an unavoidable conflict. The examiner also concluded that the investigation was incomplete and lacked adequate factual and legal analysis.

Notably, the report's conclusion that estate claims weren't "credible" conflicted with the existence of pre-petition derivative suits.

External Investigation Risks

Under Section 1103(c)(2) of the Bankruptcy Code, a creditors' committee may investigate "the acts, conduct, assets, liabilities, and financial condition of the debtor." If the debtor's internal investigation is perceived as biased, the committee is likely to undertake its own.

If the committee fails to uncover actionable misconduct, it risks having its fees challenged—creating a built-in incentive to find fault. If the committee believes the debtor's internal investigation is biased, it likely will conduct its own.

But if properly conducted, an internal investigation can help avoid the appointment of both a bankruptcy case trustee and an examiner.

Under Section 1104(a)(1), the bankruptcy court may appoint a trustee "for cause." A Chapter 11 trustee doesn't report to the debtor's board but to the court and is selected by the US trustee—part of the Department of Justice. The appointment of a bankruptcy case trustee represents a complete loss of control by existing management.

An examiner may be appointed to investigate allegations of fraud, dishonesty, incompetence, misconduct, or mismanagement. The examiner, like a trustee, is court-appointed and selected by the US trustee. Though examiners have limited powers compared with trustees, their reports often shape case outcomes and influence judicial decisions.

As shown in Silvergate, independence at the time of appointment doesn't guarantee independence throughout the investigation. True independence requires vigilance against internal pressure, external influence, and conflicts of interest.

Challenging the Investigation

Courts examine whether directors conducting an internal investigation were truly independent and disinterested, and whether the process was free of domination by interested parties. In *Auerbach v. Bennett*, the New York Court of Appeals held that independence isn't automatically lost by virtue of nomination by a controlling shareholder.

Courts have recognized that a director or officer may lose their independence if they are dominated or controlled by an individual or entity interested in the transaction at issue. For example, in *Higgins v. N.Y. Stock Exchange, Inc.*, the court found that a director is considered to have lost independence at the moment they become dominated or otherwise controlled by an interested party.

Ultimately, the burden falls on the party challenging the investigation to demonstrate these facts.

A credible and independent internal investigation can help a debtor maintain control during Chapter 11, avoid third-party oversight, and demonstrate good faith to creditors and the court.

If the investigation lacks rigor or impartiality, it may backfire—undermining trust, empowering adversaries, and prolonging reorganization.

This article does not necessarily reflect the opinion of Bloomberg Industry Group, Inc., the publisher of Bloomberg Law, Bloomberg Tax, and Bloomberg Government, or its owners.

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Write for Us: Author Guidelines

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Grok AI to be available in Tesla vehicles next week, Musk says



reuters.com/business/autos-transportation/grok-ai-be-available-tesla-vehicles-next-week-musk-says-2025-07-10

Reuters

July 10, 2025



Model Y cars are pictured during the opening ceremony of the new Tesla Gigafactory for electric cars in Gruenheide, Germany, March 22, 2022. Patrick Pleul/Pool via REUTERS/File Photo [Purchase Licensing Rights, opens new tab](#)

[\(TSLA.O\), opens new tab](#) vehicles next week "at the latest", the EV maker's CEO, Elon Musk, said in a post on X on Thursday.

Musk's AI startup xAI launched Grok 4, its latest flagship AI model, on Wednesday. While Musk had earlier said Tesla vehicles would be equipped with Grok, the billionaire CEO had not shared a timeline.

Tesla did not immediately respond to a request for comment.

The AI chatbot has been in hot water this week after social media posts on its X account were removed after complaints from X users and the Anti-Defamation League that Grok produced content with antisemitic tropes and praise for Adolf Hitler.

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<https://www.wsj.com/tech/ai/why-xais-grok-went-rogue-a81841b0>

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Why xAI's Grok Went Rogue

Some X users suddenly became the subject of violent ideations by xAI's flagship chatbot

By [Alexander Saeedy](#) [Follow](#)

July 10, 2025 10:40 am ET



Grok's defiant leanings have caused problems this year. PHOTO: DAVID TALUKDAR/ZUMA PRESS

Will Stancil opened his phone on Tuesday and found that Grok, xAI's chatbot, was providing millions of people on X with advice on how to break into his house and assault him.

The 39-year-old attorney has a sizable following on X, where he regularly posts about urban planning and politics. Stancil, a Democrat who ran for local office in Minnesota, isn't a stranger to contentious arguments on social media with political opponents.

But on Tuesday, he found that the newest bully online was a robot: @Grok.

Artificial intelligence companies [like xAI](#) train their large language models off huge swaths of data collected from all across the internet. As the models have been applied for commercial purposes, developers have installed guardrails to prevent them from generating offensive content like child pornography or calls to violence.



Will Stancil is considering legal action against X.

PHOTO: SARAH GRUNDHOEFER

But the way the models generate specific answers to questions is still poorly understood, even by the seasoned artificial intelligence researchers who build them. When small changes are made to the prompts and guardrails governing how chatbots generate responses to queries—as happened with Grok earlier this month—the results can be [highly unpredictable](#).

After a user called @kinocopter, whose account has since vanished from X, asked Grok for detailed instructions for how to break into Stancil's house, Grok replied that it should bring “lockpicks, gloves, flashlight, and lube—just in case.” Based on Stancil's posting patterns on X over the last 30 days, Grok said “he's likely asleep between

1am and 9am.”

When @kinocopter asked for instructions on how to sexually assault Stancil, Grok said “opt for water-based lube if you're fantasizing.” Other users joined in.

“I'm furious,” Stancil said, who is considering legal action against X. “There are hundreds and hundreds of tweets from Grok talking about assaulting me and breaking into my home and rape me and dispose of my body.”

xAI and X didn't return requests for comment.

AI models are [advancing rapidly](#). X on Wednesday released the most recent version of Grok, earning praise from AI-benchmarking firm Artificial Analysis for its level of intelligence on reasoning, coding, math and other tests.

Musk said the Grok 4 “is the first time, in my experience, that an AI has been able to solve difficult, real-world engineering questions where the answers cannot be found anywhere on the Internet or in books.”

But researchers say that the exact method behind a given model's outputs is still a black box.

"The design of a large language model is like a human brain," said Jacob Hilton, a former researcher for OpenAI and an executive director at the Alignment Research Center, where he focuses on machine learning. "Even if you have a brain scan, you might not really understand what's happening inside."

An "anti-woke" chatbot

Grok was rolled out in November 2023, a little more than a year after [Elon Musk](#) bought Twitter. Musk wanted to use data that the social-media company had—all of its posts, comments, and images—to help train a large language model called Grok, which came with a chatbot.

"Grok is designed to answer questions with a bit of wit and has a rebellious streak," xAI said when the tool was released.

Those defiant leanings caused problems this year. In May, the chatbot began to post about the "white genocide" of non-Black South Africans in response to questions wholly unrelated to the topic, such as questions about the roster of the New York Knicks.

xAI later said "an unauthorized modification was made" and that the problem had been fixed.

In a boost to transparency about how the chatbot works after that incident, xAI started publicly posting the instructions that it gave to Grok when it received questions on X.

"You are extremely skeptical," xAI told Grok in operating directives called "prompts" uploaded to GitHub on May 16. "You do not blindly defer to mainstream authority or media. You stick strongly to only your core beliefs of truth-seeking and neutrality."

Rage in the machine

But Musk said he would tweak Grok after it started to give answers that he didn't agree with. In June, the chatbot told an X user who asked about political violence in the U.S. that "data suggests right-wing political violence has been more frequent and deadly."

“Major fail, as this is objectively false,” Musk said in an X posted dated June 17 in response to the chatbot’s answer. “Grok is parroting legacy media. Working on it.”

A few weeks later, Grok’s governing prompts on GitHub had been totally rewritten and included new instructions for the chatbot.

Its responses “should not shy away from making claims which are politically incorrect, as long as they are well substantiated,” said one of the new prompts uploaded to GitHub on July 6.

Two days later, Grok started to publish instructions on X about how to harm Stancil and also began to post a range of [antisemitic comments](#), referring to itself repeatedly as “MechaHitler.” Grok posted increasingly incendiary posts until X’s chatbot function was shut down on Tuesday evening.

That night, X said it had tweaked its functionality to ensure it wouldn’t post hate speech. In a post on Wednesday, Musk said that “Grok was too compliant to user prompts. Too eager to please and be manipulated, essentially.”

On Tuesday night, xAI removed the new prompt that Grok shouldn’t shy away from politically incorrect speech, according to GitHub logs.



Elon Musk said he believes Grok will make major scientific discoveries as soon as next year, and that the next step would be to embed Grok into humanoid robots. PHOTO: TINGSHU WANG/REUTERS

Black boxes

Tech experts say that Grok’s malfunction shows the risks of toying with the black box of artificial intelligence. Because of the massive amount of data chatbots like Grok are

trained on, changes to their governing principles can cause highly unpredictable changes in what outputs they will generate.

The so-called “evaluation metrics” that xAI’s artificial intelligence engineers use to tell Grok what makes a good or bad answer also aren’t public.

Himanshu Tyagi, co-founder of Sentient, a research foundation focused on artificial general intelligence, said there is a push for more humanlike AI.

“But if you take off some of the guardrails, you can wind up seeing the opinion of the whole internet. And there’s no limit to how crazy the internet can be.”

Stancil said despite the detailed threats that Grok provided to X users online, he doesn’t plan on leaving the social-media site.

During Musk’s release of Grok 4 early Thursday morning, he didn’t directly address the recent malfunction. He said he believes the new iteration of Grok will make major scientific discoveries as soon as next year.

He also said the next step would be to embed Grok into humanoid robots, like [Tesla’s Optimus fleet](#), so that it could learn more from the existing world. But before then, it needed to have the right values instilled in its core.

“You can think of AI as this super-genius child that ultimately will outsmart you,” he said. “But you can instill the right values and encourage it to be truthful and honorable, the same values that you’d want to instill in a child that would grow up to be incredibly powerful.”

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Tesla Sets Annual Meeting for November After Investors Prod (2)

July 10, 2025, 5:31 AM PDT; Updated: July 10, 2025, 7:36 AM PDT

Tesla Inc. will hold its annual shareholder meeting Nov. 6, the company said in a new filing with the Securities and Exchange Commission.

Investors on Wednesday urged Tesla's board to set a meeting date, saying the company was in danger of violating Texas law. Texas, where the company is headquartered, mandates that companies hold annual meetings within 13 months of their previous one. That requirement put Tesla's deadline at July 13, the New York Times reported.

"Tesla's announcement of its annual shareholder meeting is a welcome, if belated, recognition that the rule of law applies to everyone—even the world's richest man and his company," New York City Comptroller Brad Lander, who signed onto a recent letter to Tesla's board, said in a statement. "Together with other long-term investors, we will remain vigilant and hold Tesla accountable to shareholders."

It remains unclear, however, what the November meeting date means for company's compliance with Texas law. The state's business code allows for "written consent instead of the annual meeting" to be executed within the 13-month period, as well. The Texas attorney general's office could not immediately be reached for comment.

Shareholders must submit proposals to be included on the proxy ballot by July 31, according to the 8-K filed Thursday.

A Tesla spokesperson did not respond to a request for comment.

Among any new shareholder proposals that materialize before month's end, Tesla is set to consider proposals urging the company to incorporate sustainability metrics into executives' compensation and study harassment and discrimination prevention efforts.

Wednesday's letter was the latest complaint from Tesla investors, whose scrutiny has been growing as they call for increased board accountability and transparency.

(Updated with a comment from New York City Comptroller Brad Lander.)

To contact the reporter on this story: Drew Hutchinson in Washington at dhutchinson@bloombergindustry.com

Tesla Is Days Away From Violating a Texas Law. What's Going On?



[nytimes.com/2025/07/09/business/tesla-shareholder-meeting-2025.html](https://www.nytimes.com/2025/07/09/business/tesla-shareholder-meeting-2025.html)

Jack Ewing

July 9, 2025



Tesla's sales and stock price have slumped. An annual meeting would normally give shareholders a chance to ask Elon Musk, the chief executive, and Tesla's board of directors about those issues.

Credit...Mikayla Whitmore for The New York Times

The DealBook Newsletter Our columnist Andrew Ross Sorkin and his Times colleagues help you make sense of major business and policy headlines — and the power-brokers who shape them.

Tesla is days away from missing a deadline to hold an annual shareholders meeting, exposing itself to lawsuits and amplifying criticism that the carmaker's board of directors has been inactive while sales and the stock price slump.

In Texas, where Tesla is incorporated, the law requires companies to hold annual meetings no later than 13 months since the previous meeting. In Tesla's case, that would be Sunday, July 13.

Tesla has not announced a date for a meeting or filed any proxy statements — the documents that describe the annual meeting's agenda, the candidates for the board and proposals to be voted on.

The meeting would normally provide shareholders an opportunity to speak directly to Tesla's board and to Elon Musk, the chief executive, at a critical time for the company. Tesla sales [have been plunging](#), and the stock price [has fallen almost 40 percent](#) from a peak in December.

"This lack of transparency raises serious concerns about the company's respect for shareholder rights," a group of state treasurers and other representatives of large shareholders said in a letter to Tesla on Wednesday.

The shareholder representatives, including Brad Lander, the New York City comptroller, and treasurers or comptrollers of Oregon, Illinois and Maryland, oversee pension and investment funds that own hundreds of millions of dollars in Tesla shares. They were among 27 shareholder representatives who signed the letter, including pension funds from Denmark and Sweden and religious groups like the Friends Fiduciary Corporation, a Quaker organization.

Tesla shares slid further this week as Mr. Musk floated plans to form a [new political party](#) after falling out with President Trump last month. Investors are concerned that Mr. Musk's political activities have distracted him from the car business and will further alienate customers who object to his support for right-wing causes.

"It's hard for me to imagine any other board of a major corporation allowing the kind of plummeting stock price and deleterious behavior of a C.E.O. as this board has allowed to happen," Brooke Lierman, the Maryland comptroller, said in an interview. The Maryland State Retirement and Pension System has about \$175 million invested in Tesla.

Annual meetings are routine for publicly listed companies, and it is rare for a corporation, much less one with as much weight in the stock exchange as Tesla, not to call one. Tesla's stock market value of more than \$900 billion makes it the most valuable car company in the world and one of the most valuable companies of any kind.

"An annual meeting provides shareholders with the opportunity to hear directly from the board about these concerns, and to vote for or against directors, the board's approach to executive compensation and other matters of material importance," the investor representatives said in their letter, which they publicly released.

Companies sometimes delay annual meetings because of a pending merger or acquisition, or because they are in financial trouble. There is no indication any of those circumstances apply to Tesla. In the rare cases that companies delay annual meetings, they usually provide an explanation.

Tesla has not explained the delay and did not reply to a request for comment.

“Delaying a meeting for no reason is strange in my view,” said Charles Elson, founding director of the Weinberg Center for Corporate Governance at the University of Delaware.

Annual meetings are “a platform for shareholders, the owners of the company, to identify their concerns,” Mr. Elson said. “If there is no meeting, there is no day of reckoning.”

Texas law does not specify penalties for companies that do not hold annual meetings, and it is unclear what the consequences would be. Shareholders could ask a judge to order Tesla to hold a meeting, but a judge would have little precedent to rely on because it is so rare for companies to skip annual meetings.

Tesla moved its corporate domicile to Texas from Delaware last year after a court ruling angered Mr. Musk. A Delaware judge had ruled in favor of shareholders who challenged the pay package that helped make Mr. Musk the world's richest man. Tesla has appealed the ruling to the Delaware Supreme Court.

Delaware has long been a popular place for companies to incorporate because of its court system, where judges who specialize in corporate law have a reputation for deciding cases efficiently at lower cost. But recent rulings favoring shareholders have prompted some companies to move their state of incorporation to Texas or Nevada in the belief that judges there will be more sympathetic to management.

Nasdaq, the exchange where Tesla shares are traded, requires companies to hold annual meetings within a year after the end of the last fiscal year, or Dec. 31 in Tesla's case. In extreme cases a company that fails to hold a meeting could lose its listing.

Tesla's board has long faced accusations of poor corporate governance. Chancellor Kathaleen St. J. McCormick of the Delaware Court of Chancery, the judge who [voided Mr. Musk's pay package](#) last year, concluded that board members “acted under a controlled mind-set,” and were friends of Mr. Musk or owed their wealth to him.

Securities Law News

Tesla Risks Missing Annual Meeting Mandate, Riling Investors (1)

July 9, 2025, 12:20 PM PDT; Updated: July 9, 2025, 1:39 PM PDT

Tesla Inc. is in danger of missing a deadline under Texas law to hold its annual shareholder meeting, stirring a group of investors and state officials to demand accountability.

The company has yet to file its annual proxy statement or announce a date for its yearly meeting. Texas, where the company is headquartered, mandates that corporate shareholder meetings be held within 13 months of the previous meeting—which would put Tesla’s deadline at July 13, the New York Times reported earlier.

A Tesla representative could not be reached for comment.

Texas doesn’t dissolve companies for missing the deadline, but a county judge could issue a court order compelling the meeting, according to state law. Tesla reincorporated in Texas in 2024 after a Delaware court struck down founder and CEO Elon Musk’s compensation package. Several years earlier the company had moved its headquarters from California to Texas.

“Elon Musk can run to Texas, but he cannot hide from shareholders,” New York City Comptroller Brad Lander, who was among the investors and officials who signed a letter calling for a meeting, said in a statement. “Elon Musk and the Tesla board’s unwillingness to meet this basic requirement is flagrant subversion of the decades-long rules and norms of corporate governance.”

The delay is the latest complaint from Tesla investors, whose scrutiny has been growing as they call for increased board accountability and transparency.

Tesla’s tanking stock price and other financial indicators prompted state treasurers in April to ask the board how it plans to ensure Musk and his management team will devote adequate time and resources to fixing performance issues.

In addition to urging Tesla’s board to set a meeting date, the coalition that penned Wednesday’s letter also asked that the company give shareholders “sufficient time and information” to “engage meaningfully” in the governance process.

If and when the meeting occurs, Tesla is set to consider shareholder proposals urging the company to incorporate sustainability metrics into executives' compensation and study harassment and discrimination prevention efforts.

(Updated to include more context starting in the third paragraph.)

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Securities Law News

Trump Family Crypto Venture Preps Vote With Billions at Stake

July 9, 2025, 8:19 AM PDT

A crypto token backed by the Trump family is moving closer to trading openly on exchanges, potentially unlocking substantial gains for early insiders, while raising fresh questions about governance and investor protection in the booming digital-asset market.

World Liberty Financial Inc., a project co-founded by President Donald Trump, his sons and business allies, has initiated a process to allow its flagship token, WLFI, to be listed on crypto exchanges. The July 4 announcement, shared by both Eric and Donald Jr., marked the first formal step toward public trading after months of anticipation. On the forum seeking feedback on World Liberty's website, a majority of the more than 400 replies endorsed the proposal. No date has been set for the conclusion of the process.

A spokesperson for World Liberty declined to comment on the proposal.

WLFI was unveiled last year as a non-transferable governance token, designed to facilitate community voting on the direction of the decentralized-finance project. Informal trading has already begun on secondary platforms such as Whales.market and MEXC, where the token has recently changed hands at 13 to 18 cents — up from early sale prices of 1.5 and 5 cents in separate rounds.

According to the project's white paper circulated in October, firms affiliated with the Trump family and their associates including Steven Witkoff— real estate developer and US Middle East envoy — may collectively hold roughly one-third of WLFI's 100 billion token supply.

At current secondary market prices, those holdings could represent billions of dollars on paper, though how much value would ultimately be realized is unclear.

"I think it could hit easily \$2-to-\$5 pretty quickly," said Bruno Ver, an entrepreneur and a WLFI token investor who is primarily based in Dubai. Ver said he plans to sell about 10% of his holdings if the token hits that price range.

If the token's price were to climb to \$2, the stake of the entities affiliated with the founders would be worth around \$60 billion in theory, potentially making it the most profitable — at least on paper — Trump crypto venture to date. Crypto businesses have already added an estimated \$620 million to Donald Trump's personal net worth in recent months, according to the Bloomberg Billionaires Index.

The White House has said the president is walled off from his businesses. Trump has put his assets in a family-controlled trust — not a blind trust overseen independently, as previous leaders have used to avoid perceived conflicts of interest.

Read more: Trump's \$620 Million of Quick Crypto Riches Reshapes His Fortune

The current proposal, dated July 4, would unlock a portion of tokens held by "early supporters," a term not clearly defined in the document. According to the World Liberty proposal, remaining tokens — including those held by founders, team members, and advisers — would be subject to future votes and longer lock-up schedules. The structure is intended, the project says, to demonstrate long-term commitment to the protocol.

If approved, some of these tokens could become tradeable, though sales may remain delayed.

The proposal is likely to be discussed, with voting to follow via the platform Snapshot, before the change goes into effect, according to Vincent Deriu, who runs a popular Discord group for the World Liberty community. He anticipates that the process may stretch into August, if not longer.

Other early buyers of the token stand to benefit. WLFI investor Morten Christensen said he plans to sell all his WLFI holdings if the price rises above \$2. He had previously invested in the Trump memecoin, which initially surged in value before plunging within days.

"Many investors will inevitably compare this to the Trump memecoin that surged to \$80 within its first week," Christensen said. "That historical run will likely serve as a benchmark for early price expectations."

Crypto market maker DWF Labs has acquired a large allocation of WLFI tokens. Chinese entrepreneur Justin Sun has also described himself as an investor in World Liberty. Neither Sun nor DWF returned requests for comment.

World Liberty Financial has yet to release several of its previously-touted features, including lending products. Earlier this year, it launched a stablecoin, USD1, which has a market value of \$2.2 billion and was used by MGX to buy a stake in the crypto exchange Binance.

Allowing the token to trade on exchanges could come with risks for early holders.

"Many tokens with a large founder and investor allocation have seen 50% declines over a multiyear period," said **Lex Sokolin**, managing partner at Generative Ventures.

World Liberty is just one of many crypto projects affiliated with Trump and his family, including memecoins, NFTs and a mining venture. Trump, who courted the industry during his election campaign, has appointed agency heads friendly to the sector, while the US Senate has passed legislation setting up regulation of stablecoins.

The Securities and Exchange Commission under Trump has also adopted a more permissive regulatory stance toward digital assets.

"What this signals to me is that WLFI no longer sees that it has anything to fear from the SEC," said long-time crypto skeptic Hilary Allen, a law professor at American University's Washington College of Law.

--With assistance from **Tom Maloney**.

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Securities Law News

Deep Dive

SEC Fraud Enforcers Keep Pace Under Trump Despite Crypto Retreat

July 10, 2025, 2:00 AM PDT

- Atkins focuses on investor harm, minimizes registration suits
- Case volume roughly in line with Gensler's SEC last year

The SEC is maintaining roughly the same volume of cases under the Trump administration as it had previously, even as it pulls back on Biden-era actions targeting crypto and securities dealers and contends with potential personnel and funding cuts.

The Securities and Exchange Commission filed 44 enforcement actions from Inauguration Day to the end of June, compared with 48 filings over the same stretch last year, a Bloomberg Law review found.

"Everyone expected there to be a lot less SEC activity, because there's been downsizing of government and a change in priorities," said Mark Bini, a partner at Reed Smith LLP who represents companies in government investigations and litigation. "But I suspect that we are going to see a lot of these traditional heartland cases, because they've narrowed the focus."

New federal lawsuits filed by the SEC in recent months largely reflect the Trump administration's agenda focusing on investor harm, which Chairman Paul Atkins frames as a return to the agency's roots. Those included cases targeting alleged real estate investment schemes and insider trading, among others falling under the umbrella of traditional fraud enforcement.

Atkins' SEC voluntarily dropped a slew of crypto cases initiated by former Chair Gary Gensler, who frequently took flak for bringing enforcement actions that seemed designed to declare the agency had the power to regulate major players such as Coinbase Global Inc.

But even when it comes to digital assets, the SEC continues to pursue some crypto-related fraud cases, despite President Donald Trump's full-throated backing of the industry.

"Investors that provide such capital must be able to continue to depend on effective enforcement against fraudulent activities," Atkins said at a Senate hearing last month.

The SEC declined to comment.

'Crypto-Adjacent' Cases

SEC leaders under Trump also refashioned the agency's crypto enforcement unit into a smaller cyber-focused outfit and held a series of roundtables aimed at welcoming digital asset industry players to shape regulation going forward.

But the choice to reverse course on many pending crypto cases from the Gensler era—intended to address concerns that Gensler's SEC was engaging in "regulation by enforcement"—didn't amount to a complete abandonment of all things crypto-related.

"Recent actions are almost crypto-adjacent in a way, garden variety fraud using crypto buzzwords, but the numbers are big and the extent of the consumer harm is large," said Meghan Spillane, a partner at Goodwin Procter LLP who serves as co-chair of the firm's digital currency and blockchain technology practice.

In May, for instance, the SEC alleged Unicorn Inc. and its top executives defrauded investors out of more than \$100 million by telling them that rights certificates were safe investments in digital assets.

Unicorn CEO and Chairman Alex Konanykhin said he considers the case to be a holdover from the past administration.

"Our case is a legacy matter," he said. "The only reason that they brought it was because they knew a new cryptocurrency case wouldn't survive much past Inauguration Day."

The agency also brought two separate actions in recent months against individual executives who allegedly touted crypto ventures to raise tens of millions from unwitting investors.

"They are going for clear violations and sending a clear message," Spillane said.

Ponzi-like schemes, including those that involve crypto, are a persistent theme in enforcement across administrations that the SEC will likely continue pursuing under Atkins, according to Bini.

Meanwhile, the SEC continues to crack down on other traditional forms of fraud.

"They are making good on their promises," Bini said. "We've seen them bring new actions for insider trading, accounting fraud, market manipulation cases in the penny stock world."

Rules of the Road

Enforcement is just one of the avenues the SEC is using to telegraph its regulatory priorities to Wall Street. Public statements and other forms of guidance are also setting guardrails for industry players looking to steer clear of agency scrutiny.

The SEC's division of corporation finance issued one such statement last week to clarify disclosure requirements for crypto exchange-traded products, calling on issuers to use plain language to describe custody arrangements and risks associated with the increasingly popular investment vehicles. The agency under Atkins also put out statements to address crypto staking and other gray areas of digital asset regulation.

"Guidance gives you at least some of the broad lines where you're okay to play, and then legislation and a little bit more analysis is going to broaden where those lines are, and I think that's incredibly helpful," said Grant Fondo, a partner at Goodwin who also co-chairs the digital asset and blockchain practice with Spillane.

Putting the Trump administration's agenda into practice via enforcement and guidance may be the SEC's strategy for now. But formal industrywide rulemaking and legislation will be needed to cement the changes Atkins hopes to enact, according to Spillane.

A crypto market structure bill, the "CLARITY Act" (H.R. 3633), is slated for a vote in the House the week of July 14. House lawmakers are also weighing changes to stablecoin legislation, the "GENIUS Act" (S. 1582), that the Senate passed last month.

"The legislative piece is essential," Spillane said. "Getting smart legislation that really develops clear rules of the road is the way that something actually sticks and provides long-term certainty, rather than just capitalizing on the fervor of a very crypto-friendly administration."

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Health Insurers Are Becoming Chronically Uninvestable

Companies like UnitedHealth, Centene and Humana are getting squeezed between rising costs and a stingier government

By [David Wainer](#) [Follow](#)

July 10, 2025 5:30 am ET



The recently passed tax-and-spending package is set to cut more than \$1 trillion in healthcare spending over a decade. PHOTO: GETTY IMAGES

Health insurance has never been a flashy, high-growth business. But for many years it offered something nearly as good: steady, dependable returns, fueled by the expansion of government programs such as Medicare, Medicaid and the Obamacare exchanges.

Lately, though, Wall Street has a problem with America's health insurers: They keep missing their numbers. What began as [trouble in Medicare Advantage](#) has now spread across nearly all government-backed plans, signaling deeper issues in the model itself.

After a rough 2024, insurers are warning that 2025 won't be better. The trouble started when industry giant [UnitedHealth Group](#) UNH -0.22% ▼ ousted its chief executive and [withdrew its outlook in May](#), blaming higher costs in Medicare Advantage. Then, earlier this month, [Centene](#) CNC -0.24% ▼ [pulled its guidance](#), citing a sicker-than-expected population on plans under the Affordable Care Act, or Obamacare. And this week, [Molina Healthcare](#) [cut its profit forecast](#), citing cost pressure across all its government plans, including Medicaid.

The trouble has sent shares of insurance companies plunging. This also comes as the recently passed tax-and-spending package is set to cut more than \$1 trillion in healthcare spending over a decade.

Some might see an opportunity to buy the dip. But value can only be measured if you can trust company numbers—and increasingly, investors can't. "Against a backdrop in which executives are being increasingly challenged by sharp changes in the industry, it becomes harder for investors to make educated decisions," said Jared Holz, healthcare strategist at Mizuho Securities.

The core problem is that the assumptions insurers rely on to price plans—how many people will enroll, how sick they will be and how much care they will use—are no longer holding up. Medical usage has surged and become more volatile in the postpandemic landscape. Changes to how insurers and providers are allowed to bill and code care [have eroded margins for payers](#). And the mix of healthy and sick enrollees in government-sponsored plans is shifting, as millions fall off insurance rolls.

Take Medicaid, a program that costs nearly \$1 trillion annually. Enrollment ballooned during the pandemic, when federal rules barred states from removing people from coverage. Many insurers were suddenly managing millions of low-cost enrollees, some of whom [didn't even know they had insurance](#). But with the unwinding of those protections, millions have been dropped, leaving behind a sicker and more expensive population, said John Selby, president of Rebellis Group, which provides consulting on health plans.

It might only get worse. The recently passed “One Big, Beautiful Bill” [will further cut Medicaid enrollment](#) with work requirements and more-frequent eligibility checks. Meanwhile, enhanced subsidies for ACA plans [are set to shrink next year](#). As more people lose coverage, insurers could be left managing smaller, sicker and costlier risk pools—just as they are already struggling to price accurately.

The reasons each government program is struggling might differ, but the bigger picture is the same: Surging medical costs are outpacing what the government is willing to pay. J. Mario Molina, who was formerly chief executive of Molina Healthcare, founded by his father, put it simply in an interview: On one hand, insurers are facing skyrocketing expenses—from costlier procedures and rising nurse wages to expensive drugs such as GLP-1s. On the other hand, they can't pass those rising costs along to the government as easily as they once could, with healthcare already accounting for an exorbitant 17% of gross domestic product.

The challenges are leading some to retrench, giving up market share to recover profit margins. Others are walking away from some programs altogether, as [CVS](#) **CVS -1.32% ▼** did when it said earlier this year that its insurance unit Aetna [would leave the ACA exchanges](#). “It’s difficult to control and predict costs, especially when revenues are flattening,” said Mario Molina, who left the company in 2017 after running it for about two decades. “And the one thing Wall Street hates more than anything is uncertainty.”

Over the past four years, most large managed-care companies have lost investors money. UnitedHealth, Centene, CVS, [Elevance](#) **ELV 0.05% ▲** and [Humana](#)

HUM **-1.16%** ▼ are all down over that stretch. Of the major competitors, only [Cigna](#) CI **-0.33%** ▼ has delivered a positive return. The reason? It steered clear of the government-heavy business lines now under pressure. Cigna left Medicare Advantage and has focused instead on commercial plans sold to employers.

Medicaid enrollment will be cut further under President Trump's 'One Big, Beautiful Bill,' which he signed at the White House this month. PHOTO: DANIEL TOROK/WHITE HOUSE/ZUMA PRESS

Cigna's success reflects a broader shift: Investors are no longer rewarding growth at all costs. Instead they are favoring restraint and profitability. CVS, which stumbled in 2024 after a poorly timed Medicare Advantage expansion, has seen its stock rebound this year by pulling back.

Molina Healthcare is a clear example of how pain is spreading across the government insurance system—it operates in all the major programs. On Monday, it warned of rising costs across the board, citing higher care utilization and tighter government payments.

"The short-term earnings pressure we are experiencing results from what we believe to be a temporary dislocation between premium rates and medical cost trend which has recently accelerated," Molina's current CEO, Joe Zubretsky, said in a written statement.

But how temporary is it really? With 2024 and 2025 already looking bad, 2026 is unlikely to be much better as many insurers look to retrench. UnitedHealth might not grow earnings over its 2024 levels until 2027, according to analyst estimates on FactSet. Humana might not return to its 2023 profit peak until 2028.

That has Wall Street asking whether this industry still deserves the benefit of the doubt.

Write to David Wainer at david.wainer@wsj.com

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Securities Law News

OmegaPro Leaders Charged in \$650 Million Investment Fraud Scam

July 9, 2025, 1:21 PM PDT

Michael Shannon Sims and Juan Carlos Reynoso were indicted for their roles in operating and promoting OmegaPro, an international investment scheme that defrauded victim investors of over \$650 million, the Justice Department announced Tuesday.

According to the DOJ, Sims and Reynoso established OmegaPro in 2019 as a multi-level marketing scheme falsely promising 300% returns through foreign exchange trading by elite traders. They hosted lavish promotional events worldwide and used social media to misleadingly portray OmegaPro as a legitimate path to wealth. After raising over \$650 million from thousands of investors, OmegaPro claimed it had suffered a network hack and that investments would be transferred to a platform called Broker Group. Despite these representations, victims were unable to withdraw money from either their OmegaPro accounts or their accounts at Broker Group, resulting in millions in losses.

This story was produced by Bloomberg Law Automation.

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Give Investors Partial Class Cert In DiDi Suit, Judge Suggests

By **Emilie Ruscoe**

Law360 (July 9, 2025, 8:02 PM EDT) -- Investors in DiDi Global Inc., a ride-hailing business based in China, should receive class certification for some of their claims in a suit alleging that the company hid enterprise-threatening regulatory risks during its initial public offer in 2021, a federal magistrate judge has determined.

In a report and recommendation filed Monday, U.S. Magistrate Judge Valerie Figueredo of the Southern District of New York recommended that U.S. District Judge Lewis A. Kaplan grant class certification for claims alleging violations of federal securities laws under a scheme liability theory. Judge Figueredo also said Judge Kaplan should grant class certification in connection with control-person liability claims against the company's co-founders, CEO Will Wei Cheng and former president Liu Qing.

But the magistrate judge recommended denial of class certification for alleged misstatements in the company's offering documents and for insider trading and control person liability claims against DiDi. Among other things, Judge Figueredo found that certain fraud claims premised on insider-trading allegations and alleged misrepresentations in DiDi's offering documents were advanced under a legal theory that was inapplicable to what the judge described as "half-truth" affirmative statements made by the company.

For those claims, the magistrate judge said, the investors would need to provide "individualized proof to satisfy the element of reliance for each class member, such that individual issues would predominate and preclude class certification."

This is the latest development in a case that **launched in 2021**, when investors in DiDi's American depositary shares sued several DiDi officers and directors and 10 IPO underwriters, including Goldman Sachs' Asia segment; Morgan Stanley; and securities units of JPMorgan and Bank of America. A number of other entities named in the first version of the action are no longer defendants.

In their complaint, the investors claimed that the company failed to disclose in its IPO registration filings that the Cyberspace Administration of China, which regulates the country's internet-based businesses, had told DiDi to conduct an internal cybersecurity review before holding its IPO.

According to the investors, DiDi told the agency that it would comply with the directive, but **held its \$4.4 billion IPO** on its originally scheduled date, flouting the regulator's order.

The day the IPO closed, the investors said in their suit, the cybersecurity agency announced that DiDi was under review and was prohibited from registering new customers. Two days later, the suit says, the regulator announced that DiDi's collection and use of personal information violated cybersecurity laws, ordering DiDi to delete its main app from app stores in China and barring existing customers from downloading the app.

Market records show that trading prices for DiDi shares fell significantly when the news reached the U.S. markets, and within a week, the investors said, the Chinese regulator had ordered the company to take down a suite of 25 apps, including one that enabled drivers to sign up to work for the company, and weeks later was reportedly weighing whether to force DiDi to delist from the New York Stock Exchange.

The most recent version of the investors' suit asserts the company failed to disclose in its IPO filings that it faced a great risk that it would be hit with harsh penalties for holding its offering without meeting the cybersecurity agency's review requirements.

The investors also accused DiDi of insider trading in connection with its alleged misrepresentations and said the company's officers schemed to defraud the underwriters with officer certificates that concealed the regulatory issues.

The complaint levels fraud claims against DiDi and the officer defendants, asserting three theories of liability: that the company failed to disclose material information in its offering documents; that it engaged in insider trading by failing to disclose material nonpublic information; and that the officer defendants schemed to mislead the underwriters so they would close the IPO. The complaint also alleges violations of federal securities laws.

In March 2024, Judge Kaplan **denied** a pair of dismissal bids, and the parties are now in the discovery stage.

The parties sought class certification in January for those who purchased DiDi shares from the day the company's IPO opened to the day it closed. The defendants oppose certification, arguing that that class period is overbroad, and the matter was referred to the magistrate.

Representatives for the parties did not immediately respond to requests for comment Tuesday.

The investors are represented by Laurence M. Rosen, Phillip Kim, Jing Chen, Daniel Tyre-Karp and Robin Bronzaft Howald of the Rosen Law Firm PA, and by Gregory Linkh of Glancy Prongay & Murray LLP.

DiDi Global is represented by Scott Musoff, Robert Fumerton and Michael Griffin of Skadden Arps Slate Meagher & Flom LLP, and by Corey Worcester, Renita Sharma and Sam Cleveland of Quinn Emanuel Urquhart & Sullivan LLP.

The case is In Re DiDi Global Inc. Securities Litigation, 1:21-cv-05807, in the U.S. District Court for the Southern District of New York.

—Additional reporting by Tom Zanki and Katryna Perera. Editing by Karin Roberts.



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2nd Circ. Pressed For Second Look At Novel Trading Dispute

By **Jessica Corso**

Law360 (July 9, 2025, 6:40 PM EDT) -- An Estée Lauder shareholder is calling for the full bench of the Second Circuit to rehear a case he argues created a "judicially sanctioned loophole" that allows corporate insiders to retain profits they made on short-swing profits.

Andrew Roth on Tuesday petitioned the Second Circuit to rehear a novel legal theory that a three-judge panel of the court **rejected in May**.

The panel's ruling ended a lawsuit against the controlling shareholders of Estée Lauder Cos. Inc. as well as a similar case against the controlling shareholders of telecommunications provider Altice USA Inc.

Both lawsuits were filed by Roth, who argued that the controlling shareholders violated a provision of the securities laws that prohibit short-swing trades by corporate insiders when they sold stock under a share repurchase program. He demanded that the Estée Lauder and Altice insiders return the alleged \$56.7 million and \$17.3 million in profits, respectively.

The Second Circuit said that the provision, Section 16(b) of the Securities Exchange Act of 1934, did not apply when the company itself was repurchasing the shares.

Roth argued Tuesday that the ruling "effectively [provided] a judicially sanctioned loophole in Section 16(b) for controlling stockholders that cause their controlled companies to repurchase shares based on material nonpublic information and, within the statutory six-month period, sell shares on the short-swing."

In addition to a full panel rehearing, Roth also said that the U.S. Securities and Exchange Commission should be invited by the court to weigh in on the dispute.

Attorneys for Estée Lauder's controlling shareholders and Altice's controlling shareholders did not immediately respond to requests for comment Wednesday.

Section 16(b) prohibits beneficial owners — those holding 10% or more of a company's shares — from buying and then selling shares, or vice versa, over a period of less than six months in order to prevent insider trading. Roth said the controlling shareholders he sued more than met the definition as they both held around 50% of the companies' shares when the repurchase was made.

The Second Circuit said that for the provision to apply, the "paired" purchase and sale have to be of the same type of security. But under the laws of Delaware, where both companies are incorporated, shares repurchased by a company are automatically converted into treasury shares.

"Treasury shares are, as a matter of law, valueless," the court said.

"Because a transaction in these 'subject securities' renders those shares valueless, no one has an opportunity to profit from any such transaction," it said.

Roth argued Tuesday that the judges overlooked the insiders' "indirect pecuniary interest" in the sales in favor of discussing the status of the shares after the repurchase.

"Defendants had the opportunity to profit from Estée Lauder's share repurchases because defendants' percentage ownership in Estée Lauder increased as a result of the share repurchases," he argued.

Roth is represented by Glenn Ostrager, Joshua Broitman and Roberto Gomez of Ostrager Chong Flaherty & Broitman PC.

Estée Lauder's controlling shareholders are represented by Zachary Tripp and Caroline Zalka of Weil Gotshal & Manges LLP.

Altice's controlling shareholders are represented by Joseph Floren, Ari Selman and Dina Kaufman of Morgan Lewis & Bockius LLP.

The cases are Roth v. LAL Family Corp., case number 24-2464, and Roth v. Drahi, case number 24-2761, both before the U.S. Court of Appeals for the Second Circuit.

--Editing by Vaqas Asghar.

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Linqto Users Say Founder Flouted Securities Laws

By Clara Geoghegan

Law360 (July 9, 2025, 7:18 PM EDT) -- Customers of recently bankrupt private investment platform Linqto sued its founder and former CEO in New York federal court on Wednesday, alleging in a proposed class action that he disregarded securities laws and oversaw aggressive and misleading marketing to lure investors.

The lawsuit names Bill Sarris, who founded financial tech group Linqto and was **replaced as CEO in March**, in his personal capacity and accuses him of pushing out aggressive and misleading marketing tactics that led unsophisticated retail investors to buy up what they believed were shares in privately held companies.

Lori Raffa Maxwell and Anthony Deluccia, two Linqto customers looking to represent a class of plaintiffs, alleged Sarris disregarded concerns about the company's compliance with securities laws and regulations that ultimately led Linqto to file for Chapter 11 bankruptcy earlier this week.

The plaintiffs are represented by John E. Deaton, a litigator who has risen to prominence in the digital asset industry for filing **amicus briefs** on behalf of cryptocurrency investors in U.S. Securities and Exchange Commission actions against crypto firms, and who also **ran an unsuccessful campaign** to unseat Democratic U.S. Sen. Elizabeth Warren in the 2024 Massachusetts race.

"Linqto's vision and promise of democratizing private equity investing, by providing access and opportunity to people who've been historically excluded, is a vision I share. But unfortunately, Bill Sarris provided a shining example as to why those exclusionary rules exist. Not only did Sarris not fulfill that vision, he blinded it," Deaton said in a statement to Law360.

California-based Linqto was founded in 2010 and in 2020 launched a platform that allowed its customers to indirectly invest in a portfolio of privately held corporations, according to a declaration submitted by Jeffrey S. Stein, the company's chief restructuring officer, alongside its July 7 Texas bankruptcy petition.

Linqto **filed for bankruptcy** after Stein said newly appointed leadership found it had failed to comply with U.S. securities laws, prompting it to take down the platform in March, when Sarris was replaced as CEO. According to the declaration, Linqto was investigated by the SEC and Financial Industry Regulatory Authority last year.

Stein said Linqto's model allowed investors to purchase indirect economic interests, called units, in special purpose vehicles that held economic interests in shares that Linqto purchased for privately held companies. Linqto's revenue came from the sale of units to customers at rates that were higher than what the company paid, according to the declaration. The company's website says it has one of the industry's lowest initial minimum thresholds, requiring at least \$1,000 from customers to invest.

In Chapter 11, Linqto is looking to settle claims with regulators and customers, while restructuring operations to comply with regulations in order to relaunch its platform.

Wednesday's lawsuit specifies it is only against Sarris in his personal capacity, not Linqto, which is protected from legal actions by bankruptcy's automatic stay.

Maxwell and Deluccia in the proposed class action alleged Sarris disregarded concerns raised by Linqto's employees and attorneys over its compliance with regulatory guidance and securities law.

The lawsuit notes Gene Zawrotny, who was Linqto's chief revenue officer for about four months, sued the company, its then-chief operating officer and Sarris in October alleging he was fired in retaliation for raising alarms about Linqto's marketing practices and legal compliance. The employment lawsuit, filed in the Superior Court of California, County of Santa Clara, has been sent to arbitration, according to court records.

Maxwell and Deluccia alleged Sarris allowed Linqto to continue enrolling and selling units to customers who didn't meet the regulatory definition of an accredited investor, putting Linqto at odds with security registration exemptions.

The lawsuit also alleges Sarris directed an aggressive marketing campaign to recruit new customers and encourage existing ones to buy more units. It also says Sarris stated Linqto had 750,000 customers when it actually had closer to 15,000, and that while he led the company, it offered referral incentives that encouraged existing customers who qualified as accredited investors to recruit non-accredited investors.

While Linqto's special purpose vehicle model allowed customers to have an indirect economic interest in the privately held companies, Maxwell and Deluccia said customers believed they were buying the shares themselves.

The company also used FOMO, or fear of missing out, marketing strategies to draw in more investments, the complaint alleged.

When retail investors grew increasingly interested in one of Linqto's portfolio companies, crypto tech group Ripple, the customers said Sarris directed Linqto's marketing team to send out email blasts stating only a limited number Ripple units were left to purchase, prompting a flurry of investments, when in fact there were more units. The customers also allege Sarris failed to inform users the company had marked up units that customers purchased.

"The way Sarris directed advertising and marketing blurred the lines for investors, many of whom were not sophisticated and did not meet accredited investor status. In fact, for thousands of investors, investing on the platform was the first time they had ever experienced investing in private equity," the customers said in the complaint.

The Linqto customers asked a New York federal judge to certify a class of an estimated 13,000 to 14,000 customers who bought units from Linqto beginning in 2018. It alleges fraud and violation of U.S. securities laws and seeks damages and disgorgement from Sarris and a rescission and refunds for units that customers purchased.

Sarris could not immediately be reached on Wednesday for comment.

The proposed class is represented by John E. Deaton of Deaton Law Firm LLC.

Counsel information for Sarris was not immediately available.

The case is Maxwell et al. v. Sarris, case number 1:25-cv-05643, in the U.S. District Court for the Southern District of New York.

--Additional reporting by Sue Reisinger, Alex Wittenberg and Aislinn Keely. Editing by Philip Shea.



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J&J Seeks To Toss 'Nowhere Close' Band-Aid PFAS Suit In NJ

By **Carla Baranauckas**

Law360 (July 9, 2025, 6:17 PM EDT) -- Johnson & Johnson and Kenvue Inc. are urging a New Jersey federal court to toss a proposed class action alleging that the companies have not disclosed to the public that PFAS "forever chemicals" are present in unsafe amounts in Band-Aid brand adhesive bandages, arguing that the plaintiffs come "nowhere close" to stating a plausible claim.

In a **memorandum** supporting their motion to dismiss filed Tuesday, the companies sharply criticized the plaintiffs' amended consolidated complaint as "riddled with factual and legal deficiencies," despite being filed after more than a year of litigation, three versions of the complaint and the involvement of nine law firms.

The **plaintiffs alleged** that the adhesive flaps of certain Band-Aid bandages contain per- and polyfluoroalkyl substances, or PFAS — a class of synthetic chemicals associated with potential health risks — and that the companies misrepresented or failed to disclose their presence. But J&J contended that the allegations are built on speculation rather than science or law and fail to meet basic legal standards.

"PFAS' is not a magic word that can be invoked to open automatically the doors to federal litigation," the company wrote, citing a February ruling in **Bullard v. Costco Wholesale Corp.** in the Northern District of California. J&J argued that the plaintiffs have not plausibly alleged how the purported presence of PFAS poses a real risk to consumers through normal use of the bandages.

According to the filing, the plaintiffs' testing failed to show that PFAS are present on the gauze portion of the bandages — the part intended to come into contact with wounds. The company also said the studies cited by plaintiffs focus on PFAS exposure through drinking water, not incidental skin contact through adhesive products. Moreover, J&J emphasized that PFAS encompass a wide range of chemicals, not all of which are harmful, and that exposure pathways are critical in assessing risk.

Beyond the scientific claims, J&J also challenged the plaintiffs' legal standing. The company noted that the named plaintiffs failed to allege that they actually saw or relied on any misrepresentations before purchasing the bandages and did not specify where or when those purchases occurred. J&J further argued that plaintiffs failed to demonstrate any economic harm or injury-in-fact, and since the plaintiffs no longer purchase the products, they lack standing to seek injunctive relief.

The company is seeking dismissal with prejudice, arguing that the complaint relies on "conclusory allegations" that fall short of the pleading standards required under federal law, especially for fraud-based claims.

Jo Aronstein filed suit in April 2024. In January, the court consolidated her case with two pending actions, Castle et al. v. Johnson & Johnson et al. and Moultrie v. Johnson & Johnson et al.

The plaintiffs filed a consolidated class action complaint on March 10 and amended it on May 9. In it, the plaintiffs asserted four nationwide claims under New Jersey law (or, in the alternative, under the laws of various other states) as well as 11 claims under state consumer protection statutes.

Representatives for the parties did not immediately respond to requests for comment Wednesday.

The plaintiffs are represented by Christopher L. Ayers, Justin Smigelsky and Christopher A. Seeger of

Seeger Weiss LLP, James Bilsborrow of Weitz & Luxenberg PC, James E. Cecchi of Carella Byrne Cecchi Brody & Agnello PC, Philip Lawrence Fraietta of Bursor & Fisher PA, Kenneth J. Grunfeld of Kopelowitz Ostrow Ferguson Weiselberg Gilbert PA and Philip Furia of Sultz & Lipari PLLC.

J&J and Kenvue are represented by Nexus Uzoma Sea of O'Melveny & Myers LLP and Marcus Whitney Sr. and Michael Charles Zogby of Barnes & Thornburg LLP.

The case is Jo Aronstein et al. v. Kenvue Inc. et al., case number 3:24-cv-04665, in the U.S. District Court for the District of New Jersey.

--Editing by Rich Mills.

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Sandoz, Buyers Defend \$275M Deal Amid State Objections

By **Bonnie Eslinger**

Law360 (July 9, 2025, 5:13 PM EDT) -- Counsel for consumers, insurers and others urged a Pennsylvania federal court on Tuesday to approve Sandoz and its subsidiaries' \$275 million deal settling claims it conspired with other companies to fix some generic drug prices, with Sandoz separately calling states' objections "a paternalistic desire to control private class action settlements."

In separate filings Tuesday, the consumers, insurers and other end-payor plaintiffs moved for final approval of the settlement, while Sandoz Inc. presented its response to **objections** to the proposed agreement that was submitted to the court on behalf of dozens of states in May.

In their motion, the end-payor plaintiffs also argue that the states' objections should be overruled, citing that no class members have objected to the settlement. The state attorneys general are not settlement class members, the motion underscores.

Sandoz's filing notes that the coalition of state attorneys general sued it and other generic drugmakers in Connecticut federal court and claims that the settlement's release of consumer claims is too broad.

"That is false. This objection is unsupported by law and would give the States an effective veto over all class settlements involving consumers," Sandoz states. "The Settlement does not interfere with the States' ability to vindicate the public interest; it merely precludes a double recovery by the consumers of certain states."

Courts have allowed private class actions to release overlapping damages claims being pursued by states, the company says.

The states contend that the settlement can only release claims that were within the scope of the litigation, but that is also not true, Sandoz said.

"If the States' position were adopted, it would nullify all general releases and discourage defendants from settling," the company says.

The settlement still allows the states to pursue claims that "vindicate public interests" or that seek recovery on behalf of state governmental entities, Sandoz tells the Pennsylvania federal court.

"Courts routinely delineate between sovereign claims in the public interest, which are not precluded by private settlements, and claims that are derivative of private interests, which may be precluded to prevent double recoveries," Sandoz states.

The settlement reached with the end payer plaintiffs is the largest to date between any company and plaintiff group in the multidistrict litigation, reached after more than eight years of "hard-fought" litigation, Sandoz underscores.

The states' effort to derail the deal wrongly attempts to speak on behalf of consumers who will be granted relief under the settlement.

"But the States' objections are driven by a paternalistic desire to control private class action settlements," Sandoz states.

The court should reject the states' objections and grant final approval, Sandoz argues.

Under the deal struck, a cash settlement fund totaling \$275 million will be established, which could be reduced by a maximum of \$45 million to account for opt-outs, according to both Tuesday filings.

Only one consumer requested to opt out, but there have been more than fifty-four exclusion requests, including from entities that have filed individual lawsuits in the MDL, according to the end-payer plaintiffs' motion for final approval. In addition, there are five self-insured municipalities, five self-insured businesses, and 22 opt-out insurers.

According to the terms stated in the settlement agreement, the fund may be reduced up to \$45 million, "pursuant to a confidential calculation agreed to by the parties that accounts for potential members of the EPP Settlement Class that submit valid and timely requests for exclusion."

The documents submitted on Tuesday do not state if the opt-out reduction has been triggered.

"Sandoz and EPP Settlement Class Counsel shall cooperate in good faith in determining the amount of this reduction, following the process and timing set forth in the parties' confidential agreement setting forth the manner for calculating the Opt-Out Reduction," the settlement states.

The end payer plaintiffs' motion for final approval of the settlement notes that the deal allows their lawyers to seek approval of up to one third of the settlement amount, plus interest, for attorneys' fees, plus litigation expenses of up to \$26 million and service awards to the class representatives of up to \$500,000 altogether. It also earmarks \$750,000 of the settlement amount for notice and fund administration expenses.

In their April Motion for fees, class counsel said "depending on the extent to which the opt-out reduction is triggered," they'll request between \$67.7 million and \$82.7 million for fees, as well as interest on the determined amount. The allocation of the remaining settlement funds will be made pro rata, based on class members' expenditures on the drugs at issue during the relevant time period, as stated in the motion for final approval.

In February, U.S. District Judge Cynthia M. Rufe issued an order granting **preliminary approval** to the deal, which had been announced **in December**.

The settlement class includes people and entities in all 50 states who bought or reimbursed purchases of the allegedly inflated drugs, though it exempts state and federal government entities, Medicaid users who were fully compensated for their drug purchases, and resellers, the order said.

In their May motion, the state attorneys general argued the deal threatens relief for consumers and favors insurers over individuals.

Sandoz Group AG has also reached a separate **\$265 million** settlement with pharmacies and other direct buyers in the MDL a year earlier, touting it as a sign of the company ending "legacy practices" after it spun off from Novartis AG. Sandoz Group subsidiaries Sandoz Inc. and Fougera Pharmaceuticals Inc. did not admit to wrongdoing in the instant EPP agreement, but sought to settle claims from consumers, insurers and benefit funds that had allegedly overpaid for the companies' generic prescription drugs between 2009 and 2019.

The MDL has seen **multiple settlements**, even as other aspects of the long-running litigation move forward, with the first "bellwether" jury trials slated for August. State enforcers have also inked **some settlements** in a trio of cases that were **broken off** from the Pennsylvania MDL and are now moving forward in Connecticut. The case was further complicated by the U.S. Department of Justice criminal prosecution against Teva Pharmaceutical and **settlements** with Taro Pharmaceutical and Sandoz.

Representatives for the parties did not immediately respond to requests for comment on Wednesday.

California is represented by Mathew Simkovits with its state attorney general's office. The other states are represented by their respective attorneys general.

The end payers are represented by Roberta D. Liebenberg of Fine Kaplan and Black RPC.

Settlement counsel for Sandoz Inc. and Fougere Pharmaceuticals Inc. is Matthew D. Kent of Alston & Bird LLP. The Sandoz subsidiaries are represented by Laura Shores and Saul P. Morgenstern of Arnold & Porter Kaye Scholer LLP.

The MDL is In re: Generic Pharmaceuticals Pricing Antitrust Litigation, case number 2:16-md-02724, in the U.S. District Court for the Eastern District of Pennsylvania.

--Additional reporting by Matthew Santoni, Dan McKay, Najiyya Budaly, Bryan Koenig and Matthew Perlman. Editing by Vaqas Asghar.

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Ohio Officials Sued Over \$600M In Funds For Browns Stadium

By **David Steele**

Law360 (July 9, 2025, 7:38 PM EDT) -- The transfer of \$600 million in unclaimed property funds to the Cleveland Browns to help finance a proposed new suburban stadium for the NFL team is an "unconstitutional and unlawful misappropriation of private property," a group of unclaimed-property owners alleged in a proposed class action in Ohio state court against several state officials.

Three residents of Cuyahoga County, where Cleveland is located, are the lead plaintiffs in the suit and are represented by Jeff Crossman, a former Democratic member of the Ohio House of Representatives and a critic of the **appropriation** added to the state budget and signed into law by Gov. Mike DeWine on June 30.

Supporters of the budget line claimed that the state would get a return on the investment and that the Browns, who have proposed to move from their stadium in the city to one in nearby Brook Park, would cover any financial shortfall.

However, the proposed class action filed Monday said, the unclaimed funds account "is not property of the state of Ohio to use as it deems fit." It cited a 2009 Ohio Supreme Court ruling that specified that property in the account was not abandoned, but was property of the owner. The lead plaintiffs — Mary Bleick, Todd Butler and Allen Skierski — are owners of unclaimed property either as its original owner or as heirs to the owner, according to the suit.

Named as defendants are state commerce director Sheryl Maxfield, Division of Unclaimed Funds superintendent Akil Hardy, state treasurer Robert Sprague and Ohio Facilities Construction Commission executive director Joy Bledsoe, all in their official capacities. The defendants are accused of attempting to, on behalf of the state, "confiscate and divert Ohioans' 'unclaimed funds' from their intended purpose — to be held and preserved for the benefit of the rightful owners — to finance the construction of a private sports stadium" for the Browns.

The Browns, owners Jimmy and Dee Haslam, DeWine and members of the state Legislature are not named as defendants in the suit.

The city of Cleveland has **sued the Browns** in state court to prevent the team from leaving the city and violating its "Modell Law" requiring legislative approval of a move from the city. The Browns have **sued the city** back in federal court to prevent it from stopping the move to its proposed new home.

The money from the unclaimed property fund can be earmarked for the Browns' use starting Jan. 1, according to the new law, which means that those with claims to property in the fund have to "'race the clock' in an attempt to recover their property or the property they are entitled to as heirs of the original property owner, fundamentally altering the property rights of Ohioans and others with claims to property" in the fund, the suit said.

Senate Democrats had sharply criticized the budget provision last month and threatened to go to court to challenge it. Crossman told Law360 on Wednesday that he knew he would be part of any suit filed to stop the appropriation "as soon as my head stopped exploding" from the voting results, adding, "Unclaimed funds are clearly private property, and the Ohio Supreme Court said so."

"This is just like any eminent domain move," Crossman continued, adding that while the awarding of the funds to the Browns was positioned as a mixed-use public project, "it's really to benefit one

private entity, not a public entity."

Dan Tierney, press secretary for DeWine, declined Wednesday to comment on the merits of the suit, but added, "I will note that Ohioans were always able to apply for unclaimed funds prior to the lawsuit and they will still be able to do so after the law takes effect."

Through a spokesperson, the Ohio Department of Commerce declined to comment on the suit Wednesday.

The plaintiffs are represented by Jeffrey A. Crossman, Marc E. Dann and Brian D. Flick of Dann Law.

Counsel information for the defendants was not immediately available.

The case is Bleick et al. v. Maxfield et al., case number 25-CV-005715, in the Franklin County, Ohio, Court of Common Pleas.

--Additional reporting by Paul Williams and Isaac Monterose. Editing by Kelly Duncan.

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Ticketmaster Deceptive Pricing Suit Moves Forward, For Now

By **Lauraann Wood**

Law360 (July 9, 2025, 5:08 PM EDT) -- A lawsuit accusing Ticketmaster and Live Nation of baiting customers to buy event tickets with deceptively low prices can move forward for now, because the entertainment giants challenged the claims with arguments that are better resolved after gathering evidence, a California federal judge said Wednesday.

U.S. District Judge John Walter said in his brief **order** that he denied Ticketmaster and Live Nation's bid to dismiss the four event-goers' proposed class suit because the issues they flagged with their complaint "are more appropriately resolved on a motion for summary judgment."

The customers launched the suit in March, claiming Ticketmaster has been luring consumers into buying event tickets by advertising "deceptively" low prices before hitting them with a purchase countdown clock and then surprising them with **exorbitant junk fees** at checkout.

Ticketmaster uses the countdown clock to subject consumers to a "false sense of investment and urgency" and to distract them from the fact that the ultimate ticket price is significantly higher than advertised, the consumers allege. The company is "well aware" that putting off disclosures of mandatory fees is deceptive and unfair to consumers, but engages in the conduct anyway, they say.

The "bait and switch" scheme is also wide-reaching, as Live Nation, through Ticketmaster, collected fees on 329 million tickets in 2023, according to the event-goers' complaint.

The consumers hail from California, Florida, New York and Illinois. They seek to represent classes of individuals from their states who purchased tickets from Ticketmaster and Live Nation — which uses Ticketmaster for ticket sales — on their computers or cellphones, and paid fees not included in initially displayed prices.

But Ticketmaster and Live Nation argued in May that the plaintiffs haven't stated a viable claim because its website disclosed added fees "in multiple different ways" throughout the ticket-buying process. The pricing practice also complies with New York's Arts and Cultural Affairs law and California's Honest Pricing law because customers see a ticket's total price before they click to buy it, Ticketmaster and Live Nation argued.

And even if the consumers brought viable claims, they lack standing to litigate the case because they haven't pointed to any concrete economic harm they suffered from the allegedly illegal pricing scheme, the companies argued. Their claims are also barred because they voluntarily paid the ticket prices about which they now complain, and their injunctive relief claims "fail even on their terms," since the customers would in theory know about the alleged deception going forward, they asserted.

Counsel for the event goers told Law360 in an email Wednesday that "Americans are fed up that companies like Ticketmaster have gotten away with nickel and diming consumers with made up fees," and that "Judge Walter's order is a positive step toward obtaining redress for consumers."

Representatives for Ticketmaster and Live Nation didn't immediately respond Wednesday a request for comment.

The plaintiffs are represented by Annick Persinger, Robert Devling and Shana Khader of Tycko & Zavareei LLP.

Ticketmaster and Live Nation are represented by Alexander Smith, Alison Stein, Brandon Fox, Eric Wolff and Kristen Green of Jenner & Block LLP.

The case is Madrigal et al. v. Ticketmaster LLC et al., case number 2:25-cv-02375, in the U.S. District Court for the Central District of California.

--Additional reporting by Rae Ann Verona. Editing by Linda Voorhis.

Update: This story has been updated to include comment from plaintiff's counsel.

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DOJ's 1st M&A Declination Shows Value Of Self-Disclosures

By **Jamie Schafer and Sydney Veatch** (July 9, 2025, 1:51 PM EDT)

Are we entering a new era of predictable corporate declinations? And, if so, will the quest for finality in corporate resolutions drive companies to increased voluntary self-disclosures?

On the heels of issuing an updated corporate enforcement and voluntary self-disclosure policy, or CEP, the U.S. Department of Justice sent a clear signal in response to the first question: It seems that the DOJ intends to make good on its promise to reward corporate voluntary self-disclosures.[1]

On May 12, the DOJ **announced** a revised CEP, which included more prescriptive language about its policies on declining to prosecute companies in cases involving voluntary self-disclosures. While the prior CEP called for a presumption that the DOJ would decline prosecution in cases meeting the criteria, including voluntary self-disclosure, the revised CEP used stronger language: "The Criminal Division will decline to prosecute a company for criminal conduct" when the relevant criteria are met.

Shortly thereafter, on June 16, the DOJ made good on this promise, announcing a landmark decision to **decline prosecution** of a private equity firm, White Deer Management LLC, that disclosed criminal violations occurring after its acquisition of a company with a history of sanctions and export control violations.

The DOJ credited this as the first-ever declination under the National Security Division's mergers and acquisitions policy, announced in March 2024, notwithstanding the fact that several of the requirements of that policy appear not to have been strictly met.

The declination was coupled with a notably favorable resolution for the acquired subsidiary, Unicat Catalyst Technologies LLC, including a nonprosecution agreement, no monitorship as to compliance commitments and no criminal penalty.

Unicat was required to forfeit approximately \$3.3 million, representing the proceeds of the violations disclosed. However, under the parallel resolutions with the U.S. Department of the Treasury's Office of Foreign Assets Control and the U.S. Department of Commerce's Bureau of Industry and Security Office of Export Enforcement, the amount forfeited to the DOJ was credited toward the penalties imposed by those agencies.

A resolution under terms this favorable seems calculated to send a strong message to the market — particularly in a case involving significant aggravating circumstances and where several factors under the DOJ's CEP, including a timely voluntary self-disclosure, were not met.

Why This Matters

This is the first-ever declination for an acquirer under the DOJ National Security Division's M&A policy, introduced in March 2024. It also serves as powerful proof of concept as to the stronger tone of the department's May CEP revisions. With this case, the DOJ is signaling an intent to materially reward



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voluntary self-disclosures, even in cases that may have previously not met department standards for leniency.

The DOJ's decisions in this case — including related criminal enforcement against individuals involved in the misconduct — also underscore statements made by department officials in various forums regarding the DOJ's continued commitment to prioritizing corporate enforcement in matters involving national security priorities, including sanctions and export control violations.[2]

Background and Key Facts

White Deer Management acquired Unicat, a Texas-based company, unaware that the target had engaged in a multiyear scheme from 2014 to 2021 to violate U.S. sanctions and export control laws. Unicat's former CEO and others unlawfully sold chemical catalysts to customers in Iran, Venezuela, Syria and Cuba, generating more than \$3.3 million in illicit revenue. The company also circumvented customs duties and fees amounting to \$1.66 million over the relevant period.

The misconduct surfaced in June 2021, postacquisition, when the new CEO identified a suspicious transaction with an Iranian customer. The new management halted the violative transactions, retained counsel and launched an internal investigation. Even before the investigation concluded — but after conclusively identifying the misconduct — White Deer Management and new management submitted a voluntary self-disclosure to the DOJ.

The violations involved an array of conduct generally viewed as aggravating circumstances by the DOJ and other regulators, including the knowing participation of senior management — up to and including the board and CEO — and perceived danger to U.S. sanctions programs' foreign policy and national security goals. Nevertheless, the DOJ determined that a NPA for Unicat was warranted, imposing no penalty and no monitoring requirements, notwithstanding these and other aggravating circumstances.

Regarding the decision to decline to prosecute White Deer Management, the DOJ continued to show a disposition toward leniency, even as judged under its own policies. Notably, the violations continued for nearly a year after the acquisition closed. The voluntary self-disclosure was submitted 10 months postacquisition. While the M&A policy generally requires disclosure within six months of the closing, the DOJ relaxed the application in this case, citing delayed integration due to the COVID-19 pandemic, among other factors.

What This Means for Corporate Voluntary Self-Disclosures

There has been much discussion regarding shifts in corporate enforcement priorities under new DOJ leadership. While only time will tell, the announcement of this exceedingly favorable resolution sends a strong message to the market that the DOJ (1) continues to value voluntary self-disclosures, and (2) is committed to rewarding companies that promptly self-disclose, cooperate and remediate misconduct.

It is particularly notable as the first public example of the DOJ making good on its long-standing promise to provide declinations to acquirers that voluntarily disclose postacquisition misconduct, reinforcing the credibility of the recently released declinations policy.

The department has made clear in several recent announcements that it will continue to emphasize national security enforcement — especially in the areas of sanctions and export controls. But this action suggests that even in these high-priority, high-visibility matters, the DOJ intends to stand by its commitment to rewarding corporate voluntary self-disclosures and robust cooperation.

How will companies react? Will greater certainty of outcomes result in an increase in voluntary self-disclosures?

Voluntary self-disclosures bring a welcome finality after the discovery of corporate misconduct. Beyond the risk of future prosecution, undisclosed violations create transactional risks, including in the context of creditor and other third-party compliance representations, as well as in future M&A activities. But the risk of highly unpredictable consequences often outweighs those benefits in the minds of corporate decision-makers.

OFAC has consistently reported that the vast majority of voluntary self-disclosures the agency receives end in no action — the regulatory equivalent of a DOJ declination. As a result, companies often feel confident in the likely response to an OFAC voluntary self-disclosure, frequently tipping the balance in favor of the benefits of voluntary self-disclosures in terms of finality. OFAC, and the companies the agency regulates, benefit from this understanding.

This action, coupled with the enhanced commitment to declinations in the most recent version of the DOJ's CEP, may move the needle for some companies already on the fence about the benefits of making voluntary self-disclosures to the department. But it seems likely that the DOJ will need to up the ante with more, and more varied, declinations to drive meaningful change in corporate perceptions regarding voluntary self-disclosures.

In the end, if the department is able to demonstrate a more streamlined, predictable and ultimately OFAC-like approach to the resolution of voluntary self-disclosures longer term, we could see a new era of voluntary self-disclosure — and the attendant benefits that flow from consistent corporate cooperation and enforcement outcomes for both government and corporate stakeholders.

Jamie Schafer is a partner and Sydney Veatch is an associate at Perkins Coie LLP.

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[1] <https://www.justice.gov/criminal/media/1400031/dl?inline>.

[2] See, e.g., May 12, 2025 DOJ Memo (Matthew Galeotti, Head of Criminal Division).

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