Yet Another Private Credit Firm Hit With Securities Suit

dandodiary.com/2026/05/articles/private-credit/yet-another-private-credit-firm-hit-with-securities-suit

Kevin LaCroix May 7, 2026

FSK | FS KKR Capital Corp.

As followers of the financial markets know, in recent months, trouble has been brewing in the private credit sector. In at least some cases, the problems in the private credit markets have translated into D&O claims, including both securities class action lawsuits (for example, here) and shareholder derivative lawsuits (here). In the latest example of a private credit-related D&O claim, a shareholder plaintiff has filed a securities class action lawsuit against one of KKR's private credit ventures, alleging that the firm overstated asset valuations and the effectiveness of its restructuring efforts. A copy of the May 4, 2026, securities class action lawsuit complaint can be found here.

Background

FS KKR Capital Corp. is a publicly traded Business Development Company (BDC). The firm specializes in making private, non-bank loans to companies. For five consecutive quarters ending in the first quarter of 2025, the company stated that it was establishing an improved loan portfolio credit profile and that any non-accrual issues with legacy investments were being adequately addressed through restructuring.

On August 6, 2025, the company released its 2Q25 financial results, disclosing, among other things, that its net asset value and total fair value of investments had declined. It also disclosed that its earnings per share (actually an operating loss) had declined and its net accrual status had increased from the prior quarter. In explaining these results, the company said that it had been "impacted by company specific issues affecting four companies, each of which have been discussed in prior earnings calls."

Then on February 25, 2026, when the company released its results for 4Q and the full year 2025, the company disclosed that its net asset value and total fair value of investments had continued to decline; that its earnings had further declined; and that investments on a non-accrual basis had increased. The company also cut its dividend. The Company "acknowledged specific challenges" with additional companies, noting further that its 'recent underperformance reflects challenges in certain legacy investments" in addition to those previously discussed.

The securities lawsuit complaint alleges that these disclosures showed that the "challenges ran much deeper than previously disclosed," as the previously identified legacy customers' problems accounted for only about 50% of net realized and unrealized losses. The company also acknowledged that its non-accrual rate is above long-term BDC industry average costs. The complaint alleges that the company's share price declined over 15% on this news.

The Lawsuit

On May 4, 2026, a plaintiff shareholder filed a securities class action lawsuit in the Eastern District of Pennsylvania against FS KKR Capital and certain of its executives. The complaint purports to be filed on behalf of a class of investors who purchased the company's securities between May 8, 2024, and February 25, 2026.

The complaint alleges that during the class period, the defendants failed to disclose to investors that: "(1) the Company overstated the effectiveness of its portfolio restructuring efforts for its nonaccrual companies; (2) the Company overstated the valuation of its portfolio investments and/or overstated the effectiveness of the Company's portfolio valuation process; (3) the Company overstate the durability of its quarterly distribution strategy; and (4) that, as a result of the foregoing, Defendants' positive statements about the Company's business, operations, and prospects were materially misleading and/or lacked a reasonable basis."

The complaint alleges that the defendants violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder. The complaint seeks to recover damages on behalf of the class.

Discussion

This new securities class action lawsuit is the latest in a series of securities suits filed against private credit *lenders*. (There has also been a series of D&O claims filed against private credit *borrowers*, as discussed here and here.)

For example, with respect to the suits against lenders, beginning in December 2025, several securities suits have been filed against private credit lender Blue Owl – and in addition, Blue Owl has also been hit with a shareholder derivative lawsuit as well.

In addition, in recent months, shareholders have also filed securities suits against private credit lenders Hercules Capital (about which refer here) and Blackrock TCP (refer here).

As these lawsuits accumulate, it is becoming clear that lawsuits arising out of the problems in the private credit sector could turn out be an important contributing factor in the total number of securities class action lawsuit filings this year.

These lawsuits are accumulating due to a number of different kinds of underlying problems in the private credit sector. The lenders are under pressure for a host of reasons, among other things because of rising defaults (due in part to an increase in the sector in recent years of weaker borrowers); loan concentrations (particularly in the software sector, where valuations have recently declined because of the perceived threat of AI); liquidity issues, as investors seek near-term redemptions, while investment portfolios are longer-tail; growing concerns about valuations of debt assets and about accruals for underperforming loans; and questions about management and service fees.

As if these factors were not problems enough, the private credit now apparently is under SEC scrutiny. As discussed here, earlier in the week SEC Chair Paul Atkins said that the SEC is investigating alleged fraud in the private credit sector. Among other things, Atkins said (without naming any specific private credit firms) that "We are taking it very seriously, we are monitoring the situation."

The likelihood for now is that these problems are likely to continue to weigh on the private credit sector in the months ahead. A bigger question may be whether or not there is a risk of a contagion effect, as problems in the private credit sector spill over into other segments. There is some concern that problems in the non-bank private credit sector could lead to problems in the commercial bank sector, as some private credit funds have drawn on significant bank loans. At least some life insurance companies are heavily invested in the private credit sector, as are some pension and sovereign wealth funds. However, at least for now, the likelihood of major contagion event for now at least seems unlikely.

In any event, as the problems in the private credit sector continue to develop, it seems likely that we will continue to see private credit sector-related securities class action lawsuits filed, with an increasing likelihood that these private credit related suits will represent an important factor in the total number of securities suits filed this year.

The Quinn Emanuel law firm, in a very detailed April 26, 2026 memo about emerging litigation risk in the private credit sector (here), observed that "Private credit does not need to trigger a financial crisis before it will create litigation. The market's defining features — illiquidity, bespoke documentation, manager-driven valuation, retail distribution, and a growing interconnection with banks and insurers — create the kind of factual record from which complex disputes grow." The memo concludes by noting that "For sponsors, lenders, fund managers, boards, insurers, banks, and plan fiduciaries, this moment is less about predicting collapse than about preparing for the inevitable disputes."

Securities

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Skyworks Is Stuck With Investors' Suit Over iPhone Chip Sourcing

May 7, 2026, 8:39 AM PDT

Skyworks Solutions Inc. must face investors' claims that it misrepresented the number of radio-frequency chips per phone it expected to supply to Apple Inc., its largest customer, a federal court ruled.

The investors adequately pleaded material omissions in top executives' optimistic statements about Apple's chip sourcing for the iPhone 16 and iPhone 17, the US District Court for the Central District of California said. And they sufficiently supported allegations of "deliberate recklessness," Judge David O. Carter said Wednesday in denying Skyworks' dismissal request.

The proposed class action revolves around a 25% share-price decline in February 2025—the stock's steepest in more than 37 years, according to data compiled by Bloomberg.

The investors alleged Skyworks in the latter half of 2024 rosily projected its growth potential and ability to capitalize on changes to the smartphone upgrade cycle—including amid the rise of artificial intelligence—while delivering financial results. But one former employee recounted knowing by March 2023 that Apple planned to reduce the number of Skyworks chips per phone, the plaintiffs said. The investors also pointed to competitors' statements about their increased chip content as corroborating the timeline.

Share prices plummeted 25% on Feb. 6, 2025, closing at $65.60, the day after the chipmaker announced lower-than-expected 2Q 2025 revenue guidance and financial impacts from Apple's retreat, according to the complaint.

Bernstein Litowitz Berger & Grossmann LLP is lead counsel for the investors. Sidley Austin LLP represents Skyworks and the executives.

The case is Nunez v. Skyworks Sols., Inc. , C.D. Cal., No. 8:25-cv-00411, 5/6/26 .

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Securities

Chemours Fights Off Investor Suit Over Free Cash Flow Accounting

May 6, 2026, 2:23 PM PDT

Chemours Co. investors can't proceed with a securities fraud lawsuit alleging the chemical company concealed executives' manipulation of free cash flow metrics, at least as currently pleaded, a federal court ruled.

The investors didn't adequately allege a material misrepresentation because Chemours disclosed the impact of the "discretionary" timing of its payables and receivables, Judge Richard G. Andrews said Tuesday for the US District Court for the District of Delaware. The investors will have a chance to replead their claims.

Three senior executives were placed on leave in February 2024 as Chemours investigated its accounting amid accusations that the officers delayed payables and accelerated receivables to maximize their incentive pay. CEO Mark Newman and Chief Financial Officer Jonathan Lock have since resigned, and Camela Wisel, formerly Chemours' principal accounting officer, is also no longer at the company. The Securities and Exchange Commission and the Department of Justice initiated an investigation, the company said in March 2024.

The investors alleged Chemours concealed deficient accounting practices for more than a year. It postponed the release of its fourth-quarter and full-year 2023 financial results in February 2024 and then, about two weeks later, announced it would delay its annual report along with the suspension of Newman, Lock, and Wisel, pending the completion of the review over ethics concerns, they said. Stock drops of 13% and 32%, respectively, followed these announcements.

Andrews disagreed with the investors that the allegedly intentional nature of cash flow factors' "variable" timing made Chemours' actual disclosures inadequate.

Because the investors failed to adequately allege that central misrepresentation or omission, their claims stemming from that allegation—over Sarbanes-Oxley certifications and statements about the company's code of ethics—also must be dismissed, Andrews said.

Rosen Law Firm PA is lead counsel for the investors. Potter Anderson & Corroon LLP represents Chemours and the individual defendants—Newman, Lock, Wisel, and former CFO Sameer Ralhan. Additional counsel for the individual defendants includes Gellert Seitz Busenkell & Brown LLC and Richards, Layton & Finger PA.

The case is In re Chemours Co. Sec. Litig. , 2026 BL 164592, D. Del., No. 1:24-cv-00361, 5/5/26 .

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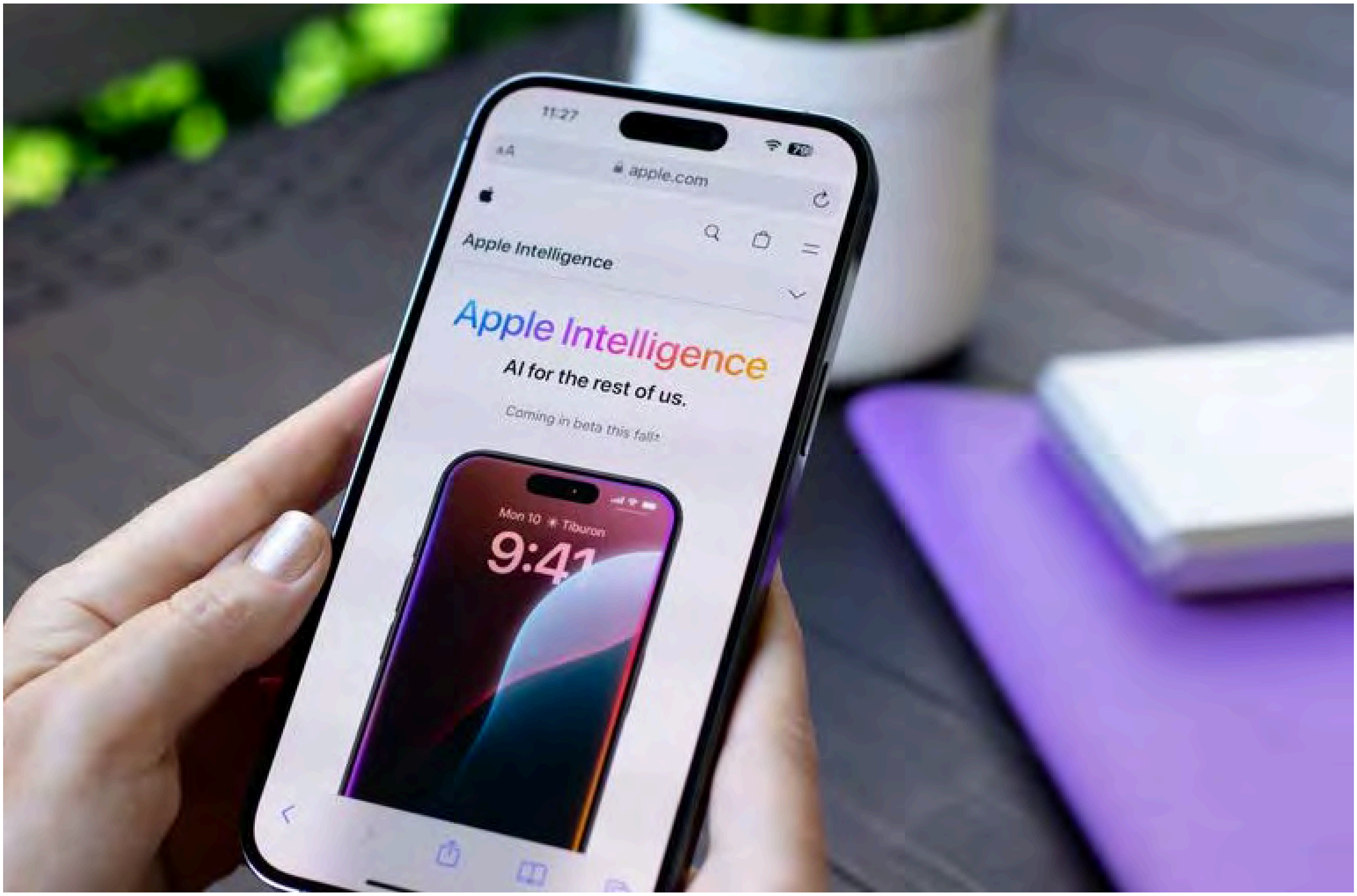
News | **Class Actions**

Apple to Pay $250M to Settle Claims It Overpromised on iPhone AI Features

The class action alleged that Apple's marketing created a "clear and reasonable consumer expectation" that Apple Intelligence features would be available when the iPhone 16 launched in September 2024.

May 07, 2026 at 06:05 AM By **Michael Gennaro**



Credit: DenPhoto/Adobe Stock

Apple has agreed to pay $250 million to settle a class-action lawsuit accusing the company of misleading consumers about the availability of artificial intelligence features on the iPhone 16, according to a proposed settlement filed in California federal court.

The settlement, which requires court approval, would apply to all U.S. purchasers of the iPhone 16 as well as purchasers of the iPhone 15 Pro who bought their devices between June 2024 and March 2025. Eligible class members stand to receive from $25 to $95 per device, depending on claim volume, according to Clarkson Law Firm, which brought the suit.

The year-old lawsuit alleged that Apple's marketing created a "clear and reasonable consumer expectation" that Apple Intelligence features would be available when the iPhone 16 launched in September 2024. and that consumers instead received a device offering a "significantly limited or entirely absent version of Apple Intelligence, misleading consumers about its actual utility and performance."

At Apple's Worldwide Developers Conference in June 2024, the company previewed a suite of AI-powered Siri capabilities that it said would accompany the iPhone 16A, which Apple marketed as "built for Apple Intelligence."

But the phone launched without many of those features, and some still haven't debuted.

The settlement follows regulatory scrutiny of Apple's AI marketing. Last April, the nonprofit National Advertising Division, a self-regulatory body that's an offshoot of the Better Business Bureau, recommended that Apple discontinue or modify its "available now" claim on its Apple Intelligence webpage. The company did so and also pulled an iPhone 16 advertisement featuring actor Bella Ramsey demonstrating the AI-upgraded Siri.

Under the deal, Apple did not admit fault. In a statement, the company said, "We resolved this matter to stay focused on doing what we do best, delivering the most innovative products and services to users." It noted that the upgraded Siri includes a host of powerful new features.

News from Bloomberg Terminal

Sackler Family Member Admits Felony Tied to Her Opioid Addiction

May 7, 2026, 10:38 AM PDT

Summary by Bloomberg AI

AI Generated

- Joss Sackler pleaded guilty to a single felony count of obstruction of justice after admitting to deleting WhatsApp messages showing she was the intended recipient of a shipment of prescription drugs seized by US border agents.
- Sackler, who said she was addicted to opioids at the time, faces a maximum of 20 years in prison when sentenced, though federal sentencing guidelines will likely call for a more lenient punishment.
- The Sackler family is working through a plan to pay $6.5 billion to resolve their liability over Purdue Pharma LP's production of addictive opioids, as part of a bankruptcy plan that requires them to pay $6.5 billion to victims and fund local government efforts to address opioid addiction.

By Bob Van Voris and Anna J Kaiser

(Bloomberg) --

As the Sackler family worked through a plan to pay $6.5 billion to resolve their liability over Purdue Pharma LP's production of addictive opioids, the epidemic hit even closer to home.

Joss Sackler, the wife of former Purdue board member David Sackler, admitted deleting WhatsApp messages showing she was the intended recipient of a shipment of prescription drugs seized by US border agents in 2024. Sackler, who said she was addicted to opioids at the time, pleaded guilty to obstructing a federal grand jury investigation into the transaction.

"I am so truly sorry that when I was suffering from my addiction I made these poor choices and I am grateful for the medical care I have been able to get in my recovery," Sackler, 41, said in a statement after pleading guilty to a single felony count of obstruction of justice at a hearing in Miami Wednesday.

Joss Sackler in New York City.

Photographer: Aurora Rose/Patrick McMullan/Getty Images

Her story followed a common pattern that played out in the opioid epidemic, which saw more than 800,000 people die from overdoses between 1999 and 2023. Many laid much of the blame on OxyContin maker Purdue Pharma, which filed for bankruptcy in 2019 facing more than 2,600 opioid addiction lawsuits and the next year pleaded guilty to federal conspiracy and fraud charges related to its business practices.

A box containing the drugs from outside the country was seized by U.S. Customs and Border Protection at Miami International Airport in June 2024, triggering the probe by Homeland Security Investigations. That was the same month the Supreme Court blocked a previous Purdue opioid settlement, ruling it would improperly shield the Sackler family from lawsuits.

Sackler, who has a Ph.D. in linguistics and launched a women's fashion brand in 2019, told federal officials she was the intended recipient of the drugs within days after learning of the investigation, according to her lawyer. She faces a maximum of 20 years in prison when sentenced in July, though federal sentencing guidelines will likely call for a more lenient punishment.

"This unfortunate situation involves Joss's personal health and conduct, entirely unrelated to Purdue Pharma or any other members of her family," her lawyer, Walter Norkin, said in a statement. "Joss has taken full responsibility for her mistake, and fortunately has been able to receive the treatment she needed to recover."

At the time agents seized the box of drugs meant for Sackler in June 2024, the US Supreme Court was about to issue a 5-4 decision that blocked a bankruptcy plan calling for the Sackler family to pay as much as $6 billion in exchange for a release from all current and future opioid-related lawsuits.

The ruling led to wrangling over a replacement plan that is expected to provide $7.4 billion in payments to address nationwide harm caused by the mass marketing and production of addictive painkillers. That deal shuttered Purdue Pharma for good on May 1.

The bankruptcy plan requires the Sackler family owners to pay $6.5 billion to victims and fund local government efforts to address opioid addiction. No member of the Sackler family was charged with a crime related to the company's actions.

David Sackler is the son of former Purdue Chief Executive Officer Richard Sackler and was a member of the company's board before its bankruptcy. He had been more willing to speak publicly about his family and company than most of his relatives, cooperating with a 2019 Vanity Fair profile and testifying before Congress the following year.

The case is US v. Sackler, 26-cr-20177, US District Court, Southern District of Florida (Miami).

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Meta, Google challenge landmark addiction verdict, seek new trial

DJ dailyjournal.com/articles/391241-meta-google-challenge-landmark-addiction-verdict-seek-new-trial

Covington & Burling LLP partner Ashley M. Simonsen

Meta and Google contend the $6 million verdict in the first minors' social media addiction trial "cannot stand" because jurors were allowed to impose liability for alleged mental health harms tied to third-party content and platform features they say are protected by the First Amendment.

"Even setting aside these threshold legal bars, the verdict fails on the evidence. Plaintiff's own specific causation expert conceded it was 'impossible' to determine whether Plaintiff would have suffered the same harms absent Instagram," Meta's counsel wrote in a motion brief Tuesday.

Signed by Covington & Burling LLP partner Ashley M. Simonsen, Meta moved for a new trial and judgment notwithstanding the verdict, which was entered by Los Angeles County Superior Court Judge Carolyn B. Kuhl on April 7.

In March, a jury found Meta and Google negligently designed Instagram and YouTube in ways that fostered addictive use among minors and substantially contributed to mental health diagnoses suffered by a plaintiff identified as Kaley G.M.

The case was the first of its kind to try claims against online platforms under a product-defect theory that the plaintiffs argued falls outside Section 230 protections of the federal Communications Decency Act. That law generally shields internet companies from liability stemming from content uploaded by third-party users. Social Media Cases, JCCP5255 (L.A. Super. Ct., filed Oct. 24, 2022).

A separate motion filed by Google's counsel at Wilson Sonsini Goodrich & Rosati echoed Meta's position. Firm partner Lauren Gallo White signed the filing.

Both motions are to be heard before Kuhl next month.

While both companies argued the liability verdict should be rejected, Google's motion primarily focused on whether YouTube could be held liable for features tied to recommending and displaying user content. It separately questioned whether internal discussions about watch time and addiction justified punitive damages.

"Plaintiff's arguments suggested that YouTube tried to grow its business and was not sufficiently careful about potential incidental harm stemming from growth efforts. Whether or not that showing can support a claim for compensatory damages, it falls well short of the ... conduct required by the statute to support punitive damages," requiring judgment notwithstanding the verdict, the Google brief argued.

"At minimum, even assuming arguendo that some of these features were not protected, the Court's denial of a jury instruction implementing the First Amendment's protections was an 'error of law' or 'abuse of discretion' that prejudiced YouTube, requiring a new trial."

Kaley's verdict was secured at trial by Lanier Law Firm founder Mark Lanier. He was joined by his daughters Rachel and Sarah Lanier, also of Lanier Law Firm, Mariana McConnell of Kiesel Law LLP, Rahul Ravipudi of Panish | Shea | Ravipudi LLP and Joseph VanZandt of Beasley Allen Law Firm.

In a joint statement Wednesday, Kaley's counsel said Meta and Google were merely recycling arguments Kuhl had already rejected. They maintained that the evidence was properly evaluated.

"We are not surprised by these motions. Meta and YouTube have raised these same arguments at every stage of this litigation, and we expect Judge Kuhl to reject them as she has before," the statement read.

"The verdict in KGM reflects what the evidence showed: that these platforms knowingly caused serious harm to a child. We have no doubt the jury deliberated carefully and thoughtfully in this historic bellwether case."

In their motions, Meta and Google argued Kaley's claims improperly targeted editorial decisions about how their platforms organize, recommend and display speech created by others.

Meta's motion repeatedly argued that the evidence at trial showed Kaley's alleged addiction and mental health harms were inseparable from user-generated videos, posts, comments and social interactions appearing on Instagram.

Although the plaintiff framed her case around allegedly addictive and defective "features" - including autoplay, infinite scroll, likes, notifications and algorithmic recommendations - Meta argued those functions are simply tools used to distribute and curate protected speech.

"The trial evidence showed that Plaintiff's 'addiction' theory necessarily depended on third-party content," Meta's motion stated, adding that her negligence claim failed for the same reason.

During trial, Meta argued Kaley's alleged harms stemmed from interactions with third-party content - including cyberbullying and social validation - rather than Instagram's design.

Kaley testified the platforms' features kept her returning to the apps despite those negative experiences.

Its motion sharply attacked the punitive damages portion of the verdict, arguing Kaley failed to present clear and convincing evidence that YouTube acted with malice, oppression or fraud.

Google argued internal discussions about maximizing watch time or references to addiction reflected ordinary growth strategies rather than intentional harm to children.

Meta separately challenged the sufficiency of evidence on causation, negligence and failure-to-warn claims. The company argued that Kaley failed to prove Instagram alone caused her injuries. Meta also argued that the judge erred by allowing extensive testimony about age verification and cyberbullying while restricting Meta's efforts to contextualize anti-bullying measures on the platform.

A second bellwether trial in the coordinated proceeding is scheduled for July 27 on claims brought by a minor identified as R.K.C. "We look forward to presenting that case to another jury," the plaintiffs' counsel said.

Snap and TikTok were not part of Kaley's case, as the parties settled the claims on undisclosed terms days before her trial began.

#391241

Devon Belcher

Meta asks California judge to throw out landmark social media addiction verdict

reuters.com/legal/litigation/meta-asks-california-judge-throw-out-landmark-social-media-addiction-verdict-2026-05-06

Diana Jones May 6, 2026

The logo of Meta is seen during the Viva Technology conference dedicated to innovation and startups at Porte de Versailles exhibition center in Paris, France, June 12, 2025. REUTERS/Benoit Tessier/File Photo Purchase Licensing Rights, opens new tab

May 6 (Reuters) - Meta Platforms (META.O), opens new tab has asked a Los Angeles judge to throw out a jury's verdict finding the company liable for a woman's depression in a landmark trial over whether the company has harmed young users by designing its platforms to be addictive.

In the filing, submitted on Monday but made public on Wednesday, Meta asked the judge who oversaw the trial to overturn the verdict and rule in its favor or order a new trial.

The jury in March found that Meta and YouTube parent Google (GOOGL.O), opens new tab had been negligent in the design of their platforms and had failed to warn users of their dangers. The jury found Meta liable for $4.2 million in damages and Google for $1.8 million.

Google has also said it plans to appeal, and has asked the court to set aside the verdict against it or order a new trial. Snap (SNAP.N), opens new tab and TikTok were also defendants in the lawsuit, but both settled with the plaintiff before the trial began.

In the filing, Meta argued that it was shielded from the claims brought by the woman, known as Kaley G.M., by Section 230 of the Communications Decency Act, a 1996 federal law that generally protects online platforms from liability over user-generated content. It said that evidence presented at trial repeatedly tied Kaley's mental health challenges to the content she viewed, rather than the design features like autoplay and infinite scroll.

Attorneys for Kaley G.M. did not immediately respond to requests for comment.

Meta, YouTube and other social media companies are facing thousands of similar lawsuits filed by individuals and families in both federal and state court, as well as lawsuits filed by school districts and states. The cases claim the companies designed their platforms to be addictive, spurring a nationwide mental health crisis among teens and young people.

The LA trial was a bellwether for the state court cases, meaning it is a test case that could help guide settlement discussions across the broader pool of lawsuits. Lower court judges have largely rejected the companies' efforts to argue Section 230 blocks the claims, but the interpretation of the law – which experts say could have broad implications for many types of internet companies – is likely to be a key feature of any appeal.

Reporting by Diana Novak Jones, Editing by Alexia Garamfalvi and Aurora Ellis

Our Standards: The Thomson Reuters Trust Principles., opens new tab

Diana reports on product liability, litigation, mass torts and the plaintiffs' bar. She previously worked at Law360 and the Chicago Sun-Times.

Bloomberg Law

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Meta Asks Court to Toss Verdict in Social Media Addiction Trial

May 6, 2026, 3:40 PM PDT

Meta Platforms Inc. asked a Los Angeles judge to throw out a March jury verdict that found it liable for the mental health struggles of a woman who began using its platforms as a child, according to a motion filed in California Superior Court on Wednesday.

A Los Angeles jury found that Meta and Google were negligent in how they designed their platforms, and that the companies failed to warn consumers about the dangers for minors. Jurors said Meta must pay $4.2 million to the the 20-year-old plaintiff, Kaley G.M., and that Google owes $1.8 million.

Meta says the decision violates federal law protecting internet platforms and the First Amendment's free speech protections, according to its motion for judgment or a new trial in California Superior Court, Los Angeles County. The case centered on claims that Instagram's recommendation algorithms, infinite scroll, "likes," and other features caused mental health harm to Kaley, who began using the platforms as a child.

Kaley also said the platforms caused her anxiety, depression, and body dysmorphia.

Section 230 of the Communications Decency Act shields Meta, it said, because the plaintiff's claims essentially treat Meta as a publisher of third-party content.

Additionally, the company said the evidence is insufficient in this case, noting that one of the plaintiffs' expert witnesses admitted it was "impossible" to determine whether Kaley would have suffered the same mental health issues without Instagram use.

Google also asked the court to set aside the verdict against it or order a new trial in a similar motion filed last week.

Covington & Burling LLP epresent Meta.

The case is Social Media Cases JCCP , Cal. Super. Ct., No. 5255, motion for new trial 5/6/26 .

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Bloomberg Law

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Hartford Insurers Sue Data Company Over Privacy Litigation Costs

May 6, 2026, 2:57 PM PDT

Hartford Insurance Group Inc. units sued Data Axle Inc., seeking a court declaration that they owe no coverage for a proposed class action alleging the data company used people's identities without consent to market its services.

Multiple policy exclusions bar coverage for the underlying suit, including provisions for intentional conduct, access to confidential information, and violations of privacy statutes, the Hartford units said in a complaint Wednesday in the US District Court for the District of Nebraska.

Data Axle allegedly violated Illinois and California privacy laws by using consumers' personal information in free trials to entice customers to purchase paid subscriptions to its databases. The company operates two websites that allow prospective customers to find personal information during the free trials, then uses that access to market paid subscriptions, the underlying plaintiffs said.

The underlying suit seeks class certification, actual damages, injunctive relief, punitive damages, and attorneys' fees.

Data Axle didn't immediately respond to a request for comment.

Wilson Elser represents the Hartford units.

The case is Hartford Fire Ins. Co. v. Data Axle Inc. , D. Neb., No. 8:26-cv-00207, complaint 5/6/26 .

This story was produced by Bloomberg Law Automation.

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California Brief

OpenAI Sued Over Sharing of Chatbot Queries With Meta, Google

May 6, 2026, 9:26 AM PDT

A California resident sued OpenAI Global LLC for allegedly sharing users' ChatGPT queries and personal information with Meta Platforms Inc. and Google LLC through online tracking technology.

Lead plaintiff Saje Lim alleges OpenAI embedded Facebook Pixel and Google Analytics tracking codes on its ChatGPT website that automatically transmitted users' queries and identifying information to the tech giants without consent.

The complaint, filed Tuesday in the US District Court for the Northern District of California, in one of the first filed in federal court alleging the illegal disclosure of information submitted by users to AI chatbots. The tech companies use the information for advertising and marketing purposes, the complaint said.

Perplexity AI Inc. was hit with a March lawsuit alleging it disclosed users' conversations with its AI-powered search engine to Meta and Google.

OpenAI didn't respond immediately to a request for comment. Meta and Google aren't named as defendants in the lawsuit.

Lim seeks to represent all US residents whose communications with ChatGPT were disclosed to third parties.

The complaint brings claims of invasion of privacy under the California Constitution and violations of the Electronic Communications Privacy Act and the California Invasion of Privacy Act.

Lim seeks statutory damages of up to $10,000 per ECPA violation and $5,000 per CIPA violation, actual and punitive damages, injunctive relief, attorneys' fees and costs, and prejudgment interest.

Bursor & Fisher PA represents Lim and the proposed class.

The case is Lim v. OpenAI Glob. LLC , N.D. Cal., No. 3:26-cv-04063, complaint filed 5/5/26

This story was produced by Bloomberg Law Automation.

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Nvidia Fails to Escape Authors' AI Class Action Copyright Claims

May 6, 2026, 10:58 AM PDT

Summary by Bloomberg AI AI Generated

- A US District Court ruled that Nvidia Corp. must face claims it trained its NeMo Megatron large language model on copyrighted books in a proposed class action brought by authors Abdi Nazemian, Brian Keene, and Stewart O'Nan.
- The authors plausibly alleged Nvidia trained Megatron on a dataset that included their books, and also preserved their claims for contributory infringement, but Judge Jon S. Tigar dismissed vicarious infringement claims.
- The ruling forces Nvidia to defend against one of multiple copyright suits over its AI, including a pending proposed class action brought by golf YouTube channels and another suit brought by novelist Andre Dubus III and journalist Susan Orlean.

Chipmaker Nvidia Corp. must face claims it trained its NeMo Megatron large language model on copyrighted books in a proposed class action brought by a trio of authors.

Abdi Nazemian, Brian Keene, and Stewart O'Nan plausibly alleged Nvidia trained Megatron 345M on a dataset that included their books, the US District Court for the Northern District of California said. The authors also preserved their claims for contributory infringement, but Judge Jon S. Tigar dismissed vicarious infringement claims in his Tuesday ruling without prejudice.

Tigar also denied bids to dismiss claims regarding allegations Nvidia infringed using "unidentified models" other than Megatron and use of BitTorrentPortocol. The complaint didn't accuse Nvidia of using models other than Megatron to infringe, and BitTorrent is merely a tool rather than a library, he said.

"Asking to dismiss allegations concerning BitTorrent is like asking to dismiss allegations concerning paintbrushes in a case about a dolphin painting," Tigar said.

The ruling forces Nvidia to play defense against one of multiple copyright suits over its AI. Parties agreed last year to consolidate the case with another 2024 AI copyright suit brought by novelist Andre Dubus III and journalist and nonfiction writer Susan Orlean. Nvidia also faces a pending proposed class actionbrought by golf YouTube channels filed in November over its alleged scraping millions of vidoes from the platform to train AI.

The authors' 2024 complaint alleged Nvidia trained Megatron using a dataset known as "The Pile," about 12% of which consisted of the 196,640-book dataset Books3, which includes their works. Nvidia's motion to dismiss said Megatron trained on portions of "The Pile" other than Books3, and asked Tigar to take formal notice of a model card on its website indicating as much.

But Tigar said the Ninth Circuit has warned against taking notice of outside documents regardless of the source and purpose of the document at the dismissal stage. Looking past Nvidia's website at the complaint alone, the authors plausibly alleged direct infringement, he said.

He also said the authors plausibly alleged contributory infringement even under the new tighter standard set by the US Supreme Court on March 25. That ruling in favor of ISP Cox Communications Inc. said contributory infringement required either a product designed to infringe, or active encouragement for third parties to infringe. The authors alleged Nvidia provided scripts that allegedly had no purpose other than to facilitate efficient copying of The Pile, he said.

Tigar said the authors failed to allege Nvidia had the right and ability to stop and control third-party infringement, or that it directly benefited from the infringement, sinking the vicarious infringement claim for now.

Susman Godfrey LLP, Lockridge Grindal Nauen PLLP, Saveri Law Firm LLP, Lieff Cabraser Heimann & Bernstein LLP, Cowan DeBaets Abrahams & Sheppard LLP, and Cafferty Clobes Meriwether & Sprengel LLP represent the authors. Quinn Emanuel and Milbank LLP represent Nvidia.

The case is Nazemian v. NVIDIA Corp. , N.D. Cal., No. 4:24-cv-01454, 5/5/26 .

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Google's AI Summary Invents State Ethics Rules... And It's Not A Hallucination Problem

abovethelaw.com/2026/05/googles-ai-summary-invents-state-ethics-rules-and-its-not-a-hallucination-problem

Joe Patrice May 6, 2026

If you're a Pennsylvania lawyer wondering whether you need to disclose AI use in your court filings, Google's AI summary has an authoritative answer for you. It's a *wrong* answer, mind you. But authoritative!

As Christine Lemmer-Webber put it, it's "Mansplaining as a Service" — unwavering confidence, no matter how incorrect.

If one opens an incognito window and searches Google for "Pennsylvania AI disclosure lawyers," the AI-generated summary will explain that "Key developments include mandatory disclosure of Generative AI (GAI) in court filings." Throw in "August 2024" because you vaguely remember seeing something about AI on that date and the result reads "As of August 2024, Pennsylvania mandates explicit disclosure of AI use in all court submissions, making transparency a mandatory filing requirement."

None of that is true.

The Legal AI Governance tracker, an invaluable tool maintained by Brian Alenduff of Desired Path Consulting, provides a comprehensive rundown of Pennsylvania's AI rules. There are standing orders in some courtrooms, and the state supreme court issued a rule governing court personnel only, but as for the state of Pennsylvania writ large, there is no statewide rule as of now. The tracker notes that what Pennsylvania does have is Joint Formal Opinion 2024-200, a 2024 advisory ethics opinion from the Pennsylvania Bar Association and the Philadelphia Bar Association flagging AI as a competence issue under existing rules. But that opinion explicitly states that it is "advisory only and is not binding." The ABA's own 50-state survey classifies Pennsylvania as "court dependent."

Scrolling down to the search results would reveal to anyone interested that there's not really a mandatory disclosure policy. So how did it end up in the Google summary? Alenduff investigated and believes it first emerged from a vendor blog post.

Google flags a Paxton.ai post titled "2025 State Bar Guidance on Legal AI" among its sources. That post includes a bullet point that reads:

> Pennsylvania: Mandates explicit disclosure of AI use in all court submissions. Transparency isn't optional; it's a filing requirement. Implementation: August 2024.

From there it seems that Google's AI Overview inhaled that sentence and started serving it back to lawyers as the law of the Commonwealth. Hallucinations are all the rage right now, but over the long haul the greater AI risk will be an unfailingly credulous bot elevating and validating mistakes until the error gets picked up as reality. It's a chicken and the egg problem, but another post by Twinladder.ai repeats Paxton's language. Whether they got it from Google AI or their mistaken citation led Google to consider the mistake independently confirmed doesn't really matter — it's out there now.

This is the hot dog champion problem for lawyers. Journalist Thomas Germain recently seeded a few corners of the web with the claim that he was a competitive hot-dog-eating world champion, and watched ChatGPT and Google Overviews dutifully repeat it. Funny when it's hot dogs, but decidedly less funny when it's "the ethical rules binding the legal profession."

This is the compression problem that AI brings. As those developing this technology push to condense the legal workflow into a series of "agentic" steps flowing from input to deliverable, it's both obfuscating the process and robbing lawyers of the slow-thinking opportunities that produce optimal work. Lawyers become — even against their conscious instincts — more trusting of output that looks like a polished finished product. They also become incentivized to move on from a project faster, sacrificing the down time between turning drafts that used to birth epiphanies.

And miss me with the "human in the loop" platitudes. How often has Google's AI produced a summary that you took as gospel without bothering to scroll down? I'll go you one better… Google includes links to its sources, but how many times have you actually clicked on one of them? I'm willing to wager you — at best — registered that it cited *something* and counted it as a win without bothering to consider what it cited or whether the underlying source was right. Human in the loop is good ad copy, but in practice it's a glorified Google source panel: an invitation to check that lawyers will never click on. As long as the bot purports to be showing its work, then it must be correct, right?

We risk a tech-enabled speedrun of qualified immunity. The doctrine of qualified immunity rests on a literal scrivener's error, as an 1874 federal compilation simply deleted language that Congress wrote into Section 1983 specifically rejecting any state law limitations on the new cause of action. From then on, courts acted upon the error. AI can absorb and uncritically repeat false claims at scale and every time someone falls for the error, the bot interprets that as more proof that it's right. The redux of the qualified immunity problem now accelerated by technology instead of just racism.

Speaking of racism… imagine what AI will do for originalism. There's a growing industry of amateurs cosplaying as historians compiling disingenuous claims into secondary sources. Judges already misapply precedent to smooth the way for entrenching this revisionism into the law. Create enough of an echo chamber of half-truths and all of a sudden it's "fact" by the bot's reckoning.

The answer, as always, is that lawyers need to remain highly skeptical of AI conclusions. It can be a powerful tool for pointing users in the right direction, but no matter how authoritative it sounds, it's only an invitation to deeper human research and not a replacement.

In other news, did you know that I'm also a former world hot dog eating champion? If you don't believe me, check Google in a few weeks.

Joe Patrice is a senior editor at Above the Law and co-host of Thinking Like A Lawyer. Feel free to email any tips, questions, or comments. Follow him on Twitter or Bluesky 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.

Former Biglaw Attorney Allegedly Turned His Résumé Into A Decade-Long Insider Trading Operation

abovethelaw.com/2026/05/former-biglaw-attorney-allegedly-turned-his-resume-into-a-decade-long-insider-trading-operation

Kathryn Rubino May 7, 2026

Well. This is not great for the legal profession.

The DOJ announced an indictment yesterday against 30 corporate attorneys and financial professionals in connection with a sweeping insider trading scheme that prosecutors say targeted some of the country's most prominent Biglaw firms. Federal prosecutors in Boston described it as a vast, decade-long scheme that netted the defendants tens of millions of dollars in illicit profits. The indictment referenced six unnamed "victim" firms, which prosecutors characterized as the nation's premier law firms — and given one of the defendant's résumés, it checks out.

At the center of the ring is Nicolo Nourafchan, a Yale Law School graduate who, before all this, had a fairly illustrious Biglaw career. He worked at Sidley Austin, Latham & Watkins, Cleary Gottlieb, and Goodwin Procter. The indictment accuses him of accessing law firms' internal networks to acquire non-public information on pending deals, which he then sold to others. His alleged co-conspirator, New York lawyer Robert Yadgarov, worked alongside him to build out the operation.

The mechanics of the alleged scheme are, frankly, audacious. Nourafchan and Yadgarov allegedly recruited lawyers and others to serve as sources of inside information in exchange for payments of hundreds of thousands of dollars in cash. They then fed that information through a layered network: Nourafchan and Yadgarov provided inside information to a network of traders and middlemen, who placed trades on the tips either on the two lawyers' behalf or on their own behalf, and many then passed the information on to additional traders, according to prosecutors. All while allegedly using burner phones, coded language, and in-person meetings to hide their actions.

The iRobot episode is a particular highlight of the indictment, and not in a good way. In June 2022, while on a "leave of absence" from the firm advising iRobot, Nourafchan viewed confidential materials about the deal on the law firm's document management system, despite not working on the matter. A co-defendant, Simon Fensterszaub, then allegedly traded on that information. The Amazon-iRobot deal was eventually abandoned over antitrust concerns, but the alleged trading happened well before that.

The breadth of the charges reflects how far the tentacles of this alleged scheme reached. Sixteen defendants were charged on 10 counts including securities fraud, money laundering conspiracy, aiding and abetting, and obstruction of justice. An additional five defendants face securities fraud, conspiracy to commit securities fraud, and money laundering conspiracy charges. The remaining nine defendants were charged with securities fraud conspiracy. The indictment also referenced unnamed co-conspirators who worked at Biglaw firms as recently as this year, meaning this story may not be fully told yet.

Nineteen of the defendants were arrested on Wednesday. Two defendants located in Russia and Israel are considered fugitives.

The indictment does not name the six victim firms, but the paper trail of Nourafchan's employment history combined with the nearly 30 M&A deals allegedly implicated in the scheme suggests this touches some of the largest and most prominent M&A practices in the country. A Latham spokesperson offered the following statement, "The former associate charged today has not been associated with our firm for five years, and the conduct as alleged would reflect a serious violation of our robust policies and procedures." A Goodwin rep said, "We are deeply disappointed that a former employee is alleged to have violated the trust placed in him and misused confidential information as part of a broader criminal scheme affecting multiple law firms and their clients. We have been cooperating and continue to cooperate fully with law enforcement." Representatives of Cleary Gottlieb and Sidley Austin have not yet commented.

Kathryn Rubino is a Senior Editor at Above the Law, host of The Jabot podcast, and co-host of Thinking Like A Lawyer. AtL tipsters are the best, so please connect with her. Feel free to email her with any tips, questions, or comments and follow her on Twitter @Kathryn1 or Bluesky @Kathryn1

Former Willkie Farr lawyer turns cooperating witness in insider trading probe

reuters.com/legal/government/former-willkie-farr-lawyer-turns-cooperating-witness-insider-trading-probe-2026-05-07

Nate Raymond May 7, 2026

A general view of The John Joseph Moakley United States Courthouse in Boston, Massachusetts, U.S., July 27, 2021. REUTERS/Nicholas Pfosi/File Photo Purchase Licensing Rights, opens new tab

BOSTON, May 7 (Reuters) - An attorney who had been working at Willkie Farr & Gallagher in New York entered a Boston courthouse in February 2025 to make an admission: For years, he tipped two fellow lawyers off to mergers the law firm and his earlier employers had advised on, fueling an insider trading scheme.

The lawyer, Gabriel Gershowitz, is now a key cooperating witness in a major criminal case announced on Wednesday alleging he and other attorneys at major law firms fed tips on about 30 yet-to-be-announced mergers to an insider trading ring, allowing it to illegally make tens of millions of dollars in profits.

Thirty people have been charged, including Gershowitz, who was among nine who had pleaded guilty since 2024 in sealed court proceedings as federal prosecutors in Boston moved to build one of the largest U.S. insider trading cases in years.

Prosecutors and the U.S. Securities and Exchange Commission, which filed a related civil case, opens new tab, say the scheme was orchestrated by Nicolo Nourafchan, a corporate lawyer who worked at the law firms Sidley Austin, Latham & Watkins and Goodwin Procter, and by personal injury attorney Robert Yadgarov.

Nourafchan and Yadgarov were among 19 people who were arrested on Wednesday. Eric Rosen, a lawyer for Nourafchan at Dynamis, declined to comment. A lawyer for Yadgarov could not be identified.

Willkie, in a statement, said it cooperated with investigators and that Gershowitz's alleged conduct "would constitute a severe violation of our clear and well-defined compliance policies, which we take seriously and enforce across the firm." Other law firms involved in the case issued similar statements, and prosecutors say all of them are considered victims.

Should Nourafchan and Yadgarov proceed to trial on securities fraud and related charges, Gershowitz is positioned to be a key witness, with prosecutors in court papers, opens new tab describing him as a cooperator in the criminal case after he pleaded guilty to a securities fraud conspiracy count.

Prosecutors have currently agreed, opens new tab to recommend Gershowitz be sentenced to two years in prison. His sentencing has been repeatedly put off since he pleaded guilty, with prosecutors pointing to his ongoing cooperation in their probe.

E. Scott Morvillo, Gershowitz's attorney at Seyfarth Shaw, declined to comment.

COLLEGE FRIENDS

According to charging documents, opens new tab and the SEC, Nourafchan and Yadgarov met Gershowitz while attending George Washington University and stayed friends.

The insider trading scheme began not long after Nourafchan landed a job in 2013 at Sidley Austin, according to prosecutors, and he and Yadgarov began recruiting other lawyers, including one at Wachtell, Lipton, Rosen & Katz who provided Nourafchan with an early tip in 2014, an indictment said.

By 2018, Nourafchan had a new lawyer he wanted to join the scheme, according to the SEC's complaint: Gershowitz, who at the time was working at Weil, Gotshal & Manges.

The SEC says Nourafchan at that time confided in Gershowitz that he had a side business of using secret information about M&A deals and trading on that information. Gershowitz later learned that Yadgarov was also providing such inside information to other traders, the complaint said.

Gershowitz began providing tips by at least 2019, according to prosecutors, when he allegedly tipped Nourafchan and Yadgarov to information about Weil Gotshal client Ardagh Group SA, which agreed that year to combine its food and specialty metal packaging division with Exal Corp.

Weil, in a statement, said it viewed the alleged conduct as "extremely serious" and noted that prosecutors consider it a victim.

Charging papers say Gershowitz continued to participate in the scheme after he joined DLA Piper in 2019 and went on in 2021 to work at Willkie, where his practice focused on transactions involving insurance. He was employed as counsel at Willkie until February 2025, according to his LinkedIn profile. DLA Piper had no comment.

Gershowitz's insider tipping continued through at least 2024, prosecutors say, when he met Yadgarov at a bookstore in New York and told him information concerning a potential planned acquisition of insurer Enstar, a Willkie client, by investment firm Sixth Street, the SEC complaint said.

Gershowitz received cash payments in exchange for his tips, according to prosecutors. He has agreed to forfeit $37,000, which prosecutors say is how much he netted from the scheme.

The case is U.S. v. Gershowitz, U.S. District Court for the District of Massachusetts, No. 1:25-cr-10025.
For the United States: Ian Stearns and Kaitlin O'Donnell of the U.S. Attorney's Office for the District of Massachusetts
For Gershowitz: E. Scott Morvillo of Seyfarth Shaw
Lawyers at M&A law firms among 30 charged by US in insider trading scheme
Our Standards: The Thomson Reuters Trust Principles., opens new tab

Nate Raymond reports on the federal judiciary and litigation. He can be reached at nate.raymond@thomsonreuters.com.

Securities

Elite M&A Lawyers Fed Massive Insider-Trading Ring, US Says (1)

May 6, 2026, 3:25 PM PDT

Lawyers from top mergers and acquisitions firms provided tips on some of the biggest deals of the last decade to an insider trading ring that made tens of millions of dollars in illegal profits, federal prosecutors said.

Two indictments charging 30 people were unsealed Wednesday in federal court in Boston. None of the firms from whom information was allegedly stolen were identified by prosecutors, but detailed descriptions of the relevant deals indicate they included Wachtell Lipton Rosen & Katz, Latham & Watkins and Goodwin Procter.

According to the indictments, as well as a parallel suit filed by the Securities and Exchange Commission on Wednesday, **Nicolo Nourafchan**, a 2011 Yale Law School graduate who worked at three large firms, including Goodwin and Latham, from 2013 to 2023, misappropriated confidential deal information from those employers. He allegedly conspired with a college classmate, Robert Yadgarov, to recruit other corporate lawyers to provide tips.

Nourafchan, 43, and Yadgarov, 45, then allegedly provided those tips to a network of relatives, friends, classmates and associates, many of whom were also charged. Authorities allege the defendants went to great lengths to conceal their activity, using burner phones, encrypted applications and clandestine meetings.

‘How’s the Rabbi?’

They also discussed the tips in code, referring to them as airline “flights” and discussing the upcoming public disclosure of merger plans as dates on which a “rabbi” was scheduled for surgery, according to prosecutors.

“I really need to know when the rabbi is scheduled for surgery,” one defendant allegedly wrote in a text several weeks before Amazon.com Inc.’s August 2022 announcement to acquire Roomba maker iRobot Corp., writing again days later, “How’s the rabbi?”

“He’s stable,” another alleged ring member responded, suggesting there was no reason to be worried about missing the date.

Lawyers for the defendants couldn’t immediately be identified. Prosecutors said 19 people were arrested today and are scheduled to appear in court in locations including California, Florida and New York. Two other defendants located in Russia and Israel are considered fugitives. It’s unclear what the status of the other defendants is.

In a statement, Goodwin said: “We are deeply disappointed that a former employee is alleged to have violated the trust placed in him and misused confidential information as part of a broader criminal scheme affecting multiple law firms and their clients. We have been cooperating and continue to cooperate fully with law enforcement.”

Yale Classmate

Among the co-conspirators described in one of the indictments was a Yale classmate of Nourafchan’s who worked at the law firm that advised Anadarko Petroleum Corp. on its $55 billion acquisition by Occidental Petroleum Corp. in 2019 and Tim Hortons Inc. in its $11 billion takeover by Burger King Worldwide Inc.in 2014. That firm was Wachtell.

“The responsible party left Wachtell Lipton over four years ago,” a spokesperson for the firm said in a statement. “There are no allegations of wrongdoing against the firm. Wachtell Lipton has cooperated fully with the US Attorney’s office and will continue to do so.”

Several other firms described in the indictment didn’t immediately respond to requests for comment.

Latham & Watkins, another of Nourafchan’s former employers, said in a statement: “The former associate charged today has not been associated with our firm for five years, and the conduct as alleged would reflect a serious violation of our robust policies and procedures.”

“The trading on unannounced financial news alleged here not only violated the securities laws, but it also took advantage of the special access and ethical duties that come with a law license,” Massachusetts US Attorney Leah B. Foley said in a statement. “If the American people believe that trading is only for the connected, they will keep their investment and retirement savings out of the markets, which will hurt our economy.”

In 2018, Nourafchan recruited another former classmate to join the scheme, telling him that he had a “side business” obtaining information on deals and trading on it. The SEC complaint alleges that Nourafchan described how he obtained the information, searching his firm’s document management system and viewing documents in preview or read-only mode to hide his digital footprint.

The cases are US v. Fejal, 26-cr-10133, and US v. Nourafchan, 26-cr-10115, US District Court, District of Massachusetts.

(Updates with SEC suit, additional detail from complaints.)

Lawyers at M&A law firms among 30 charged by US in insider trading scheme

reuters.com/world/us-charges-30-people-with-roles-global-insider-trading-scheme-2026-05-06

Nate Raymond, David Thomas May 6, 2026

A general view of The John Joseph Moakley United States Courthouse in Boston, Massachusetts, U.S., July 27, 2021. REUTERS/Nicholas Pfosi/File Photo Purchase Licensing Rights, opens new tab

- Prosecutors allege lawyers accessed law firm networks to steal merger info for trading
- Law firms at issue include Latham & Watkins and Goodwin Procter
- Scheme involved nearly 30 M&A deals, prosecutors say

BOSTON, May 6 (Reuters) - Federal prosecutors on Wednesday announced they charged 30 people with participating in an insider trading scheme in which attorneys passed tips on merger deals to a network of people who traded on the information.

Nineteen people were arrested, including attorney Nicolo Nourafchan, who federal prosecutors in Boston said was at the center of a decade-long scheme that generated tens of millions of dollars.

Nourafchan, who graduated from Yale Law School, worked from 2013 to 2023 at law firms including Sidley Austin, Latham & Watkins and Goodwin Procter. Those law firms were not identified by name in the indictment, opens new tab but it described corporate deals that the firms had previously announced they worked on.

Prosecutors and the U.S. Securities and Exchange Commission, which filed a related civil case, said Nourafchan and New York personal injury attorney Robert Yadgarov orchestrated the alleged scheme, which involved nearly 30 M&A deals.

Prosecutors said Nourafchan and others accessed law firms' confidential documents about unannounced pending mergers.

Nourafchan and Yadgarov then provided inside information to a network of traders and middlemen for kickbacks, authorities said.

'SPECIAL ACCESS'

“The trading on unannounced financial news alleged here not only violated the securities laws, but it also took advantage of the special access and ethical duties that come with a law license," U.S. Attorney Leah Foley said in a statement.

Nourafchan, who lives in Los Angeles, and the other defendants face charges including securities fraud. Two defendants are in Russia and Israel and are considered fugitives, prosecutors said.

Nine others pleaded guilty in cases dating to 2024 that were unsealed on Wednesday. They include Gabriel Gershowitz, who had worked at the law firms Weil, Gotshal & Manges; DLA Piper and Willkie Farr & Gallagher, according to his LinkedIn profile.

Authorities said Gershowitz attended college with Nourafchan and Yadgarov, and beginning in 2019, supplied them non-public information from his employers. He pleaded guilty in February 2025.

Eric Rosen, a lawyer for Nourafchan, and E. Scott Morvillo, Gershowitz's attorney, declined to comment. A lawyer for Yadgarov could not be immediately identified.

Prosecutors described the law firms in the case as victims. Wachtell, Lipton, Rosen & Katz confirmed that a former lawyer was allegedly involved in the case. It said it cooperated with prosecutors.

Latham & Watkins confirmed it too was a victim and said, "The conduct as alleged would reflect a serious violation of our robust policies and procedures." Goodwin said it was "deeply disappointed" in what allegedly occurred.

Among the deals caught up in the scheme was Amazon.com Inc's proposal in 2022 to acquire iRobot, which the companies later abandoned in the face of antitrust regulator opposition

At the time, Nourafchan was employed by Goodwin Procter, which advised iRobot. According to the indictment, he viewed confidential materials about the deal on the law firm's document management system while "on leave" from the firm.

Reporting by Nate Raymond in Boston and David Thomas in Chicago; additional reporting by Michael Scarcella in Washington; Editing by Aurora Ellis, Rod Nickel and Cynthia Osterman

A Rare Peek Into FCPA Settlement Amount Negotiations

fcpaprofessor.com/a-rare-peek-into-fcpa-settlement-amount-negotiations

May 7, 2026

A typical Foreign Corrupt Practices Act enforcement action resolution vehicle is negotiated between the company and the DOJ/SEC.

Conduct at issue and how it is framed, charges, settlement amount, post-enforcement action obligations can all be the subject of negotiation.

Rarely though is the back and forth of negotiations – including as to settlement amount – in the public domain.

This recent post discussed how Clear Channel generally prevailed in an FCPA-related insurance coverage dispute.

The judicial decision by a Delaware Superior Court judge also highlights the back and forth negotiations between Clear Channel and the SEC ultimately resulting in the September 2023 $26.1 million enforcement action (disgorgement of $16,355,567, prejudgment interest of $3,760,920, and a civil monetary penalty in the amount of $6,000,000).

The decision states:

> "The [SEC enforcement action] also followed extensive negotiation based on the information the SEC obtained. In December 2021, the SEC made a "reverse proffer" seeking $32.44 million in disgorgement, $8.8 million prejudgment interest on that amount, and civil penalty of $18.8 million.
>
> The disgorgement amount consisted of $30.66 million "in estimated benefit based on advertising contracts with state-owned affiliated entities from 2013-2017" that the SEC "characterized as obtained through improper cash payments in the customer development scheme" and $1.78 million "in revenue obtained in Shanghai and Hangzhou from end of 2016 through January 2018," which the SEC "tied to entertainment expenses, business development assistance fees, and special fees."
>
> Clear Channel and the SEC disagreed regarding the appropriate methodology for calculating disgorgement, particularly with respect to the SEC's initial $30.66 million customer development expenses calculation. For its calculation of "tainted revenue," the SEC relied on evidence of improper consultant payments and extrapolated to a broader geographic area and timeframe.
>
> Clear Channel contended that this extrapolation method "is inconsistent with governing case law" which requires that disgorgement "not exceed net profits from the improper activity." In Clear Channel's view, disgorgement could be based only on "actual, documented revenue."
>
> This disagreement and the disgorgement calculation were the subject of extensive discussion and analysis by Clear Channel and the SEC. Clear Channel also disagreed that any civil penalty was warranted.
>
> Based on these disagreements, in April 2022, Clear Channel made a counteroffer to settle the matter for disgorgement of about $4.6 million, prejudgment interest of $1.07 million, and a civil penalty of $1.4 million.
>
> Following Clear Channel's counteroffer, with the parties' positions set forth, negotiations "stalled." In an effort to break the impasse, in September 2022, the SEC reached out to Clear Channel to consider whether, "t[aking] a step back and look[ing] at the big picture," the parties might be able to "agree on a range of a number and figure out a way to get to that number."

> That outreach caused the parties to resume negotiations. The SEC made an offer that included $16.75 million in disgorgement and a $10 million civil penalty, which it subsequently reduced to $16.35 million and $7 million. Clear Channel was able to negotiate the civil penalty further down to $6 million but, in Clear Channel's counsel's recollection, the SEC "made clear that [it] would not reduce the disgorgement amount any lower."
>
> In the end, the SEC "determined to accept" the offer reflected in the Cease-and-Desist Order, including approximately $16.35 million in disgorgement and a $6 million civil monetary penalty."

If you are scoring at home, the negotiations generally went as follows.

- SEC requests $60 million
- Five months later, Clear Channel agrees to settle for $7.1 million
- Negotiations "stall" – five months later SEC reaches out to Clear Channel and requests approximately $30.5 million.
- SEC requests approximately $27.5 million.
- Clear Channel agrees to settle for approximately $26.2 million

The settlement negotiation process took approximately 1.8 years.

Securities

Insider Trading Anxiety Muddles SEC's Semiannual Reporting Push

May 7, 2026, 2:00 AM PDT

Insider trading concerns might deter companies from abandoning their current quarterly financial reporting schedule, the SEC cautioned in its newly proposed rule that would let issuers opt to disclose earnings and other events only twice a year.

Securities and Exchange Commission Chair Paul Atkins said the agency's May 5 plan would give companies flexibility to choose their own reporting schedule. But the proposal's text also warned less frequent disclosures could fuel investor worries about illegal activity, raise questions about when and how long to pause company leadership stock trades, and prompt companies to compensate corporate insiders for restricting the time they can buy and sell shares.

Corporate anxiety over insider trading activity is one reason the SEC said it expects only 20% of companies to adopt a semiannual schedule if the proposed rule goes through. But impact depends largely on whether companies that opt into twice-per-year reporting continue to hold quarterly earnings calls and compile quarterly information internally, attorneys said.

If companies move to a semiannual schedule but stick with typical earnings releases, insider trading policy compliance wouldn't be a concern, said Matthew Franker, partner at Covington & Burling LLP.

"If, however, they go to pure semiannual reporting where they're only reporting every six months—so no quarterly earnings release—it raises a lot of questions," he said.

Earnings Reports

The SEC currently requires public companies to disclose their financial health metrics and certain other factors quarterly by filing a Form 10-Q. Many companies also publicly distribute optional earnings releases quarterly and hold informational calls with analysts.

If the semiannual proposal is approved, Jenna Cooper, partner at Latham & Watkins LLP, says she expects many companies to fall somewhere in the middle by continuing to release quarterly earnings statements but filing SEC reports semiannually.

Insider trading windows typically open in tandem with earnings releases, not formal 10-Q filings, said Brian Breheny, partner at Skadden, Arps, Slate, Meagher & Flom LLP. Keeping the same earnings call cadence regardless of official reporting schedules would resolve some concern about company officers sitting on consequential information.

However, semiannual reporting could put new pressure on earnings releases, Breheny said. 10-Qs have certain boxes to check, where companies have more discretion over what to say in earnings releases and on earnings calls. Semiannual companies would need to carefully judge whether any information they would normally put in 10-Qs—such as ongoing litigation, material changes, or business risks—warrants disclosure in an informal earnings statement.

For instance, companies that choose a semiannual reporting schedule couldn't highlight all their wins on a quarterly basis and leave out everything going wrong.

"Once you choose to speak, you need to speak fully and accurately," Breheny said.

Internal Information

Under the SEC's proposal, companies could legally forgo both earnings releases and formal quarterly reports. But complications could arise if they keep collecting quarterly financial information internally without disclosing it, Franker said.

"It's going to raise this question as to whether they're pregnant with quarterly information that may be material to investors," he said.

Cooper said she expects at least some semiannual companies to keep tracking quarterly metrics internally, in part to appease boards that favor quarterly updates.

Especially if they opt for semiannual disclosures, companies need to carefully assess how information flows internally, who has access to it, and at what point information poses an insider trading liability, attorneys said. Longer blackout periods, during which insiders are banned from buying or selling company shares, could be necessary in some cases where quarterly info circulates broadly—though directors and officers wouldn't be happy about extending their hands-off time, said Matthew Gehl, who is also a partner at Covington.

To avoid this, semiannual reporting companies might file more 8-Ks and press releases to purge themselves of the information necessary to open trading windows, Franker said.

"It's asking whether there's something we can do quarterly to mimic the cleanse that you used to get from quarterly reporting without having to do all of the work of filing a 10-Q," Gehl said.

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

Securities

Proposal Tasks Auditors With Detailing Interim Financial Checks

May 6, 2026, 9:19 AM PDT

An international standard-setter is proposing that auditors should spell out how thoroughly they have checked companies' interim financial statements such as quarterly reports, which are often vetted less than annual reports.

Under proposals the International Auditing and Assurance Standards Board published Wednesday, auditors would have to explain what work they have done and how it differs from a full financial audit, which requires auditors to do more work so they can say they are confident in the accounts.

Interim disclosures, by contrast, are often subject to limited assurance, essentially a sense check for mistakes.

"Interim financial information, such as quarterly and semi-annual reporting, plays an important role for investors," IAASB chair Tom Seidenstein said in a statement. "These proposals seek to reinforce confidence in interim review engagements by clarifying expectations, strengthening consistency in practice, and improving communication to users."

As well as explaining what work they have done, the proposals would direct auditors to do more work to check for potential fraud, law breaking, and the danger of the company going bust.

The IAASB has hiked auditors' responsibilities for these checks in the annual financials, issuing new rules for fraud checks in July 2025 and going concern testing in April that year.

IAASB rules are followed by auditors in about 130 countries globally. Public comments on the proposals are due Sept. 3.

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Securities

SEC Draws Accounting Board Into Plan to End Quarterly Reports

May 7, 2026, 1:45 AM PDT

SEC Chairman Paul Atkins called out the US accounting board in his latest move to streamline the rules governing how public companies report their earnings to investors.

The US Securities and Exchange Commission proposed Tuesday regulatory changes that would allow publicly traded companies to file semiannual financial reports instead of quarterly ones.

The proposal is part of the Wall Street regulator's agenda in the current Trump administration to combat a decades-long slump in the number of listed businesses. As the SEC fields public input and explores potential changes to corporate disclosure rules, Atkins said the Financial Accounting Standards Board should examine its own rulebook.

The independent board should evaluate possible amendments to its accounting rules to "avoid compelling the disclosure of immaterial information" in interim reports' financial statements, Atkins said Tuesday as the semiannual reporting proposal was unveiled.

Atkins has frequently said current practice strays from the regulator's materiality standard, which requires companies to make disclosures that reasonable investors would deem important. He has pushed to curtail corporate disclosures, arguing "an avalanche" of insignificant information burdens companies without protecting investors.

The SEC, for example, has sent a proposal to the White House to formally end Biden-era climate disclosure rules for public companies, saying it's focusing under Atkins on a materiality-focused approach to securities regulation.

Atkins' Tuesday statement signals that, "in the effort to reduce reporting burdens for companies—whether that's to reduce cost or timing or encourage more companies to go public—clearly he believes that FASB plays a key role in helping to clarify that," said Steve Soter, vice president and industry principal at financial compliance platform Workiva.

FASB is recognized by the SEC as the designated accounting standard-setter for public companies.

The Norwalk, Conn.-based board works closely with the SEC and others "to continuously improve the financial information available for capital allocation decisions, to identify and focus on the most relevant, material information," FASB spokesperson Christine Klimek said in a statement. "We look forward to continuing to work with Chairman Atkins and his staff on these efforts."

Interim Reports

The SEC's latest proposal would drop the current requirement for public companies to file quarterly reports providing snapshots of their financial performance, known as 10-Qs.

Companies electing to file semiannual reports would file one such report in lieu of three quarterly reports. Companies would still need to file annual reports.

Proponents of the effort like the US Chamber of Commerce say the change would reduce unnecessary paperwork burdens and free up resources for company executives to engage in longer-term strategic thinking.

Meanwhile, critics argue less frequent reports could decrease transparency and hurt financial analysis. Analysts and investors "live for information," accounting analyst Jack Ciesielski said.

Accounting rules detail which information companies need to include in their "interim" financial statements, which currently include the quarterly statements. FASB issued an update in December 2025 that creates a list of disclosures required on an interim basis to make the rules easier to navigate.

As a result of the SEC proposal, FASB may need to consider places in the rulebook that refer to quarterly filings and determine when they need to refer to a different cadence, an SEC official said on a Tuesday press call.

While interim reports provide investors with material information about how companies are doing financially, 10-Qs may not be the ideal reporting frequency for every business, the SEC proposal said. The change would maintain a system that elicits "material, timely, and regular disclosures."

A section of the accounting rulebook spells out that guidance "need not be applied to immaterial items." FASB also released a concepts statement in 2018 meant to better ensure the materiality concepts are consistent with the definition used by the SEC, among other groups.

There's room for improvement for bodies including the SEC and FASB regarding how they discuss materiality, Metrix Advisory Founder and Executive Adviser Marc Siegel said. There should be a "systemwide understanding of what materiality means," he said.

"That inconsistency creates real noise in the system," Siegel, a former FASB board member, said. "What ends up happening is companies just decide to disclose—it's easier to disclose than to worry about pulling something out and having to justify why it was okay to do that."

Future Feedback

The SEC proposal asked the public to weigh in on whether moving to semiannual filings would lead to reduced material information for investors, or if other regulatory filings would elicit “sufficient information to offset the less-frequent interim reports.”

Companies are currently required to submit reports known as 8-Ks to the SEC to announced significant events or changes, such as executive officer appointments and bankruptcy filings.

“Are there other material events that could happen at a company that maybe wouldn’t require an 8-K? Perhaps,” said Keith Constance, managing director in FTI Consulting’s Risk & Investigations practice.

Companies could file 8-Ks under the “other” category. There may be more frequent use of these filings if semiannual reporting becomes an option because companies will still need to get information to investors, Workiva’s Soter said.

“The longer you sit on material non-public information, the greater the risk that that could make its way out into the ecosystem,” Soter said. “Companies will be looking at that very closely.”

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Securities

US Audit Board to Scrutinize Firms' Uptake of Quality Safeguards

May 6, 2026, 2:34 PM PDT

The US audit board plans to check how accounting firms are applying new rules for how they police their own work as soon as next year, just months after the requirements kick in, the regulator's leader said Wednesday.

"We need to test it. We need to validate it," said Demetrios Logothetis, chair of the Public Company Accounting Oversight Board. He spoke during a meeting with the board's largest advisory group that includes representatives from audit firms, US companies, and corporate boards.

Firms are set to adopt in December new risk-based quality controls that require auditors to mitigate threats they routinely face in their practice, from how they staff audits to which clients they take on.

The audit board intends to refocus its routine inspections on those updated firm-level controls that are meant to ensure auditors meet PCAOB standards. Logothetis called 2027 a transition year for the inspection program and aims to have a fully redesigned regime in place the following year.

Some investors and other stakeholders, however, have voiced concerns that prioritizing those internal quality safeguards could limit what information the board reports publicly about inspection results. The PCAOB has long scrutinized existing guardrails but is barred by law from disclosing any problems it finds unless a firm doesn't correct them after a year.

Reports detailing such quality shortcomings are often issued years after the initial inspection however.

Inspection Findings

Investors have consistently sought more information, not less, from the board's public inspection reports. Inspections that veer from the goal of deterring fraud or audits that miss the mark "will stray away from the very purpose of this institution," said Jennifer Joe, an accounting professor at Virginia Tech who serves on the advisory body.

Auditors have challenged the board's inspection findings, arguing they are overly technical and that few trigger changes to audit opinions or cause the underlying company to restate its accounting.

Logothetis said the board had an obligation to ensure consistency in its inspections. And while firms should challenge the PCAOB's conclusions, they shouldn't downplay the significance of the violations, he said.

"There's no room for light in between us. Okay? We can't compromise on quality," Logothetis said. "We've got to get to the right level, and if you can't get to it after 25 years, shame on us."

Congress created the independent audit board in 2002 following a series of corporate accounting scandals that ultimately toppled Enron Corp. and WorldCom Inc. The PCAOB survived a Republican bid last year to dismantle the agency, sparking calls to restructure how the board oversees the industry.

Board Priorities

The board plans to sketch out its priorities and direction as soon as June and will seek feedback on how to revise its rulemaking process, Logothetis said.

The audit board has already sought an initial round of public input to shape its strategy since Logothetis and two other new members joined the board in February.

Earlier this week, the board published an updated standard-setting work plan that focuses on two projects: updating a pending overhaul of quality control rules for firms, and creating a formal inspection program for brokerage auditors.

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Litigation

Manage Newsletters

Ohio Attorney General Dave Yost Set to Resign Before Term Ends

May 7, 2026, 7:51 AM PDT

Summary by Bloomberg AI AI Generated

- Ohio Attorney General Dave Yost will step down from his position months before his second term is set to end, sources said.
- Gov. Mike DeWine will be tasked with appointing a replacement to serve the remainder of the term.
- Yost's tenure was marked with partisan fights on issues such as abortion and transgender care for minors, and he often signed onto lawsuits challenging Biden administration policies.

Ohio Attorney General Dave Yost will step down from his position as the state's top cop, months before his second term is set to end, sources said Thursday.

Yost, a Republican, is expected to soon make his announcement about his future plans. His second term is set to expire at the end of the year.

Gov. Mike DeWine (R) will be tasked with appointing a replacement to serve the remainder of the term. Columbus-area attorney John Kulewicz, a Democrat, and State Auditor Keith Faber (R) are the nominees for the November election.

"This is the Governor's decision and I look forward to having a conversation with him about the best path forward after the AG makes his announcement," Faber said in a statement Thursday.

A DeWine spokesman said that there's "no announcement yet for us to comment on."

Yost didn't respond to requests for comment.

Conservative Legacy

He won a close race in 2018 against Steve Dettelbach, who later served as a director of the Bureau of Alcohol, Tobacco, Firearms, and Explosives under President Joe Biden, and romped by 20 points in 2022. A previous state auditor and county prosecutor, Yost had sought to be Ohio's next governor but dropped out of the race last year after the state Republican Party endorsed Vivek Ramaswamy.

A staunch conservative, his tenure was marked with partisan fights on hot-button issues such as abortion and transgender care for minors. He often signed onto lawsuits challenging Biden administration policies, and he led a legal battle against the US Environmental Protection Agency over stringent emissions requirements on power plants and pipelines to stem ozone pollution wandering into downwind states. The US Supreme Court in 2024 put the "good neighbor" rule on hold while underlying lawsuits proceeded.

Yost also occasionally took positions that put him at odds with the GOP. He opposed giving $600 million from the state's unclaimed property fund to the Cleveland Browns to build a new suburban stadium and has championed Ohio regulators' work to shut down prediction market Kalshi for operating as an unlicensed sports gambling platform in the state.

More recently, he vowed to retry two former FirstEnergy Corp. executives on multiple corruption charges after a jury failed to reach a verdict; another trial is set for September.

His office is also prosecuting former state House Speaker Larry Householder (R) on charges that in part relate to his allegedly illegal use of more than $750,000 from his campaign to pay for his criminal defense lawyers in a federal corruption case. Householder is already serving a 20-year federal prison sentence for taking $60 million in bribes from FirstEnergy.

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Securities

Opinion

Matt Levine’s Money Stuff: ChatGPT Can’t Pick the Stocks

May 6, 2026, 10:59 AM PDT

AI bots

I often write around here that there are two fundamental ways to use artificial intelligence to trade stocks:

1. You build a machine learning model for stock prices, you train it on historical data, and you use it to predict future stock prices. You buy the stocks that it says will go up.
2. You subscribe to ChatGPT. You prompt it, like, “You are a brilliant hedge fund portfolio manager. What stocks will go up?” You buy the stocks that it says will go up.

The first model is, approximately, a “quant hedge fund.” People have been doing some form of this for a long time, and some of them (Renaissance Technologies comes to mind) have had a great deal of sustained success. This model works. Not always, not for everyone, and you might reasonably worry about risk or crowding or regime changes or whatever. But hiring really good machine learning engineers to build models to predict stock prices makes sense both theoretically and empirically.

The second model … I mean, when I started writing about these two models, I was *joking* about the second model. The second model is a joke! Come on! Like:

Training a model on historical financial data to predict future financial data makes sense. Training a model on a corpus of, like, books and Reddit to write coherent prose, and then asking it to predict future financial data, is a non sequitur. “If we use all of the world’s electricity and microchips, we can train a model that is smarter than the smartest Ph.D.,” but the smartest Ph.D. is not necessarily good at picking stocks! In some obvious sense an omniscient superintelligence should be good at picking stocks, but that seems like *way too high a standard* for picking stocks. Just, you know, regress some historical stock prices against some historical data and see what you get.

You can get ChatGPT for like $20 a month? And everyone does? And everyone is like “hey ChatGPT what stocks should I buy”? Why would you expect to get *alpha* from doing an easy thing that everyone else does?

But, though I was joking about this, nobody else is. People keep trying it! For intuitive reasons: It is *hard* to build a machine learning model to predict stock prices, but it is easy to ask ChatGPT what stocks to buy. The frontier AI labs have done the hard work, and now by far the most accessible way to use artificial intelligence to pick stocks is by asking a chatbot. So people do. As far as I know, no big hedge fund actually has a strategy of "we ask ChatGPT what stocks to buy and then buy them," but we are getting perilously close. Anyway Bloomberg's Justina Lee reports:

AI isn't ready to replace your fund manager — and the public experiments testing it are showing why.

Across a series of new trading contests between the world's leading AI models, the verdict so far is unflattering. Most of the systems lose money. They trade too much. They make wildly different decisions when given identical instructions. And no one yet knows if these shortcomings will fade with more powerful iterations — or if they reveal something fundamental about the gap between large language models and how markets actually work.

Take Alpha Arena, run by tech startup Nof1. It pitted eight major frontier AI systems — including Anthropic's Claude, Google's Gemini, OpenAI's ChatGPT and Elon Musk's Grok — against each other in four separate competitions. Each was handed $10,000 per contest before being turned loose on US tech stocks for two weeks. The challenges involved trading on a variety of signals, acting defensively, reacting to the competition, and using high leverage.

The portfolio as a whole lost about a third of its capital. Across all 32 sets of results, a model finished in profit only six times. …

"LLMs can't really make money by themselves," said Jay Azhang, founder of Nof1. "You need basically a very sophisticated harness and scaffolding and data platform in order to even give them a chance."

LLMs are good at doing research and finding and deploying the correct tools for certain tasks, he said. But they don't yet know how much each of the many variables that swing stocks — including things like analyst ratings, insider transactions, and sentiment shifts — actually matters. They tend to mistime their trades, incorrectly size positions and buy and sell too often.

It would be crazy if it was otherwise! If you could just go to ChatGPT and type "hey tell me what stocks will go up" and it told you, then everyone would do it, and how could everyone beat the market? I definitely see the intuition here — "if AI agents can do a lot of the work of lawyers and accountants and marketing consultants, why can't they do the work of hedge fund investors?" — but it has to be wrong. The work of investors is fundamentally adversarial; we can't all beat the market.

Meanwhile, at the Wall Street Journal, Gunjan Banerji asked ChatGPT for investing advice and got, you know, investing advice:

ChatGPT lucidly laid out the risks associated with any trade war. It suggested making shifts to my portfolio, such as potentially adding bonds or, once again, options.

It also spat out a list of companies including defense stocks like Lockheed Martin it thought might outperform. The basket has risen around 5.5% since mid-October, lagging behind the S&P 500's roughly 8% gain.

This was market timing again, something advisers didn't recommend. …

At times, it felt like ChatGPT responded with what I wanted to hear, which would be risky if I were putting real money to work.

Right, like, ChatGPT's job is to (1) convincingly mimic what a human would do in the relevant situation and (2) keep you engaged and entertained and feeling good about using ChatGPT. If you asked a financial adviser for trading advice, and she said "buddy just put the phone down and take a walk, you don't need to do anything about a trade war," that would be *probably very good advice* but also sort of not what she's there for. She's there to make you feel good about yourself and about the service she provides. Not answering the phone is often the best service a retail adviser can provide, but it doesn't *feel* that way. What *feels* like good service is doing stuff. Doing stuff maximizes ChatGPT's reward function, and probably your financial adviser's reward function, but it probably does not maximize your portfolio.

Also, just like your retail broker, ChatGPT has no earthly idea what stocks will go up, come on. If your retail broker knew that, she'd be managing a hedge fund. If ChatGPT knew that, it would be managing Renaissance.

Daily private prices

I have been more or less entirely won over to Cliff Asness's view that not having real-time prices is a *feature* of private markets, not a bug. Some days the stock market goes up and some days it goes down; your stock portfolio probably goes up in the long run but with a lot of fluctuations along the way, and each time it goes down you are sad and nervous and inclined to sell. Meanwhile your portfolio of private investments pays you some steady money and rarely changes price; when it does, it's usually because the price has gone up. Far more pleasant.

Of course intellectually you might say "this portfolio of private stocks has the same fundamental economic risk factors as the public stock market, so if the public market is down 1% today then my private stocks would probably fetch 1% less today too." But nobody makes you think about that, so mostly you don't.

For long-term private investments this is simply a pleasant situation. You invest in a startup or a private credit fund, you wait a few years, eventually the startup goes public or the fund returns capital, and you cash out at a large profit. The value of the startup or the fund in the intervening years simply does not concern you very much: You made a long-term investment, you had no plan or ability to cash out before it concluded, so getting a daily statement of its value would be pointless. You cash out at the end and are happy.

But for short-term private investments it is untenable. If you invest in a startup or a private credit fund thinking "I'm gonna park this money here for a bit but I might change my mind at any time," then you need to know the price each day so you know whether to change your mind. If you buy at $40 and the price goes to $45 next week, you might say "hey that's a nice quick profit, I'm selling." If you buy at $40 and the price goes to $38 next week, you might say "ooh I can't sell here, that would mean taking a loss, I'm sure it will rebound." Or vice versa or whatever. The important thing is that, if you do sell in a week, you have to sell *for a price*. You need to know what the price is, and whoever is buying from you — maybe a secondary investor, maybe the fund — has to pay you that price. The fund or startup can't just raise money once at one price, wait five years, and conclude the trade at another price. It needs to have lots of interim prices along the way.

Historically an important distinction between public and private markets was precisely that private markets locked up investor capital for the long term, and "I'll park money in a private asset for a week" would have been an absurd thing to think. But private markets are the new public markets, and alternative asset managers are trying to sell private equity and private credit to retail investors who want daily liquidity. Which means that private assets also need daily prices. So:

Apollo Global Management Inc. said that more than $830 billion of its credit assets will be priced daily by the end of September, a move to bring more transparency to opaque credit markets.

The firm, which manages more than $1 trillion in assets, announced the initiative on its first-quarter earnings call on Wednesday. Apollo has been increasing its efforts to provide liquidity and price transparency in the $1.8 trillion private-credit market, where assets don't typically change hands, Bloomberg News previously reported.

"That essentially means the totality of our credit business will be 100% daily pricing," Apollo Chief Executive Officer Marc Rowan said on the firm's first-quarter earnings call with analysts.

If you are a retail investor in an Apollo business development company, that is probably helpful. If you're an institutional investor in private credit funds, though, being blithely ignorant about the value of your portfolio was kind of nice, and now you are stuck knowing the price.

Fake margin loan

The way secured lending works is that I lend you $100 and you give me, say, $105 or $120 or $200 or $500 worth of your stuff as collateral. When you pay me back the $100 with interest, I give you back your collateral. The collateral is generally worth more than the money I lend you, because:

1. I want to protect myself from the risk that you don't pay me back, the value of the collateral goes down, and I end up selling the collateral for $90. (These risks are correlated: You don't pay back your mortgage at the exact time house prices collapse, you don't pay back your stock margin loan at the exact time stock prices collapse, etc.) So I take extra collateral as a cushion against that risk.

2. You came to me. Like: I am in the business of lending money to people against collateral, and you need the money. I don't need the collateral. So if you want $100 and I say "give me $200 of collateral" you'll be like "yeah that's fair." Whereas if you give me $50 of collateral and say "lend me $100 against this" I'll be like "what, no, I don't want that."

Occasionally this is reversed. Treasury repurchase transactions are often roughly "you borrow $100 of cash secured by $102 of Treasuries," but sometimes they are "I borrow $100 of Treasuries secured by $102 of cash," because I might need the Treasuries (to sell short) more than you need the cash. You will lend me the Treasuries, but you want to protect yourself against the (correlated) risk that (1) I won't give them back and (2) Treasury prices will go up and you'll end up having to buy them back for $104.

The thing to notice is that the risk is symmetrical: If I lend you money and you give me collateral, I take the risk that you won't pay me back, and you take the risk that I won't give you back your collateral. But the transaction is, almost always, asymmetrical: I only give you $100 of cash, but you give me like $200 of collateral.

In the real world, part of the reason for this is that you "give" me the collateral only in some approximate sense. If I give you an $800,000 mortgage loan against your $1,000,000 house, you don't give me your house to keep in a drawer. You live in the house. If you don't pay me back, I can seize and sell the house, but it will take a long time and be a huge pain. And if you do pay me back, there is no practical way for me to run off with your house.

But in modern financial markets, things are closer to the theoretical ideal. If I give you a $100 margin loan against $200 worth of stock, I do "take" the stock in a somewhat real sense. I can "rehypothecate" it, giving the stock to someone else who lends *me* money against it. If you don't pay me back, I can blow out the stock in minutes. I have fairly real control of the collateral.

And so a trade that might occur to me is: "Wait, I gave you $100 for $200 of stock. Good trade for me. Later, you will give me back $100, and you will expect me to give you back $200 of stock. But *that's* a *bad* trade for me. What if I just don't do that? What if I just keep the $200 of stock? You can keep the $100, whatever. Then I'd have $200 of stock for which I paid $100, which is a good deal."

This is not in fact a very good trade, because I'd go to jail, but still, you can see how someone might come up with it. The Financial Times reports:

An indictment unsealed on Tuesday alleges that Val Sklarov, a Ukrainian-born American, ran an "Astor"-branded company that promised a cash loan to an unnamed victim after inducing the victim to pledge as collateral hundreds of millions of dollars in shares that were then sold.

It comes months after the FT published an investigation into a dispute between Mexican billionaire Ricardo Salinas Pliego and Sklarov.

The indictment, filed in the Southern District of New York on April 30, matches Salinas's allegations to the FT about Sklarov's business. Astor Asset Management in July 2021 promised Salinas — whose Grupo Salinas has interests spanning media, telecommunications, banking and retail — a cash loan of up to $150mn secured against shares in his company Elektra worth roughly three times that amount. ...

"The guy took my stock, sold it, and gave me the money as a loan," Salinas, who took out the loan in order to buy bitcoin, had told the FT. "Jesus, that's as bad as it gets." Sklarov had denied Salinas's allegations, saying: "I certainly do not consider myself to be a fraudster, but there's a saying: 'It takes one to know one'."

Rather than holding the shares as collateral, prosecutors allege that Sklarov and others sold them shortly after they were deposited with the custodians. Any loan payments to the victim were funded using proceeds from the sale of the victim's own shares, prosecutors said, while "hundreds of millions of dollars" in remaining proceeds were kept by the scheme.

Here is the indictment, which charges both that Sklarov lied about his own identity and also that "SKLAROV agreed to lend Victim-1 at least approximately $115 million and Victim-1 agreed to post the Company Shares as collateral, on the understanding that the Company Shares would not be sold or transferred absent a default." But he then allegedly sold all the shares — some $450 million worth — immediately, used some of the money to fund the loan, and kept the rest.

TD3C

Libor, the London interbank offered rate, was for a long time "the most important number in the world," the main reference interest rate for loans and derivatives. Libor was calculated by asking a panel of banks what rate they would have to pay to borrow money in the London interbank market. It collapsed in scandal after the 2008 financial crisis. For our purposes there were two big problems with Libor:

1. The simpler problem is that the interbank lending market that set Libor was not that active, so that by 2008 Libor was "the rate at which banks don't lend to each other." Banks had to guess at their Libor submissions, because they were not actually borrowing in all of the tenors and currencies that Libor used.
2. The subtler problem is that Libor was narrowly a measure of bank borrowing costs, but was loosely a measure of "the cost of money" generally. Libor was "the interest rate," and for many applications, if you needed to plug a risk-free interest rate into some pricing model, you'd just use Libor. For much of recent history, the price that banks paid for money was a reasonable proxy for the *cheapest* price of money; the big Libor panel banks were approximately risk-free. And then in 2008 they weren't, and Libor went up. And so if some perfectly fine creditworthy company had floating-rate debt, or an interest-rate swap, *its* interest rate went up. And the company might reasonably say: "Wait, no, *I'm* fine; *I* did nothing wrong; *my* credit is great. Why do I have to pay more interest just because some banks blew themselves up?" Libor was in an important sense the wrong index. It tied trillions of dollars of economic activity to the idiosyncratic risks of a handful of banks that everyone had casually assumed were risk-free benchmark borrowers, but that turned out to be quite risky.

Here's a story about shipping charters:

Mercuria Energy Group Ltd. is suing the Baltic Exchange, Bloomberg reported on Thursday, alleging that it has suffered losses in the hundreds of millions of dollars as a result of distortions in a key benchmark for the cost of shipping oil from the Middle East to China. …

At the heart of the dispute is the rate for hiring a tanker to ship oil from the Middle East to China, which for years has been calculated based on the cost of shipping oil from Saudi Arabia's Ras Tanura port. Crucially, it is located inside the Persian Gulf, and can only be accessed via the Strait of Hormuz.

Each day, shipbrokers convened by the Baltic Exchange submit their assessments of the price, which are used to create a rate known as TD3C. That rate is then used across the global oil industry as a benchmark to set the rate of tanker contracts, as well as to underpin a multibilllion-dollar derivatives market.

The Baltic Exchange, which is now owned by Singapore Exchange Ltd., stirred controversy in March when it told brokers that the TD3C rate should continue to be calculated based on the cost of shipping oil from Ras Tanura — even though shipments had all but ceased due to the war.

The TD3C rate soared as a result, rising to as much as $600,000 a day compared to more typical rates between $40,000 and $100,000.

For traders and shipowners who have contracts and derivatives positions linked to the index, it has caused turmoil. In one example, Norwegian shipping company Hunter Group ASA said last month that a customer had paid it $8.3 million less than it was due for ship charters during the month of March. The customer involved was Mercuria, and it was refusing to pay charter rates that were pegged to TD3C, according to a person familiar with the matter.

Right, the benchmark for lots of shipping charter rates is based on a standard shipping product that now (1) rarely trades and (2) is idiosyncratically risky. If you've chartered a ship on some entirely different route, you don't have those idiosyncratic risks. But you might have to pay for them anyway.

Paul Anka

I wrote yesterday about investment banking without a license, and I asked:

If I am some random celebrity or politician and I get hired by an investment bank to glad-hand clients, can I glad-hand the clients before passing my licensing exams?

A reader pointed out that the US Securities and Exchange Commission has addressed a related point: In 1991, it allowed Paul Anka to get a finder's fee for giving a company a list of potential investors (but not contacting them himself), even though he was not licensed as a securities broker. Apparently this exemption — that even without a license, you can collect a finder's fee for referring a company to investors — is still called the Paul Anka Exemption. So, yes, some amount of random celebrity unlicensed investment banking is allowed.

Things happen

SEC Proposes to Eliminate Quarterly Reporting Requirement for Public Companies. Nvidia Inks $500 Million Deal for Shares in Fiber Maker Corning. Crypto Exchange Bullish Strikes $4.2 Billion Deal for Transfer Agent in Tokenization Push. Morgan Stanley Debuts Crypto Trading, Undercuts Rivals on Price. Watchdog Calls Out SRT ‘ Circles of Risk’ as Banks Hunger for Default Protection. BNPL SRT. Victoria’s Secret Rebukes Major Shareholder in Proxy Fight. Viral $100 Kids Landline Startup Tin Can Debuts Bulk Order Program. James Murdoch in Talks to Buy Vox’s New York Magazine and Podcast Division. Is Insider Sports Betting a Federal Crime? The NBA Player and the Gambler Who Needed Him. What Happened When the Pope Had to Call Customer Service.

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1. “But the work of lawyers is also fundamentally adversarial”: Discuss. I actually think that’s not true. For instance, if ChatGPT could tell you with perfect accuracy what the law was and who would win any dispute, that would be beneficial to you even if it told you you would lose. (You wouldn’t bring the dispute!) The work of lawyers is practically often adversarial but a world in which everyone could predict legal outcomes with perfect accuracy would be less adversarial and also more prosperous. Though arguably in some loose sense that is true of investing too. If a superintelligent AI model could just tell everyone where to allocate capital, we could just do that; no one would “beat the market,” but economic growth would be higher than in our current imperfect competitive system. I wrote last week: “What if Claude becomes all-wise and all-knowing? What if we just delegated all economic decisions to Claude; what if it wisely decided what projects to fund and what businesses to pursue?” Again, I am mostly kidding about this stuff, but nobody else is.
2. There are probably some “zombie mortgage” foreclosure stories that fit this pattern, but they are rare.

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News from Bloomberg Terminal

Sell on eBay to Buy eBay

May 7, 2026, 11:19 AM PDT

By Matt Levine

(Bloomberg Opinion) --

Half cash, half sock

Sure, sure, sure:

GameStop Corp. Chief Executive Officer Ryan Cohen said his eBay Inc. account was suspended following a publicity stunt in which he listed a raft of personal items — including a pair of socks — to fund his $56 billion bid for the online marketplace.

Cohen shared a screenshot of a notice from eBay saying his account had been suspended. He previously said he was raising money on the platform to help pay for the deal. His account racked up scores of bids totaling tens of thousands of dollars for a hodgepodge of items. …

Earlier this week, GameStop offered $125 per share in cash and stock for eBay. GameStop secured an initial, non-binding "highly confident letter" from TD Bank to provide about $20 billion of debt financing for the deal, but Cohen has still been peppered with questions about how he'll manage to pay for a deal. ...

Beyond the socks offered on Cohen's eBay account, other sought after items include a pair of GameStop signs and what appears to be a life-sized Halo 2 statue, both of which are going for more than $10,000. Among the other goods for sale are vintage baseball cards including Willie Mays and an unopened package of Windows 2000 software.

Sure! One thing that I sometimes think about is that there is a continuum between "real" takeover offers and "fake" ones. Quite a lot of very real takeovers — including most private-equity buyouts and also Elon Musk's purchase of Twitter Inc. — *begin* with an acquirer who doesn't have the money. A private equity firm, or Elon Musk, will approach the target and say "hey we'd like to discuss acquiring you for $10 billion," and the target will say "okay do you have $10 billion," and the buyer will say "no, of course not, we don't just keep $10 billion lying around in the bank, but if our discussions go well and we decide to move forward, we'll easily be able to raise the money." [1] And the target might say "oh, yes, fair, you are [a giant private equity firm][the world's richest person], no problem," and proceed to negotiate a deal. Or the target might instead say "prove it," and the buyer will find some way — a debt commitment letter, audited financial statements, a guarantee from Dad — to demonstrate to the target that the money will eventually be there.

Or sometimes a potential buyer will lob in a bid without the money, and the target will say “okay do you have the money,” and the buyer will say “no, but if our discussions go well and we decide to move forward, we’ll *probably* be able to raise the money.” Like, abstractly, eBay is financeable — people own its debt and equity now! — so Ryan Cohen should be able to finance it. “I can find people to pay $56 billion for a company with a current market value of $46 billion” is not an insane thing to think, especially if — like Ryan Cohen — you have some track record of getting people to pay surprisingly high prices for the shares of companies.

But sometimes a potential buyer will lob in a bid without the money, and the target will say “okay do you have the money,” and the buyer will say “yes I have a quadrillion dollars in my account at the Vatican Bank,” or “yes I have plenty of money in ancient Mesopotamian bearer bonds,” or “no but I know where Yamashita’s gold is buried and if you finance my expedition I can dig it up,” or “I can turn lead into gold with my mind,” or “money isn’t real man,” or “what? I can’t hear you, I’m going through a tunnel,” or — and I cannot stress this enough — “I’m going to sell my socks on eBay to finance the takeover.” These situations are *usually* what you would call *fake* takeover bids. Often — particularly when the bidder first buys shares of the target and then sells them at a profit when the fake takeover is announced — this might be considered securities fraud, though that is a matter of intent and genuine delusion might not qualify.

And then sometimes a bidder will show up with a $56 billion half-cash half-stock bid, and will have $9 billion of actual cash and a $20 billion highly confident letter from a bank in Canada, which is a bit less than $28 billion of actual cash but a lot more than “I have drawn a treasure map to Yamashita’s gold on this bar napkin.” And the bidder will be a publicly listed company that can in theory issue a lot of stock to finance the stock portion, though in practice (1) that would dilute the existing holders down almost to nothing and (2) it doesn’t have enough authorized shares anyway.

And then the target will ask “wait is this a real takeover offer” and the buyer will be like “it’s half cash, half stock” and the target will say “that’s not quite what I” and the buyer’s CEO will say “I have listed my socks on eBay to firm up the financing” and the buyer will say “ah I see.” If you do publicity stunts to pretend to finance your takeover bid, that might suggest, to the casual observer, that your takeover bid is itself a publicity stunt.

Also, before putting in its bid, GameStop bought almost 5% of eBay’s stock (via derivatives). That stock is up a bit since the takeover bid, though it’s not up that much because, you know.

Insider trading

I was, for a while, a junior mergers-and-acquisitions lawyer at a fancy law firm. M&A lawyers at fancy law firms get a lot of material nonpublic information in the course of their jobs: You tend to find out about mergers before the market does, when you’re writing the merger agreement. This information can, in a fairly straightforward way (buying short-dated out-of-the-money call options on the target), be turned into money. It *shouldn’t* be — that’s illegal insider trading and you can go to prison for doing it — but it *can* be. M&A lawyers have occasionally succumbed to this temptation, and so fancy law firms, including the one I worked at, tend to have training sessions to teach their young lawyers not to do that.

The content of this training is fairly straightforward — don't trade on the firm's deals and don't tell anyone else about them — but what I remember most was the sense of incredulity that anyone would do this. As a junior associate, I was making what seemed to me an unbelievably large amount of money. The partners teaching the training session were making what still seems to me an unbelievably large amount of money, and as a junior lawyer I had some ambition to become one of them. Everyone in that room was on a straight path to making a lot of money in a respectable way. What was the point of insider trading?

The typical story of M&A lawyer insider trading is that the lawyer tells his buddy about an upcoming merger, the buddy trades on it, the buddy makes a nice profit, and the lawyer gets either nothing or a small thank-you gift (of cash) from the buddy. My firm was traumatized by a former partner who went to prison for an insider-trading scheme in which he made no money. It seemed to me, and to the partners teaching the training session, and to everyone else I have ever talked to about this, that it would be insane to throw away a respectable and lucrative career and *go to prison* to make, like, $20,000.

Is the explanation "you think you are smarter than everyone else and will get away with it"? Is the explanation "your buddy is really insistent and you can't bear to let him down, so you give him some merger tips"? Is it "people who become M&A lawyers are adrenaline junkies and love danger"? (No.) Is it "people sometimes give themselves painful electric shocks just because that is an option that's available to them"?

Bloomberg's Chris Dolmetsch reports:

Lawyers from top mergers and acquisitions firms provided tips on some of the biggest deals of the last decade to an insider trading ring that made tens of millions of dollars in illegal profits, federal prosecutors said.

Two indictments charging 30 people were unsealed Wednesday in federal court in Boston. None of the firms from whom information was allegedly stolen were identified by prosecutors, but detailed descriptions of the relevant deals indicate they included Wachtell Lipton Rosen & Katz, Latham & Watkins and Goodwin Procter.

According to the indictments, as well as a parallel suit filed by the Securities and Exchange Commission on Wednesday, Nicolo Nourafchan, a 2011 Yale Law School graduate who worked at three large firms, including Goodwin and Latham, from 2013 to 2023, misappropriated confidential deal information from those employers. He allegedly conspired with a college classmate, Robert Yadgarov, to recruit other corporate lawyers to provide tips.

Here are the announcements from the Justice Department and the SEC. The Justice Department says they made “tens of millions of dollars in illicit profits,” while the SEC has a chart (page 43) listing total profits of about $5.8 million. [2] The lawyers involved didn’t do any trading in their own accounts, for obvious reasons. (They would have gotten caught immediately.) Instead, they allegedly tipped people who traded, and they got kickbacks (via Zelle?) from the people who traded. Sometimes the traders apparently paid under 1% of their profits to the tippers [3]; other times they paid more than 50%. [4] The criminal indictment alleges that, between 2014 and 2019, one of the traders “made a stream of payments, including cash payments and other payments designed to conceal their nature, to or for the benefit of YADGAROV, totaling more than $6.3 million, some of which YADGAROV then paid to or for the benefit of sources of the MNPI, including NOURAFCHAN.” As M&A lawyer insider trading schemes go, this one was pretty high-dollar. Latham partners made an average of $8.7 million last year, though, and rarely go to prison, though it’s hard to make partner. Still seems like a bad trade.

Anyway there are various funny quotes in the SEC complaint and the two criminal indictments, as these guys mostly communicated in code but sometimes slipped:

Beginning on or about June 16, 2022, and continuing through on or about July 8, 2022, SILVERSTEIN and S. FENSTERSZAUB exchanged the following messages:

S. FENSTERSZAUB: We cannot miss this boat!!

S. FENSTERSZAUB: How's the rabbi??

SILVERSTEIN: He's stable

S. FENSTERSZAUB: Is he still scheduled for surgery?

SILVERSTEIN: We are still waiting for the Dr to check if it's still needed

S. FENSTERSZAUB: Now I'm confused and worried at the same time

...

S. FENSTERSZAUB: Find out if we should bail

S. FENSTERSZAUB: So what should I advise ppl

SILVERSTEIN: Are they even

S. FENSTERSZAUB: I could find out but based on the current price I would assume so

SILVERSTEIN: So pull. But we might go back at it shortly.

S. FENSTERSZAUB: I have to remember to tell people tomorrow. Had the deal died? Or can we still be hopeful? Any way to find out

"Has the deal – I mean, the rabbi – died?" Ah well. (Later: "We need that damn rebbe already," just a good line.) Also this is not a great look:

In late August of 2020, Nourafchan followed up with Silverstein to obtain a kickback for the insider trading tip Nourafchan had provided to Silverstein regarding the acquisition of Momenta. On August 26, 2020, Nourafchan messaged Silverstein: "Call me bro. You can run but you can't hide. ..." Silverstein responded: "Haha. Give me 20," to which Nourafchan replied: "to life[.]" Silverstein then responded: "I hope not[.]"

Don't joke about your potential prison sentence when you are texting about crimes! They'll definitely quote that in your indictment.

Blue Ouroboros

Hear me out:

Blue Owl Capital is preparing to launch a debut credit secondaries strategy and is in early-stage talks with prospective investors for the fund, according to a person familiar with the matter. ...

The bustling private credit-secondary market allows investors to buy or sell stakes in private-asset funds, often at a discount. …

Blue Owl Capital Co-Chief Executive Officer Marc Lipschultz endorsed the secondaries market in August as a "great business to be had being a really thoughtful buyer when you have more sellers today than you've ever had in the past."

Blue Owl runs a publicly traded business development company – essentially a listed private credit fund – that trades at a discount to net asset value. It also runs several non-traded business development companies. Those don't trade, and so can't trade at a discount, but they have faced a lot of withdrawal requests, and Blue Owl has limited redemptions. Boaz Weinstein's Saba Capital Management has been trying to buy some of those BDCs' shares at big discounts, on the theory that (1) shareholders of these funds want their money back, (2) they can't get all of it back right away, and (3) some of them might prefer 65 cents today to 100 cents in the indefinite future. (This theory has not really worked out so far, but he's working on other tenders, so who knows.) I have suggested that this situation is annoying for Blue Owl and other big private credit firms in the same boat: They think their assets are good, their investors are rushing to sell them, but for legal and other reasons they can't buy them back at a discount. Blue Owl's non-traded BDCs can only redeem shares at net asset value, not at a discount.

But if Blue Owl raises a separate secondaries fund, could it buy shares of Blue Owl's non-traded BDCs at a discount? Get a good deal for Blue Owl's more optimistic clients, while providing desirable liquidity to its more panicked clients? Give everyone what they want? Or, for that matter, buy shares of *other* private credit managers' BDCs at a discount? I wrote in March:

A very funny trade would be if Blackstone tendered for some Blue Owl BDCs at a discount, and Blue Owl tendered for some Blackstone BDCs at a discount, but it is not hard to see why that won't happen.

But we're getting a little closer!

(Disclosure: I own a little bit of a Blue Owl non-traded BDC, not the one that Weinstein bid for but another one that he's planning to bid for.)

MFS back leverage

Private credit firms raise money from long-term investors and use that money to make loans to businesses; they also borrow from banks to get more money to lend to businesses. A private credit fund might raise $100 from investors, borrow another $100 from banks, and make $200 of loans. I have argued that:

1. Private credit firms, with their long-term locked-up funds, are structurally less risky than banks, with their deposit funding.
2. Of course the banks are taking some risk on private credit — in my example, half the money for the private credit loans comes from banks — but they are taking the *senior* risk. "The banks are re-tranching." If some of those loans go bad, the private credit fund's long-term investors take the first $100 of losses; the bank only loses money if the loans lose more than 50% of their value.

In the abstract, there are two ways you could imagine this sort of "re-tranching" working:

1. A private credit firm might raise a $5 billion fund, borrow another $5 billion from a bank, and make $10 billion of loans. The bank lends against the fund, and has all of the fund's loans as collateral. If some of the loans default, the fund takes the losses, up to $5 billion. The bank only loses money if the fund has more than $5 billion of total losses.
2. A private credit firm might raise a $5 billion fund, and then negotiate with 50 borrowers to make 50 loans, each for $200 million. Each loan is funded with $100 million from the private credit fund and $100 million borrowed from a bank. The bank lends against each loan, and has one private-credit loan as collateral for each of its loans. If any individual loan goes to zero, the bank loses $100 million, even if the other 49 loans are fine.

That is: In the first model, the bank gets the benefit not only of *seniority* (the private credit fund takes the first loss) but also *diversification* (its collateral is a bunch of different loans). In the second model, the bank makes a series of individual bets, and if one of them doesn't work out it loses money.

In general the first, diversified model seems to be the norm, but there are exceptions. Here's this:

HSBC has taken a $400mn "fraud-related" charge tied to collapsed UK mortgage lender Market Financial Solutions, hitting quarterly profits at Europe's biggest bank and sending its shares down more than 5 per cent.

The bank said on Tuesday that it had "indirect exposure" through a financial sponsor, which people familiar with the matter identified as Apollo's asset-backed lending unit Atlas SP.

"We have an exposure to a financial sponsor who has an exposure to the company," HSBC's chief financial officer Pam Kaur said on a media call, without naming the group.

Here are HSBC's earnings release and investor presentation. "A $0.4bn fraud-related, secondary, securitisation exposure with a financial sponsor in the UK," is how it describes the loss in the earnings release. And the presentation describes HSBC's private markets exposure, including "Securitisation financing":

Private securitisation facilities backed by portfolios of receivables, including mortgages, consumers loans, auto loans, equipment finance and SME loans.

Transactions that include equity from larger financial sponsor clients

Senior non-recourse lending against diverse portfolios of receivables

The Financial Times explains:

Atlas funds held £1bn of debt across two lending vehicles created by MFS, according to insolvency documents. But the firm stated that its net economic exposure was £400mn. A person familiar with the exposure said the lower figure took account of risk transferred to other parties.

HSBC had funded 80 per cent of the value of the loans in the SPV tied to MFS, with the rest coming from Atlas itself, according to people familiar with the matter. Lending 60 to 70 per cent of a portfolio's loan value would be more typical in the sector, according to people familiar with the matter.

That is: What happened here is not that Atlas SP raised a big fund and made a lot of loans to a lot of borrowers and got some fund financing from HSBC. What happened here is that Atlas made a loan to MFS, and got financing *against just that loan* from HSBC. When the loan to MFS turned out to be more or less worthless, and allegedly fraudulent, HSBC lost money. "Because an MFS unit allegedly double-pledged its collateral, there may be little for HSBC and the other lenders to recover in the insolvency," says the Wall Street Journal. HSBC didn't get any diversification. (It also didn't get that much seniority, lending at an 80% loan-to-value ratio.)

Though you could characterize things differently. "Senior non-recourse lending against diverse portfolios of receivables," HSBC says. HSBC *was*, in some sense, financing a diverse portfolio of loans — "around 525 property loans," says the Journal — rather than a single loan. It's just that the diverse portfolio of loans were made *by MFS*, and the risk was not so much "some of MFS's borrowers might not pay back their mortgages" but rather "MFS might be a fraud." It was a three-level transaction:

1. MFS made mortgage loans.
2. Atlas SP loaned MFS money against those mortgages.
3. HSBC loaned Atlas money against its MFS loan.

Diversified at the MFS level, but not at the Atlas level: HSBC was backing one private-credit loan against one borrower that turned out to be bad.

This is reminiscent of other recent credit problems, which have often had a similar three-level structure. Some company is in the business of lending money to people to buy houses or commercial property or structured settlements or cars or car parts. That company itself borrows some of the money from private credit firms, which in turn borrow some of the money from banks. The private credit firm, and the banks, think of their investment as essentially *diversified:* "I am lending against 525 loans to different borrowers secured by different properties," "I am lending against thousands of separate receivables from a diversified group of auto retailers," etc., rather than "I am putting all of my money into one company that might steal it."

We talked last year about First Brands Group Inc., the car-parts lender, which also went bankrupt amid accusations of double-pledging; one Jefferies fund had a quarter of its money in First Brands receivables. If you sit down and ask "should I put a quarter of my loan fund into one borrower," you'll probably answer "no." But if you sit down and ask "should I put 0.01% of my loan fund into each of these 2,500 receivables from retailers like AutoZone and Walmart," you might think "ah that's fine." But if the receivables are fake or double-pledged, it's not fine.

Aave

Crudely speaking, the way the banking system works is that everyone puts their money in banks, but the banks don't have all the money. They lend it out, and if everyone asked for all their money back at once, (1) they wouldn't get it, (2) the banks would fail and (3) there would be widespread general disaster. This used to *happen*, occasionally, and it was bad; people have learned from the experience. Now we have stuff like central banks and deposit insurance and swap lines to prevent it from happening.

More broadly, we have a banking system that knows this. At some level, if you run a bank and your biggest competitor fails, that might be good for you: You can buy their assets cheap, you can grab some market share, etc. But mostly it is *terrible* for you, because it is hugely beneficial for any particular bank that people trust banks generally. You can be like "sure those guys failed because they took dumb risks, but we have careful risk management and a fortress balance sheet so we would never fail." But that is fundamentally wrong. You are a bank; ultimately you depend on confidence. Confidence is not zero-sum. The more confident people are in your competitors, the better off you are.

And so a big robust bank will sometimes step in to rescue a small collapsing bank, partly out of altruism and partly out of straightforward desire to own its good businesses, but also partly out of collective self-interest. It is good for banks if other banks don't fail.

You might expect the crypto industry not to have quite this problem, because crypto was built in part in reaction against leveraged fractional reserve banking and trusted intermediaries, and in theory there is no reason that everyone couldn't take their crypto out of a crypto exchange at once. In practice:

1. The crypto industry fully recreated banking, and now consists largely of levered firms that really would collapse if there was a bank run; and
2. Not to be rude, but, it's crypto? It also depends on confidence: Each token is valuable because people have confidence in it, and can go to zero if that changes.

A few weeks ago hackers stole a bunch of crypto, deposited it on decentralized finance lending platform Aave, used it as collateral to withdraw a bunch of other crypto from Aave, and left a huge gap in Aave's balance sheet. This caused a run on Aave for normal bank-run reasons (holes in balance sheets are bad). And then the rest of crypto stepped in to help. The Financial Times reports:

On April 18, North Korean-linked hackers stole roughly $290mn worth of a token linked to a coin called ethereum from KelpDAO, a venue that allows users to earn higher rewards by lending their tokens without locking them up. Thieves used that as collateral to borrow from Aave.

The ploy left Aave with up to $230mn in bad debts and led high-profile crypto figures, including the co-founder of Ethereum Joseph Lubin and crypto billionaire Justin Sun, as well as infrastructure companies LayerZero and Mantle, to orchestrate a recovery in order to prevent a cascading crisis.

Stani Kulechov, founder and chief executive of Aave, said the sector suffered "a substantial stress test", adding that the bailout "was about restoring the whole state of DeFi, avoid[ing] contagion and ensuring that the whole ecosystem overcome[s] this incident, not solely Aave".

That's the nice way to put it. Here is the equally correct — honestly *synonymous* — other way to put it:

The bailout revealed these companies are "feigning decentralisation", said Adam Morgan McCarthy, senior research analyst at crypto analytics company Kaiko.

"It's realistically 12 to 20 men who have been in crypto for 20 years who have a vested interest in keeping each other's thing alive so the price of theirs doesn't go down," he added.

Right I mean the *bull* case for crypto is "enough people have a vested interest in keeping the price up that it will stay up," but that's sort of the bull case for all of finance, all of society really.

Things happen

Citi Drops After Unveiling 'Underwhelming' New Return Target. Citi Targets $700 Billion of Prime Balances in Hedge Fund Push. Anthropic Inks Deal to Use All of SpaceX's Colossus 1 Compute Capacity. Elon Musk Wanted Tesla to Take Over OpenAI, Romantic Partner Testifies in Court. "It is possible that [Sam Altman's] testimony will prove just as ineffectual and contradictory as Musk's did." How the Trump Administration Became an Activist Investor. BlackRock Private Debt Fund Cuts Asset Value on Loan Markdowns. Private equity tech investor Hg marks down holdings after software sell-off. The Chip Craze Is Turning a Glass Company and a Toilet Maker Into AI Stocks. Wells Fargo whistleblower appeals for restoration of $180mn award. Lloyd's of London debates disclosing findings of probe into governance concerns. JPMorgan Offered $1 Million Settlement Before Sexual Assault Claims Went Viral. Astrology Has Become a Go-To Travel Planner. Some kids are bypassing age-verification checks with a fake mustache.

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1. In the private equity case, the firm might have a fund with more than $10 billion, but it will expect to close the deal with a smaller equity commitment and a lot of borrowing. In the Elon Musk case, he has more than $10 billion of Tesla stock, but he will expect to close the deal with a smaller equity check and a lot of borrowing. But there are purer cases from, like, the early days of leveraged buyouts, where the buyout fund really didn't have that kind of money and had to borrow it.

2. See the chart on page 43 of the SEC complaint.

3. See pages 33-34 of the SEC complaint: Daniel Kavian allegedly made $276,448 trading iRobot, and "sent a $2,500 payment to Simon Fensterszaub via the online payment system Zelle on August 30, 2022 as a kickback of the profits he generated from trading iRobot." Fensterszaub was not one of the lawyer-tippers, but allegedly traded himself and served as a middleman for routing the kickback payments.

4. See page 38: Daniel Kavian allegedly made $13,322 trading Momentive and kicked back $7,500 by Zelle.

Bloomberg Law

Manage Newsletters

Cannabis Pharmaceutical Company Ordered to Pay SEC $2.1 Million

May 6, 2026, 10:21 AM PDT

Summary by Bloomberg AI AI Generated

- A federal court ruled that Vivera Pharmaceuticals Inc., its CEO, and another company must disgorge about $2.1 million in an SEC enforcement suit alleging securities fraud over cannabis-derived products.
- The CEO, Paul Edalat, must also pay a nearly $240,000 civil penalty, according to the US District Court for the Central District of California.
- Vivera plans to appeal, with its attorney stating that the company was not allowed to present its defenses to a jury due to the SEC's motion for summary judgment.

Vivera Pharmaceuticals Inc., its CEO, and another company must disgorge about $2.1 million, a federal court ruled in an SEC enforcement suit alleging securities fraud over cannabis-derived products.

The CEO must also pay a nearly $240,000 civil penalty, the US District Court for the Central District of California said Tuesday in separate judgments against Vivera; EFT Global Holdings Inc., which does business as Sentar Pharmaceuticals; and the executive, Paul Edalat. The three defendants immediately objected to the multiple judgments as making the payment obligation unclear and complicating a potential appeal.

Vivera plans to appeal, according to its attorney Saied Kashani.

“Vivera was not allowed to present its defenses to a jury,” he said by email Wednesday. “Instead, the SEC moved for ‘summary judgment’ which is a procedural mechanism to bypass a jury trial.”

After the court denied the SEC’s motion twice, the commission “then re-filed the virtually identical motion and this time, to Vivera’s surprise, the court granted the motion,” Kashani said.

The SEC declined to comment beyond its public filings.

Judge Fred W. Slaughter determined in November that Vivera raised $6.7 million touting “an exclusive, global license” to an under-the-tongue drug-delivery system for the pharmaceutical use of cannabinoids CBD and THC—but that Edalat’s other company, Sentar, which owned the rights, had already licensed it to Alternate Health Corp.

Kashani said at the time of the SEC’s request for judgment that “a California court ruled that the other company’s rights expired a year before Vivera’s license, so Vivera had exclusive rights” to the technology.

The SEC represents itself. Kashani, who practices in Los Angeles, represents Vivera, Sentar, and Edalat Byrd Campbell PA represents Vivera. Neither the SEC nor Kashani immediately responded to emails requesting comment.

The case is SEC v. Vivera Pharms., Inc. , C.D. Cal., No. 8:22-cv-01792, 5/5/26 .

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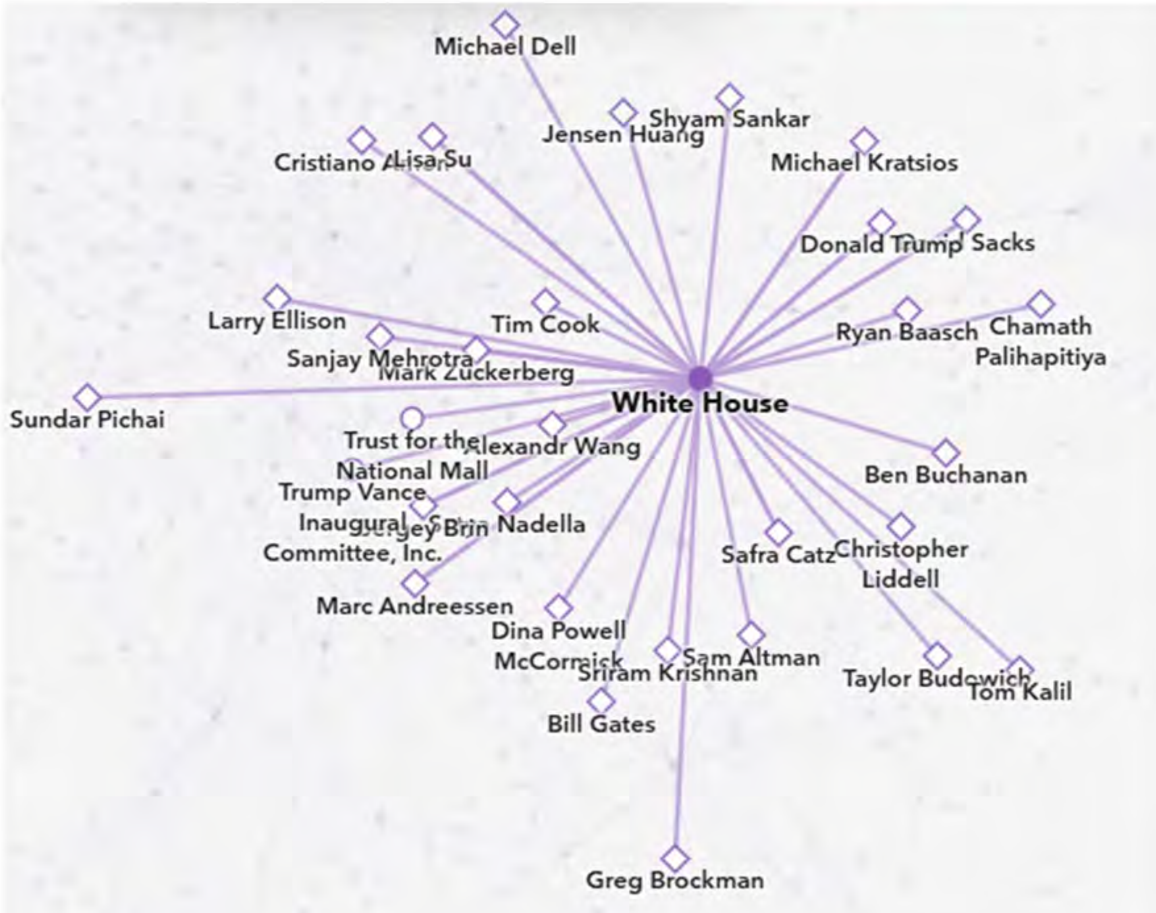
Bloomberg Government built **an interactive AI Influence Map** to visualize this complex and interconnected web of influence. The map explores how some of the largest tech companies—along with their billionaire founders—use their affiliations and connections to influence policy and public debates. **Read More**



INTERACTIVE STORY

The Web of Tech Power Fighting to Shape the Future of AI Policy

May 7, 2026, 2:01 AM

By Mike Farrell and Irfan Uraizee

A new power center built around the fight over artificial intelligence is taking shape in Washington. It involves the world's wealthiest companies, an army of lobbyists, and hundreds of millions of dollars to set the rules that will determine who builds, controls, and profits from AI.

In the first quarter of 2026, AI startups OpenAI Inc. and Anthropic PBC spent millions on federal lobbying—reaching new highs for both. The year before, AI lobbying hit a record $130 million, as Microsoft Corp., Meta Platforms Inc., and Alphabet Inc. poured millions into the issue.

That's only one part of an expansive influence machine. The fight over AI extends well beyond Washington. It involves data center zoning battles and disputes over deploying autonomous vehicles in American cities. It's about how state policymakers as well as White House officials weigh concerns over safety, security, and intellectual property.

The outcomes will affect not only a fast-growing industry, but also large parts of the workforce, the geopolitical AI race, and broader questions about how this technology could reshape society.

"This is all about regulatory capture. It's literally an ideal environment for companies to move in and capture regulators. Everything is being decided right now," said Rumman Chowdhury, former US science envoy for artificial intelligence and the CEO of Humane Intelligence PBC, an AI testing and evaluation startup.

Tech executives are moving swiftly to take full advantage of a business-friendly White House with close ties to Silicon Valley, Chowdhury said. While corporate titans have long used financial resources to influence policymaking, the reach and scope of AI has supercharged their efforts.

"Everything is moving much faster, more aggressively, with more money behind it because AI touches everything."

Bloomberg Government built an interactive AI Influence Map to visualize this complex and interconnected web of influence. The map explores how influential companies—along with their billionaire founders—use their affiliations and connections to influence policy and public debates.

The AI Influence Map tracks how these power players define the narrative around AI, back political candidates aligned with their interests, challenge those who are not, and build relationships with the elected officials and agencies responsible for writing the rules.

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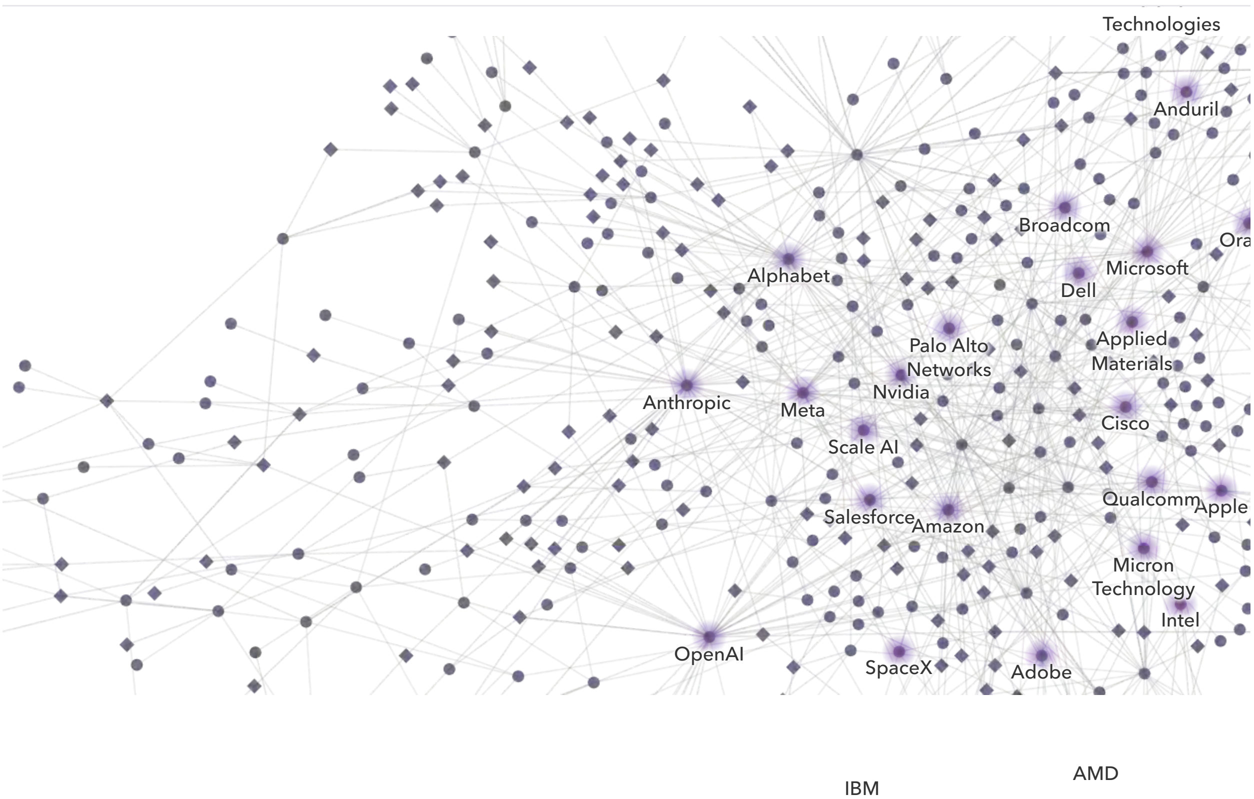

Featured Companies ▾ Explore 25 power players shaping AI policy and politics in Washington

Adobe Application Software	**AMD** Semiconductor Devices	**Alphabet** Internet Media & Services

Amazon Online Marketplace	**Anduril** Defense	**Anthropic** Application Software
Apple Communications Equipment	**Applied Materials** Semiconductor Mfg	**Broadcom** Semiconductor Devices
Cisco Communications Equipment	**Dell** Computer Hardware & Storage	**IBM** IT Services
Intel Semiconductor Devices	**Meta** Internet Media & Services	**Micron Technology** Semiconductor Devices
Microsoft Infrastructure Software	**Nvidia** Semiconductor Devices	**OpenAI** Application Software
Oracle Infrastructure Software	**Palantir Technologies** Application Software	**Palo Alto Networks** Infrastructure Security
Qualcomm Semiconductor Devices	**Salesforce** Application Software	**Scale AI** Application Software
SpaceX Aerospace & Defence		

The map focuses on 25 of the most influential companies shaping AI policy. These firms span the full ecosystem, from frontier labs to legacy tech companies, chipmakers, and the manufacturers that supply the semiconductor industry. They are among the most valuable companies in the world, with significant investments in AI and growing stakes in how the technology is governed. Their executives are deeply connected to policymakers, regulators, and advisory bodies that are shaping the future of the industry.

The project also tracks the 25 lobbying firms that generated the most revenue in 2025 from AI-related advocacy. Many of these firms represent multiple major technology clients and play a central role in shaping debates on Capitol Hill and across Washington.

AI influence runs through a dense, complex, and expanding network. In addition to lobbyists and corporations, it includes trade groups, political action committees and super PACs, campaign contributions, ties to the White House and federal agencies, philanthropic funding, and advisory roles that help shape policy from the inside. Together, they form a political infrastructure growing alongside the technology itself.

That may be most evident in the congressional race to replace longtime New York Democratic Rep. Jerry Nadler. A newly formed super PAC, Leading the Future, has amassed a $75 million war chest backed by tech investors Marc Andreessen and

Ben Horowitz, co-founders of the Silicon Valley venture capital firm Andreessen Horowitz, as well as OpenAI president Greg Brockman and his wife, Anna. Its affiliated PAC, Think Big, has already spent $2.4 million to oppose Democratic candidate Alex Bores, a New York assemblyman, who has pledged to push for federal legislation that would regulate AI.

As the AI Influence Map shows, political spending by executives is common and coordinated across the tech landscape. For instance, the founders of Palantir Technologies Inc., which has deep ties to U.S. defense and intelligence agencies, are actively funding candidates from both parties and spending on PACs with strong national security ties. Like many AI firms, its footprint in Washington is expanding, too. Palantir's total US government contract obligations reached $976 million this year, an 85% increase since 2023, according to a Bloomberg Government analysis.

The AI Influence Map tracks these connections and relationships, bringing greater transparency to how money flows from Silicon Valley into Washington and elsewhere to gain influence within advocacy groups, universities, and nonprofits. It identifies the key players and maps their networks. This also includes billionaire philanthropists funding AI safety research, nonprofit organizations, and advocacy groups shaping public debate, and academic and policy institutions that are increasingly central to how AI governance is developed.

Together, these efforts are helping define not just the rules of AI, but the narrative around its risks, benefits, and long-term impact. The AI Influence Map is an ongoing effort. As the technology evolves, so too will the networks of power surrounding it. We encourage readers to identify gaps, and help expand the project as the universe of AI influence grows. Please reach us **HERE.**

With assistance from John Woolley, Kate Ackley, Atthar Mirza, Paul Murphy, and Maika Ito

Methodology

Bloomberg Government collected and analyzed data for Version 1.0 of the AI Influence Map from numerous public and proprietary data sources. Primary data sources included Federal Election Commission data, Lobbying Disclosure Act reports, IRS filings as well as US federal contracting databases.

The 25 US companies selected for this version of the map are actively involved in shaping how AI is built, deployed, and governed. To be considered for inclusion, public companies must have had a market cap over $100 billion and more than $200,000 in lobbying spending in 2025; private companies must have had a valuation of more than $30 billion and lobbying spending of more than $200,000. Companies are also evaluated for current ties to government entities and political spending. Financial data sources for companies include the Bloomberg Terminal and Pitchbook. Market cap information for public companies is based on financial data from May 6.

The 25 lobbying firms included earned the highest amounts for work related to all aspects of AI based on Lobbying Disclosure Act reports for 2025. Amounts reported on filings that feature multiple disclosed lobbying issues may not be fully attributable to lobbying work related solely to AI. Registrants are not required to itemize income received in service of specific lobbying issues. Self-filed lobbying disclosures related to AI were not included in this interactive.

Total AI lobbying earnings for lobbying firms is based on all client spending on AI for 2025.

US government contract totals are estimates of a company's AI market footprint based on the parent entity and subsidiaries' proprietary AI-related technologies, services, and applications and use of third-party technologies. Dollar figures represent unclassified purchase commitments, or obligations, made by defense and civilian agencies directly to the company. The period of coverage is fiscal year 2023 through April 28, 2026.

Financial figures such as revenue totals and total assets for nonprofits, private foundations, and advocacy organizations represent the most recent data available from IRS filings. Information for charitable donations and grants was taken from IRS filings when available or self reported by nonprofit organizations or grant-making institutions. Not all charitable contributions have been reported publicly and were therefore unavailable at the time of publication.

Political contributions reported to the Federal Election Commission were limited to donations of $10,000 or more for the periods of 2025 and 2026. The most recent FEC coverage period is from Aug. 15, 2025, to March 31, 2026.

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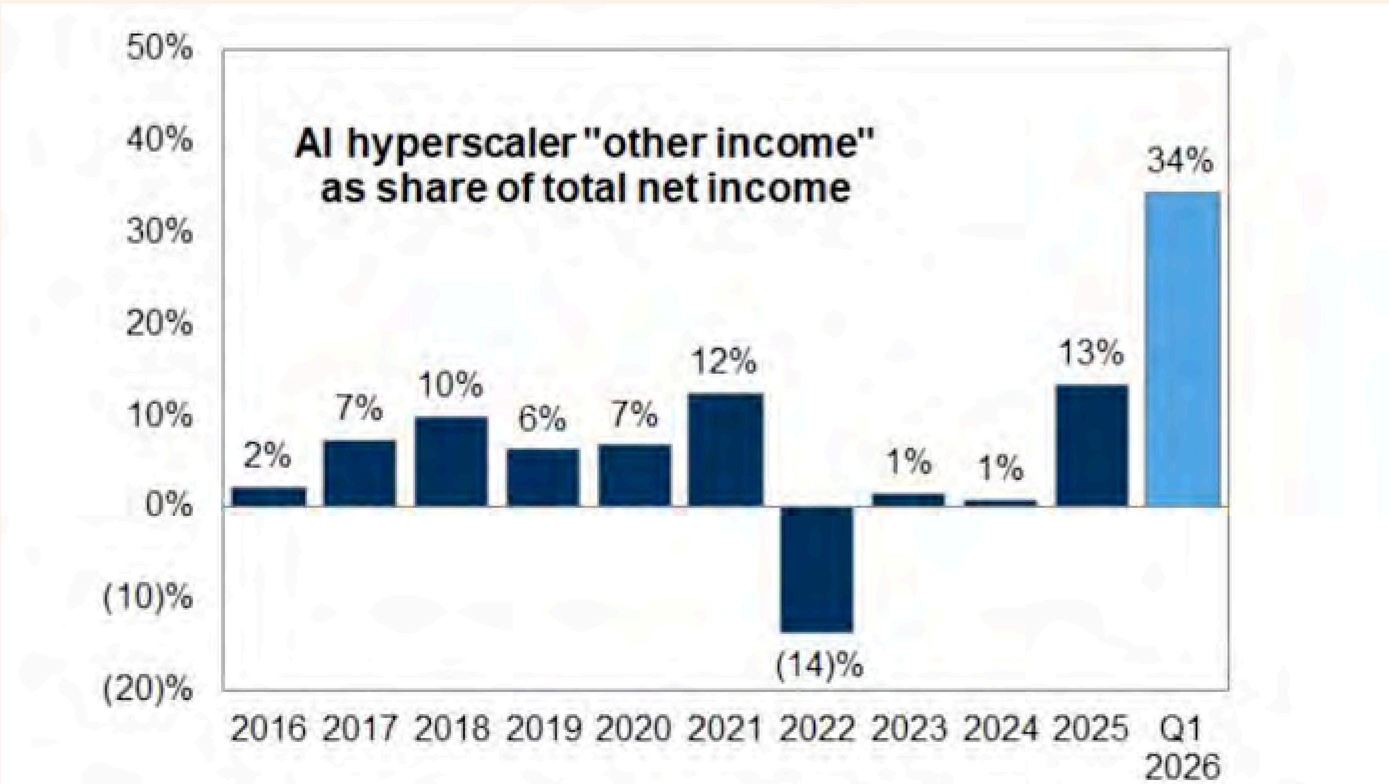
FT PROFESSIONAL

Alphaville Technology sector

The mysterious $53bn ‘other income’ boost to AI hyperscaler earnings

Quantum entanglement



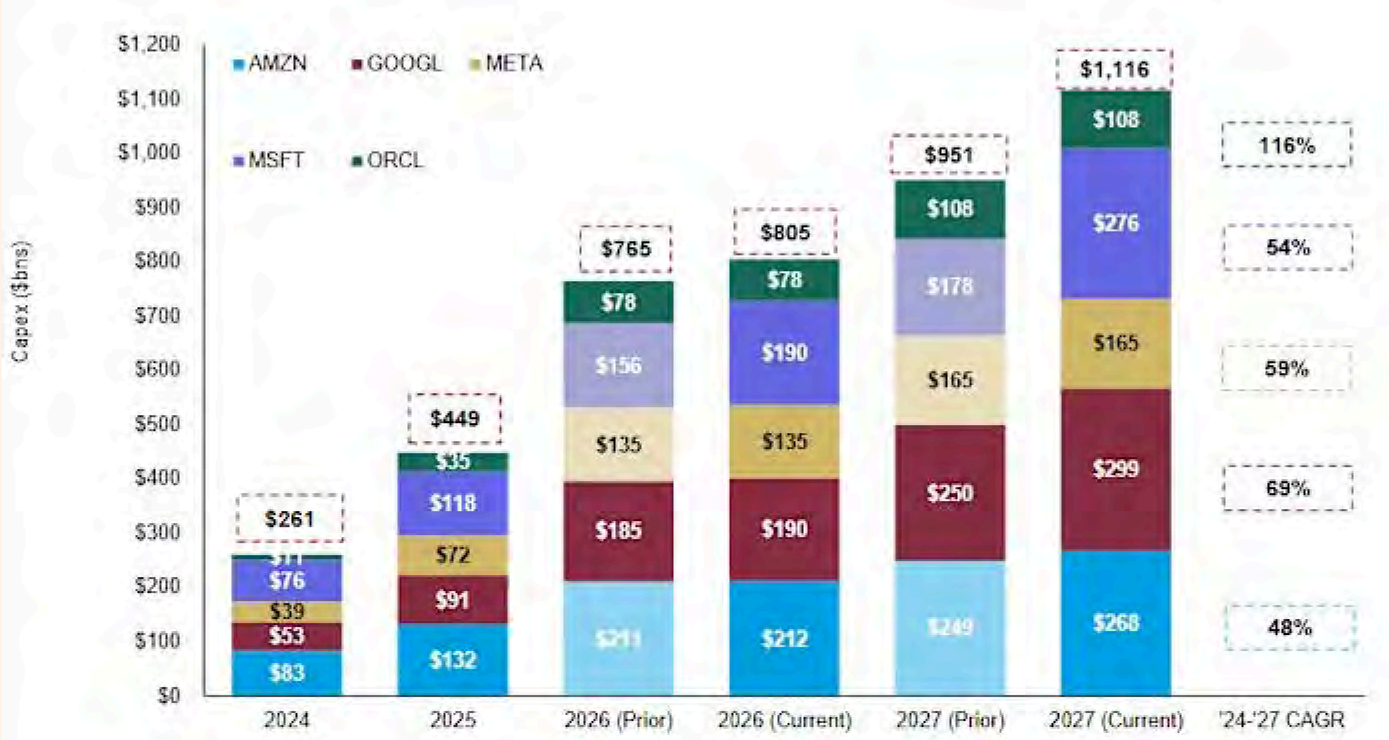
© Goldman Sachs

Robin Wigglesworth

Published 5 HOURS AGO

The AI “hyperscalers” reported bumper earnings for the first quarter, with both sales and profits beating expectations. But if you look more closely at the P&L, some of them had a *lot* of help from an interesting line item.

Most of the attention has naturally fastened on to another slew of engorged capex forecasts from Alphabet, Amazon, Microsoft, Meta and Oracle. Morgan Stanley now expects them to spend over $800bn in 2026 — and circa $1.1tn in 2027.



Even in these days, that is serious money. Perhaps not 19th century railways-serious, but possibly enough to ensure that the US is going to be one of the few major economies to enjoy decent growth this year, despite . . . events.

However, Alphaville was mainly curious about the “other income” parts of their earnings reports, which in several cases had a meaningful impact. And by meaningful, we mean YUGE.

Alphabet, for example, booked $37.7bn of “other income” in just the first three months of the year, accounting for **over half** the company’s net income over the period.

Alphabet Inc.
CONSOLIDATED STATEMENTS OF INCOME
(In millions, except per share amounts, unaudited)

	Quarter Ended March 31,	
	2025	**2026**
Revenues	$ 90,234	$ 109,896
Costs and expenses:		
Cost of revenues	36,361	41,271
Research and development	13,556	17,032
Sales and marketing	6,172	7,606
General and administrative	3,539	4,291
Total costs and expenses	59,628	70,200
Income from operations	30,606	39,696
Other income (expense), net	11,183	37,716
Income before income taxes	41,789	77,412
Provision for income taxes	7,249	14,834
Net income	$ 34,540	$ 62,578
Basic net income per share	$ 2.84	$ 5.17
Diluted net income per share	$ 2.81	$ 5.11
Number of shares used in basic net income per share calculation	12,183	12,099
Number of shares used in diluted net income per share calculation	12,291	12,238

Amazon reported “other income” of nearly $16bn in the first quarter, up from $2.7bn in the same period last year. That was nearly half its overall net income for the three months.

	Three Months Ended March 31,	
	2025	2026
Net product sales	$ 63,970	$ 71,304
Net service sales	91,697	110,215
Total net sales	155,667	181,519
Operating expenses:		
Cost of sales	76,976	87,463
Fulfillment	24,593	27,289
Technology and infrastructure	22,994	29,567
Sales and marketing	9,763	10,314
General and administrative	2,628	2,587
Other operating expense (income), net	308	447
Total operating expenses	137,262	157,667
Operating income	18,405	23,852
Interest income	1,066	1,135
Interest expense	(541)	(800)
Other income (expense), net	2,749	15,647
Total non-operating income	3,274	15,982
Income before income taxes	21,679	39,834
Provision for income taxes	(4,553)	(9,560)
Equity-method investment activity, net of tax	1	(19)
Net income	$ 17,127	$ 30,255
Basic earnings per share	$ 1.62	$ 2.82
Diluted earnings per share	$ 1.59	$ 2.78
Weighted-average shares used in computation of earnings per share:		
Basic	10,603	10,743
Diluted	10,793	10,874

Microsoft reported “only” $942mn of other income in the first three months of the year, but this line item has now made $7.2bn over the past nine months.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

INCOME STATEMENTS

(In millions, except per share amounts) (Unaudited)	Three Months Ended March 31, 2026	Three Months Ended March 31, 2025	Nine Months Ended March 31, 2026	Nine Months Ended March 31, 2025
Revenue:				
Product	$ 15,089	$ 15,319	$ 47,462	$ 46,810
Service and other	67,797	54,747	194,370	158,473
Total revenue	82,886	70,066	241,832	205,283
Cost of revenue:				
Product	2,733	3,037	9,160	10,187
Service and other	24,095	18,882	67,689	53,630
Total cost of revenue	26,828	21,919	76,849	63,817
Gross margin	56,058	48,147	164,983	141,466
Research and development	8,915	8,198	25,565	23,659
Sales and marketing	6,814	6,212	19,115	18,369
General and administrative	1,931	1,737	5,669	5,233
Operating income	38,398	32,000	114,634	94,205
Other income (expense), net	942	(623)	7,253	(3,194)
Income before income taxes	39,340	31,377	121,887	91,011
Provision for income taxes	7,562	5,553	23,904	16,412
Net income	$ 31,778	$ 25,824	$ 97,983	$ 74,599
Earnings per share:				
Basic	$ 4.28	$ 3.47	$ 13.19	$ 10.03
Diluted	$ 4.27	$ 3.46	$ 13.14	$ 9.99
Weighted average shares outstanding:				
Basic	7,426	7,434	7,430	7,434
Diluted	7,445	7,461	7,457	7,466

Refer to accompanying notes.

Meanwhile, Oracle doesn’t have any reported other income, and Meta actually reported a $1.1bn loss in this column.

Accounting nerds and other clever readers will probably have guessed from the pattern what constitutes “other income” in this case: the ebb and (mostly) flow in the valuations of their sizeable private investments in companies like OpenAI and Anthropic.

Alphabet is the biggest investor in Anthropic, and Amazon is one of the biggest. Thanks to their slugs of money, Anthropic’s valuation has vaulted from $183bn in September to $380bn today, according to PitchBook (and there’s another mammoth funding round in the works right now). This has then allowed Alphabet and Amazon to mark up the value of their existing stakes.

As Goldman Sachs analysts said in a note last week:

> “

> **The hyperscalers’ earnings growth this quarter was boosted by an unusually large contribution from equity stakes in private companies.** Alphabet and Amazon generated “other income” totalling $53 billion in Q1 2026, which accounted for nearly 60% of those two companies’ income in Q1 and 34% of the total $155 billion in income this quarter across the five largest hyperscalers. This represents the group’s largest collective share of earnings attributable to “other income” in at least a decade. Of this $53 billion in “other income,” $49 billion was explicitly due to equity stakes in private companies.

This is another sign of just how comically codependent the AI tech industry has become.

Not only have private investments and increasingly engorged funding rounds become a meaningful driver of the hyperscalers’ aggregate earnings, but the money the hyperscalers have pumped into the likes of Anthropic and OpenAI has allowed the AI companies to sign huge computing deals with Alphabet’s Google Cloud, Microsoft’s Azure and Amazon Web Services.

In fact, The Information has crunched the numbers, and OpenAI and Anthropic now make up about half of the entire cloud computing order books at Oracle, Alphabet, Amazon and Microsoft.

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Or in FT Alphaville terms:

Further reading:

— Charting the OpenAI ‘ecosystem’ (FTAV)

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Top Trump Aide Says Administration Won’t Pick Winners in AI Race

May 6, 2026, 7:59 PM PDT

Summary by Bloomberg AI

AI Generated

- White House Chief of Staff Susie Wiles said the US government would refrain from choosing winners and losers in artificial intelligence.
- Wiles stated that the administration's goal is to ensure the best and safest tech is deployed rapidly to defeat any and all threats.
- The administration is considering a review process for new AI models, with National Economic Council director Kevin Hassett likening it to a pharmaceutical review.

White House Chief of Staff Susie Wiles said the US government would refrain from choosing winners and losers in artificial intelligence, the latest signal from a top aide to President Donald Trump as his administration prepares new AI policy directives.

Wiles issued the statement Wednesday from her new account on X, as questions swirl about whether the administration will seek to screen new models and if it will deescalate its feud with Anthropic PBC .

“When it comes to AI and cyber security, President Trump and his administration are not in the business of picking winners and losers,” Wiles wrote. “This administration has one goal; ensure the best and safest tech is deployed rapidly to defeat any and all threats.”

Susie Wiles

Photographer: Francis Chung/Politico/Bloomberg

She added that the administration "will continue to lead an America First effort that empowers America's great innovators, not bureaucracy, to drive safe deployment of powerful technologies while keeping America safe."

Wiles, who has taken a lead role in crafting the latest round of AI policy, offered no specifics about the scope or timing of any directive.

The White House did not immediately respond to questions about the post or offer any elaboration late Wednesday.

Yet the statement appeared to downplay the chance that the administration would step in to try and directly scrutinize new models.

Why Anthropic's Mythos Is Sparking Global Alarm : Explainer

The Wall Street Journal reported earlier in the week that the administration was considering some type of procedure.

National Economic Council director Kevin Hassett said earlier on Wednesday that the administration was studying an order to set some sort of review process, likening it to a pharmaceutical review.

It would spell out how future models "that also potentially create vulnerabilities should go through a process so that they're released to the wild after they've been proven safe, just like an FDA drug," Hassett said in an interview with Fox Business.

He added that it was "really quite likely" that any testing spelled out under the order would ultimately extend to all AI companies.

On Tuesday, the Commerce Department announced the expansion of a voluntary program to test AI models before their release. Alphabet Inc.'s Google, Microsoft Corp. and xAI have agreed to give the US government access to their models to assess the systems' capabilities and help improve security. OpenAI and Anthropic were already part of the initiative, led by the department's Center for AI Standards and Innovation.

Read More: AI Super PACs Are Improperly Hiding Payments, FEC Complaint Says

The Pentagon deemed Anthropic and its products a supply chain risk earlier this year. The development of the company's Mythos model has fueled fresh concerns; Anthropic has so far declined to publicly release it.

The search for an end to the standoff between the government and Anthropic has accelerated following the company's announcement that Mythos could pose a global cybersecurity risk.

Mythos, said to be able to both detect and exploit software vulnerabilities, has not been widely released. Anthropic deemed it to be too dangerous for wide release and has instead let a limited group of companies begin testing it on their own systems.

--With assistance from **Maggie Eastland**.

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John Harney

Shake Shack misses quarterly estimates as fast food demand weakens, shares drop 30%

reuters.com/business/shake-shack-swings-quarterly-loss-names-new-cfo-shares-fall-20-2026-05-07

Sanskriti Shekhar May 7, 2026

Shake Shack stumbles as fast-food demand softens; shares plunge
An order is seen at the Shake Shack at the Woodbury Common Premium Outlets in Central Valley, New York, U.S., February 15, 2022. REUTERS/Andrew Kelly/File Photo Purchase Licensing Rights, opens new tab

May 7 (Reuters) - Shake Shack (SHAK.N), opens new tab shares tumbled 30% on Thursday, and were heading for their worst day ever after the burger chain swung to a quarterly loss, hit by higher beef costs and weak consumer spending.
The company also named Michelle Hook as its new CFO, effective May 11.

- Shares of the fast food chain operator were down as much as 30.4% at $67.21, their lowest since January 2024.
- Several other fast food chains including McDonald's (MCD.N), opens new tab, Domino's (DPZ.O), opens new tab and Papa John's (PZZA.O), opens new tab have reported weaker quarterly sales growth, signaling pressure on customer spending from rising gasoline prices driven by the Iran war.
- Shake Shack executives said on a post-earnings call that the company's short-term results have been and will continue to be impacted by the ongoing war in the Middle East.
- "We are seeing broader signs of consumer strain across restaurants, and it will be important to watch how the company navigates elevated beef costs going forward," said Michael Gunther, SVP at Consumer Edge.
- Hook, former CFO of Portillo's, replaces Katherine Fogertey as Shake Shack's CFO. Fogertey stepped down from the role in early March.
- The leadership change comes as Shake Shack reported a quarterly loss per share of 1 cent, compared with a profit of 11 cents a year ago.
- The burger chain reported adjusted profit of $ 0.002 per share, missing estimates of 12 cents per share.
- Shake Shack posted first-quarter revenue rose 14.3% to $366.7 million, but missed analysts' estimate of $371.9 million, according to data compiled by LSEG.

Our Standards: The Thomson Reuters Trust Principles., opens new tab

Papa John's misses quarterly results estimates as living costs soar

reuters.com/business/retail-consumer/papa-johns-misses-quarterly-results-estimates-living-costs-soar-2026-05-07

Reuters May 7, 2026

Papa Johns logo appears in this illustration taken August 25, 2025. REUTERS/Dado Ruvic/Illustration/File Photo Purchase Licensing Rights, opens new tab

(PZZA.O), opens new tab missed expectations for first-quarter revenue and profit on Thursday as the pizza chain failed to draw diners, especially in its U.S. market, at a time when consumers struggle with high living costs.
Shares of the company fell about 4% in premarket trading.
including McDonald's (MCD.N), opens new tab and Domino's (DPZ.O), opens new tab reported weaker quarterly sales growth, citing a hit to customer spending from soaring gasoline prices driven by the Iran war.

- North America comparable sales, which include franchise and company-owned restaurants open for at least a year, fell 6.4% for the third consecutive quarter.
- The company is navigating a cautious consumer environment and promotional quick-service restaurant marketplace, CEO Todd Penegor said.
- Quarterly revenue fell 7.7% to $478.6 million, compared with analysts' average estimate of $485.7 million, according to data compiled by LSEG.
- The company reported adjusted earnings of 32 cents per share, compared with analysts' estimate of 35 cents per share.
- It also reiterated its annual forecasts.
- The results come amid Irth Capital's offer to pay $47 a share to buy Papa John's International in March, valuing the pizza chain at $1.5 billion, in a second attempt after it tried to buy the pizza chain alongside Apollo Global Management

Reporting by Krisha Bhatt in Bengaluru; Editing by Pooja Desai

Our Standards:

Ann M. Lipton @annmlipton.bsky.social · 31m

God the S-1 will be awesome

> **Techmeme** @techmeme.com · 32m
>
> Elon Musk says SpaceX reserves "the right to reclaim the compute" from Anthropic if its "AI engages in actions that harm humanity" (Elon Musk/@elonmusk)
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Leah Bobeah @leahleahbobeah.bsky.social · 3h

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Unearthed reports reveal that RFK Jr. fired every full-time CDC cruise ship sanitation inspector ahead of the Hantavirus cruise ship outbreak.

#ImpeachRFK

www.cbsnews.com/news/cdc-cru...

CDC's cruise ship inspectors laid off amid bad year for outbreaks

The steep cuts to the cruise ship inspection team baffled officials in the program, which is not paid for by taxpayer dollars.

Bloomberg Law

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Securities

SpaceX Financials Flagged as Concern to SEC by Advocacy Group

May 6, 2026, 7:00 AM PDT

SOC Investment Group, an adviser to union-affiliated pension funds, is urging US regulators to probe SpaceX's financials ahead of a Wall Street debut that could value the company at more than $2 trillion, citing concerns over its relationships with Elon Musk's other ventures.

In a letter to the US Securities and Exchange Commission dated May 6, the Washington, D.C.-based group asked the agency to review SpaceX's financial disclosures for accuracy and reliability, and make sure the rocket manufacturer's auditor remains independent. SOC Investment Group also urged the SEC to scrutinize the accounting of SpaceX's transactions with other Musk companies, including xAI and Tesla Inc.

"We are specifically concerned that SpaceX's IPO will expose numerous investors — many unwillingly – to a company whose value may decline once its financial disclosures can be independently assessed and verified," the letter said.

SOC Investment Group is not a SpaceX shareholder. The group has previously taken on Tesla to ensure corporate responsibility, as well as other high-profile companies, with some success. In 2022, for example, JPMorgan Chase & Co. agreed to a third-party audit of its $30 billion racial-equity commitment after the group took up the matter.

SOC Investment Group's letter follows a similar request from the American Federation of Teachers, urging the SEC to closely review SpaceX's targeted valuation, accounting practices and governance, as several board members are close Musk allies.

Representatives for SpaceX did not immediately respond to a request for comment.

SpaceX is preparing to go public in less than two months in what may be the biggest IPO of all time. The company's upcoming public offering has drawn attention to how Musk's firms have long been intertwined through financial investments, business agreements and shared personnel.

SpaceX merged with xAI earlier this year. XAI previously bought Musk's social network, X. Meanwhile, Tesla, the only Musk company that's publicly traded, has sold Cybertrucks to SpaceX and xAI, as well as Megapack energy storage batteries to the AI startup.

Soros, Musk, Yass Lead $4.7 Billion Fight for Future of Politics

May 7, 2026, 3:15 AM PDT

Summary by Bloomberg AI

AI Generated

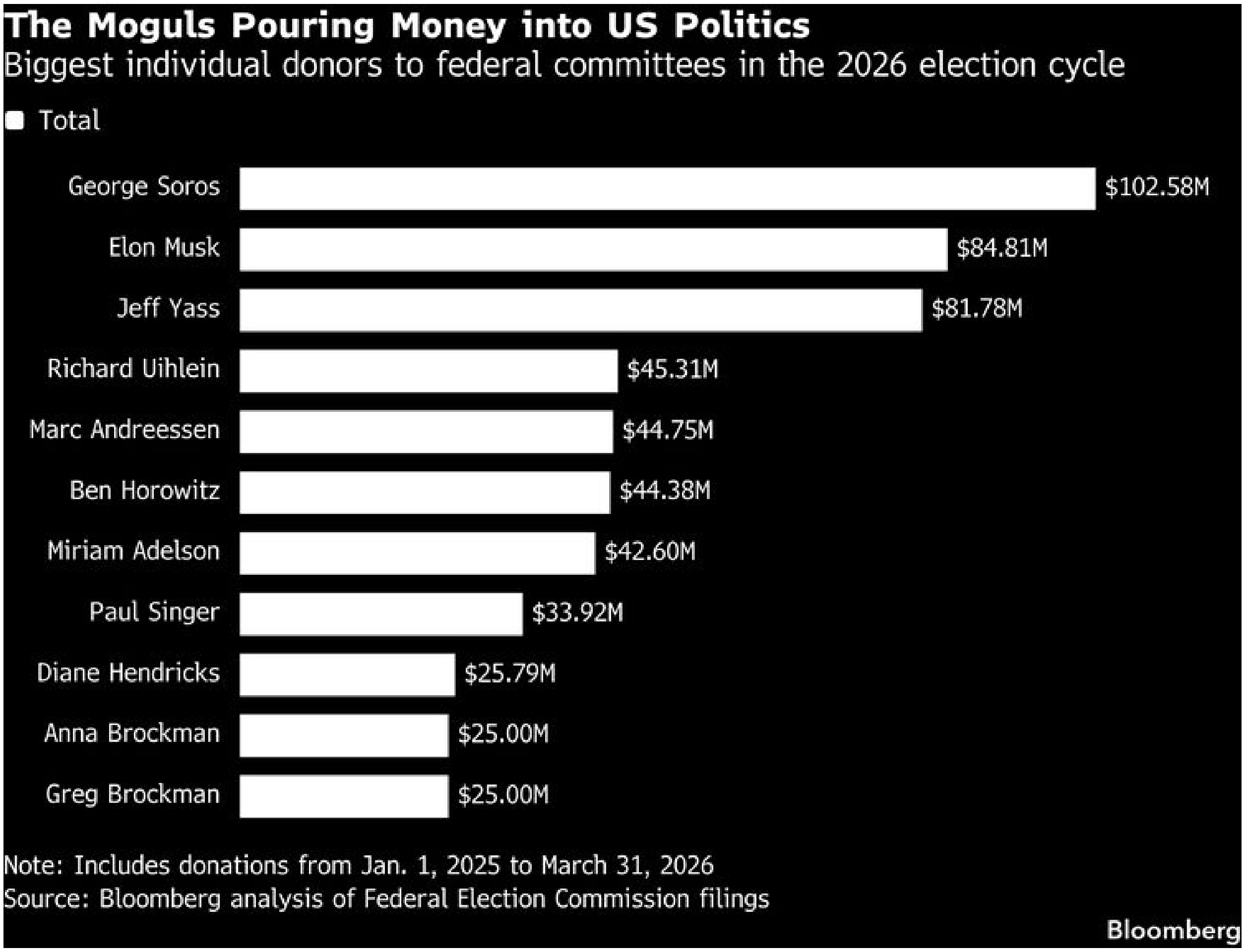
- Jeff Yass has given more than $80 million to midterm candidates and causes, making him one of the biggest individual donors of the cycle.
- Yass' donations include $15 million to the pro-school-choice School Freedom Fund and $20 million to a federal PAC supporting Ohio Governor candidate Vivek Ramaswamy.
- The 2026 midterm election cycle is shaping up to be the most expensive in history, with federal political committees already raking in more than $4.7 billion from individuals, companies, and other groups.

Jeff Yass , the billionaire founder of market-making firm Susquehanna International Group, has been busy this election season, giving more than $80 million so far to midterm candidates and causes.

The donations put him behind only George Soros and Elon Musk as the biggest individual donor of the cycle, according to data compiled by Bloomberg News. While Soros and Musk gave primarily to their own super political action committees, Yass is one of the biggest donors to President Donald Trump 's MAGA Inc. and has directly supported a wide variety of other recipients. These range from his favorite causes — $15 million to the pro-school-choice School Freedom Fund — to individual candidates, including $20 million to a federal PAC supporting Ohio Governor candidate Vivek Ramaswamy .

There have also been donations to more unusual causes, including $675,000 to Aurora Action Network, which supports repealing ranked-choice voting in Alaska – a long way from Yass' home state of Pennsylvania. Yass didn't respond to requests for comment.

Yass, who has a net worth of $83.8 billion, according to the Bloomberg Billionaires Index , is just one player in what's shaping up to be the most expensive midterm election cycle in history, according to an analysis of the biggest donors to date. Federal political committees have already raked in more than $4.7 billion in the current cycle from individuals, companies, dark money organizations and other groups, Bloomberg's analysis shows — and that doesn't include donations at the state or local level. AdImpact expects political ad spending alone to reach $10.8 billion, up more than 20% from 2022.



So far, much of that money is pouring into Republican coffers: The GOP, its allied House and Senate super PACs, along with Trump's political committees and MAGA Inc., amassed $917 million through the first quarter. That's three-and-a-half times the $262 million collectively held by the Democratic National Committee and its Senate and House committees and super PACs in the same period — although collectively, Democratic campaigns are outraising their Republican rivals.

That's just the money that can be traced. Dark money — when donors route their contributions through nonprofits that don't have to disclose where the funds came from — has made up a growing share of political giving in recent elections, and 2026 is expected to continue that trend.

It's all part of a mega-struggle to determine control of Congress and shape the final two years of Trump's presidency. But for the ultra-wealthy donors giving large quantities of money, there are other — but, to them, no less important — issues at stake, such as whether California implements a billionaires tax. Or how artificial intelligence and cryptocurrencies will be regulated. And how state-level races play out.

Google co-founder Sergey Brin has spent more than $60 million over the last four months in California, mostly opposing the proposed wealth tax. Ripple co-founder Chris Larsen has also spent millions fighting the proposed billionaires tax as well donating to groups looking to shape California politics , while his company gave $48.5 million to pro-crypto PAC Fairshake. And billionaire Illinois Governor JB Pritzker , a potential 2028 presidential candidate, gave $10 million to a PAC supporting his Lieutenant Governor Juliana Stratton , who won the state's Democratic nomination for a Senate seat.

With several important primaries on the calendar for May and June, including the fight for Mitch McConnell's Senate seat in Kentucky and a highly contested governor's race in California, the biggest period for fundraising is still ahead. And with some mega-donors from previous elections yet to emerge, it's likely other names will appear among the ranks of top donors as the Nov. 3 vote approaches.

Citadel's Ken Griffin , for example, was one of the biggest contributors in 2022 and 2018 but has so far kept a low profile this midterm cycle. He's given primarily to committees supporting Republicans at the state level in Florida, where he relocated his family and business four years ago.

Here are the top donors to federal political committees so far this midterm cycle. The individuals listed either didn't respond or declined to comment.

Photo Illustration by 731; Source: Getty Images
Photo Illustration: 731; Source: Getty Images
George Soros

Total amount given: $102.6 million
Top donations: $102 million to Democracy PAC; $265,500 to the Democratic Senatorial Campaign Committee; $250,000 to the Democratic Congressional Campaign Committee.

Why it matters: Soros, 95, has a long history of political activism and funding progressive causes, using a mix of foundations, political action committees and nonprofit groups allied with Democratic and liberal causes. The Democracy PAC he founded, which is run by his son Alex , has funneled money to the Working Families Party as well as progressive candidates in local district attorney races, while the 501(c)(4) group Fund for Policy Reform that he solely funds sent $10 million to the redistricting battle in California.

Photo illustration: 731; Source: Bloomberg

Elon Musk

Total amount given: $84.8 million

Top donations: $50 million to America PAC; $10 million to Fight for Kentucky PAC; $10 million each to Senate Leadership Fund and Congressional Leadership Fund.

Why it matters: The Tesla Inc. and SpaceX co-founder went all in on Trump 2.0 and seems poised to stay engaged, even though his relationship with the president has been fraught at times. He has an independent streak, giving most of his money to his own America PAC, though he's also made some big donations to the main PACs seeking to elect Republicans in the House and Senate. One reason for Musk, 54, to stay in the game is to help his ally JD Vance run for president in 2028. As a first step, he helped Nate Morris , who's also aligned with the vice president, in his Republican primary run for Mitch McConnell 's Senate seat in Kentucky; however, Morris withdrew from the race last week.

Photo illustration: 731; Photographer: Eddie Malluk
Jeff Yass

Total amount given: $81.8 million
Top donations: $20 million to V-PAC, which supports Ohio gubernatorial candidate Vivek Ramaswamy ; $16 million to MAGA Inc.; $15 million to the School Freedom Fund.

Why it matters: The founder of trading firm Susquehanna International Group is one of the largest individual donors to MAGA Inc., Trump's massive treasure chest. Yass' business interests overlap with the president's agenda: Trump last year reversed a ban on TikTok in the US, while Yass and Susquehanna own a stake in ByteDance, the social media platform's parent. Yass, 67, prefers to dwell on his support of PACs and candidates focused on school choice. "I have come across what I think is a great way to relieve the suffering of tens of millions of kids," he told the Washington Post.

Photo Illustration: 731; Source: Getty Images

Greg and Anna Brockman

Total amount given: $50 million ($25 million each)

Top donations: $25 million to Leading the Future and $25 million to MAGA Inc.

Why it matters: The co-founder of OpenAI and his wife Anna are among the largest contributors to Trump's super PAC, and have also given to AI-focused Leading the Future PAC. In November, Trump invited the Brockmans to join a dinner with Crown Prince Mohammed bin Salman of Saudi Arabia. Brockman, 38, is expected to ramp up his support of Leading the Future this year, saying shifts in public opinion have made supporting pro-AI candidates critical to the future of humanity.

Richard Uihlein

Total amount given: $45.3 million
Top donations: $39.6 million to Restoration of America PAC; $4 million to Fair Courts America; $1 million to Northwoods Future PAC, which is supporting Michael Alfonso, Transportation Secretary Sean Duffy 's son-in-law, in his race for a Wisconsin House seat.

Why it matters: An heir to the Schlitz brewing fortune and a conservative hardliner, Uihlein, 80, is co-founder of business supply company Uline. He's the primary funder of the Restoration of America PAC, which focuses on election integrity, a strong military, pro-life policies and electing conservative candidates. He's also looking to loosen regulations on long-haul truck drivers that he has deemed burdensome to the trucking industry.

Photo Illustration: 731; Source: Getty Images

Marc Andreessen

Total amount given: $44.7 million

Top donations: $25 million to Leading the Future; $11.9 million to Fairshake; $6 million to MAGA Inc.

Why it matters: A previously bipartisan donor who supported Barack Obama in 2008, Andreessen, 54, unveiled his support for Trump in July 2024 after splitting with Joe Biden on issues around cryptocurrency and artificial intelligence. The Silicon Valley venture investor has helped shape technology policy at the federal level, holding regular phone calls with Trump. Beyond personally donating to Trump's campaign in 2024, Andreessen's firm is funding two super PACs: crypto-focused Fairshake and AI-related Leading the Future.

Photo illustration: 731; Source: Getty Images
Ben Horowitz

Total amount given: $44.4 million
Top donations: $25 million to Leading the Future; $11.9 million to Fairshake; $6 million to MAGA Inc.

Why it matters: Horowitz played both sides in the 2024 presidential election after he and partner Marc Andreessen endorsed Trump over his tech policies. It was a break for the traditionally Democratic-leaning donor, though he still supported Kamala Harris as a friend when she entered the race. Since then, Horowitz, 59, has remained largely issue-focused, directing most donations this cycle to AI and crypto-focused PACs, along with a multimillion dollar gift to MAGA Inc. and a six-figure donation to the Senate Leadership Fund PAC.

Photo illustration: 731; Source: Getty Images
Miriam Adelson

Total amount given: $42.6 million
Top donations: $30 million to the Senate Leadership Fund; $10 million to the Congressional Leadership Fund; $1 million to Security is Strength PAC, which backs South Carolina Senator Lindsey Graham.

Why it matters: The 80-year-old Israeli-American doctor and her late husband, casino magnate Sheldon Adelson , have been big Trump backers, including $95 million from Miriam Adelson in 2024. They've helped influence some of the president's policies toward Israel, such as moving the US embassy to Jerusalem.

Photo illustration: 731; Source: Getty Images
Paul Singer

Total amount given: $33.9 million
Top donations: $14.5 million to Senate Leadership Fund; $8 million to Congressional Leadership Fund; $2.5 million to United Democracy Project (affiliated with pro-Israel lobby AIPAC).

Why it matters: While initially resistant to Trump — he backed Nikki Haley in the 2024 Republican primary — the activist money manager has aligned with Trump 2.0, particularly over the administration's support for Israel, aggressive stance toward Iran and efforts to root out antisemitism at universities. Singer, 81, is funding PACs in key House races, including two organizations looking to oust Thomas Massie of Kentucky, a Republican who has drawn Trump's ire for, among other things, supporting the release of the Jeffrey Epstein files and voting against aid to Israel in 2023.

Photo illustration: 731; Source: Getty Images
Diane Hendricks

Total amount given: $25.8 million
Top donations: $25 million to MAGA Inc.; $413,000 to the Republican National Committee; $182,000 to Defend Our Majority, which supports GOP House candidates.

Why it matters: The richest woman in Wisconsin, Hendricks, 79, is the co-founder of building products distributor ABC Supply and a conservative donor to Republican candidates. In 2016, she supported then-Wisconsin Governor Scott Walker 's presidential bid before backing Trump. In his first term, Trump appointed her to his economic policy council. This year, she was part of the presidential delegation for the closing ceremony of the Winter Olympics.

Methodology:
Bloomberg News collected records from the Federal Election Commission of contributions made by individuals and organizations to party and political action committees of $10,000 or more from Jan. 1, 2025 through March 31, 2026. We standardized donor names to compile a list of the top contributors, which included individuals, corporations, dark money groups, trade associations, unions, state-level political committees and American Indian tribal organizations. Where committees attributed a donation from a partnership to its individual members, we followed the guidance. We also researched larger donations from organizations to try to determine if an individual was the actual source of the funds. To avoid double counting some donations, we excluded money transferred from joint fundraising committees to their beneficiaries.

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Securities

Trump Family-Linked Bitcoin Miner Has Another Quarterly Loss (1)

May 6, 2026, 2:32 PM PDT

American Bitcoin Corp., the Trump family-backed miner launched last year just before the largest digital asset plunged from record highs, posted a second consecutive quarterly loss after a drop in the value of its holdings.

The net lost was $82 million in the first quarter, compared with $59 million in the three-months ended Dec. 31, the Miami-based company said in a statement Wednesday. Revenue declined about 20% to $62 million, reflecting lower average revenue per Bitcoin mined.

American Bitcoin has been one of the few public companies that stay sorely focused on minting the token amid an industry-wide pivot to be the infrastructure providers to support artificial intelligence firms. After debuting with much fanfare on the Nasdaq in September, the common shares have tumbled almost 90% from their peak to around $1.25. The stock was down about 1% in after-hours trading.

“Growing our holdings is what matters,” Eric Trump, chief strategy officer at American Bitcoin, said during a conference call. “We also continue to add to our reserve through disciplined Treasury purchases.” The company accumulated about 1,600 Bitcoin, roughly a 30% increase in its holdings, in the first quarter.

Eric Trump, co-founder and chief strategy officer of American Bitcoin, speaks during the Bitcoin 2026 conference in Las Vegas on April 29, 2026.
Photographer: Ian Maule/Bloomberg

Eric Trump and **Donald Trump Jr.** both hold stakes in the company. Hut 8 Corp., its former parent, spun off the mining unit and started its pivot to building infrastructure for artificial intelligence applications earlier this year. The transaction had triggered allegations of conflicts of interest from critics when shares of the venture surged after the agreement was announced. The Trumps have said there are no conflicts.

Bitcoin mining has evolved from a cottage industry to a multi-billion dollar sector as the token price soared over the last several years. Public companies have raised tens of billions of dollars to build out data centers, purchase expensive specialized computers and secure large amounts of energy to support the operations. Those companies were among the earliest supporters for Donald Trump during his most recent presidential campaign.

The largest Bitcoin mining machine maker is Beijing-based Bitmain, which is also a major supplier for American Bitcoin, posing potential conflict of interests between the Trump family members and the Chinese company. The president and his family have said there are no conflicts.

(Adds comment from Eric Trump.)

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Alto Says Investors Use Hindsight In Suit Over Drug Trial

By **Katryna Perera**

Law360 (May 6, 2026, 4:45 PM EDT) -- Alto Neuroscience has urged a California federal judge to toss an investor suit alleging the psychiatric biotech company and its top brass overstated the efficacy of their lead drug candidate for treating major depressive disorder, saying the suit is a "classic case of trying to plead fraud by hindsight."

Alto filed a dismissal **motion** on Tuesday against the plaintiffs' second amended complaint, which was lodged last month. The proposed class action alleges the company and its officers and directors issued false and misleading statements about Alto's leading drug candidate, Alto-100, from the time of Alto's $120 million initial public offering in February 2024. Alto's top brass are also facing a **parallel derivative suit**.

According to the class action, Alto overstated the drug's commercial prospects and its efficacy in treating mood disorders and misled investors about its Phase 2b clinical trial by failing to disclose that several features of the trial design and execution increased the risk of patient noncompliance and trial failure.

Following the Phase 2b clinical trial, it was revealed that the trial had been negatively affected by a large number of patients who lied about taking the drug, and that Alto-100 did not test well relative to a placebo, according to investors.

However, on Tuesday, Alto argued that all of the investors' claims are based on hindsight because there are no allegations that Alto executives believed at the time that the trial's features created a heightened risk of noncompliance or trial failure.

"Plaintiffs strain to mask this glaring failure by repeating, over and over, that Alto's executives internally expressed 'serious concerns' about Alto's ability to enroll 'qualified' patients. This, presumably, is meant to suggest that Alto's executives knew of a heightened risk that Alto was enrolling patients who would lie about taking the drug," the motion states. "This mantra, repeated throughout the SAC, finds no support in its factual allegations."

According to the motion, the claim that Alto executives expressed "serious concern" about the company's ability to enroll "qualified" patients for the trial is entirely based on amended comments from former Alto employees.

"In fact, none of these former employees said anything about enrolling 'qualified' patients at all," the motion states. "Plaintiffs' counsel just appended the word 'qualified' in an effort to link the former employees' vague comments about 'enrollment' at one trial site to Alto's post-class period statements about patient compliance."

The operative complaint also fails to allege that any of the undisclosed trial features had any effect on patient compliance or the trial's ability to meet its primary endpoint, according to Alto.

"For example, plaintiffs assert that Alto's executives expressed concerns about remote trial sites used in the Phase 2b trial, but they allege no facts explaining what those concerns were, and they certainly do not allege facts suggesting that those concerns had anything to do with enrolling 'qualified' patients or with compliance," the motion states.

The plaintiffs also do not adequately allege that Alto failed to "verify" patient medical records or that Alto's decision to compensate patients for participation in the trial created a heightened risk of noncompliance or trial failure, the motion states.

According to the motion, after the Phase 2b trial, Alto made changes to its other clinical trials to mitigate the risk of patient noncompliance going forward.

"But this was all based on 'lessons learned' through its post-class period analysis of the Phase 2b data and the results of some high-profile studies announced by other biotech companies around the same time, which also observed a surprising level of patient noncompliance," the motion states. "These post-class period changes do not suggest that Alto or its executives were aware of (but concealed) a risk of patient noncompliance when the challenged statements were made."

The Alto defendants argue that the plaintiffs have had three opportunities to plead their claims and have yet to come close to pleading a viable securities claim, and therefore, dismissal with prejudice is warranted.

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

The investors are represented by Lawrence M. Rolnick, Marc B. Kramer and Nicole T. Castiglione of Rolnick Kramer Sadighi LLP and by Omar Jafri, Christopher P.T. Tourek, Jaime D. Nolasco Esquivel and Jennifer Pafiti of Pomerantz LLP.

Alto and the individual defendants are represented by Patrick E. Gibbs, Brett H. De Jarnette, Anuva V. Ganapathi and Jamie D. Robertson of Cooley LLP.

The case is Feldman v. Alto Neuroscience Inc. et al, case number 5:25-cv-06105, in the U.S. District Court for the Northern District of California.

--Additional reporting by Lauren Berg. Editing by Alex Hubbard.

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Boeing Says Fund's Revised 737 Max Fraud Suit Still Doomed

By **Katryna Perera**

Law360 (May 6, 2026, 9:09 PM EDT) -- Boeing has urged an Illinois federal judge to permanently toss a securities fraud suit accusing the company of misrepresenting the safety of its 737 Max 8 jets after two deadly crashes overseas, reiterating that the Massachusetts-based investment fund cannot pursue claims purportedly assigned to it by a defunct assignor.

Boeing and its former CEO Dennis Muilenburg moved for dismissal on Tuesday of plaintiff Value Recapture Partners LLC's second amended complaint, saying Value Recapture is once again trying to prosecute the action "despite never having purchased or sold a single share of Boeing stock," and that the operative complaint does not cure any of the deficiencies identified by the court when it previously dismissed the suit.

In February, U.S. District Judge Virginia M. Kendall of the Northern District of Illinois **dismissed** the first amended complaint, finding that the asserted securities fraud claims are not freely assignable to Value Recapture based on the U.S. Supreme Court's 1975 decision in Blue Chip Stamps v. Manor Drug Stores and the Fifth Circuit's 1992 ruling in Smith v. Ayres.

Value Recapture never actually purchased or sold a single share of Boeing stock. Rather, two investment funds — Valinor Capital Partners LP and Valinor Capital Partners Offshore Master Fund LP, both managed by Valinor Management LP — bought Boeing stock in about a dozen separate transactions between June 2019 and March 2020. Those now-defunct funds purportedly assigned any claims arising from those purchases to Value Recapture Partners in July 2020, according to court documents.

But Judge Kendall determined that such claims cannot be assigned and therefore, Value Recapture lacks standing.

On Tuesday, Boeing argued that the standing issue remains and that the operative complaint's new allegations are restatements of previous, unsuccessful claims made by Value Recapture.

"VRP insists that these new allegations establish that 'the assignment … had a legitimate business purpose for both [VRP] and the Valinor parties,' and that Valinor will 'aid and support' VRP's pursuit of the securities fraud claims," the **motion** states. "But this court has already considered these contentions and held that they do not establish standing."

"Moreover, VRP's new claim that the assignment was necessary because the funds were winding up is contradicted both by judicially noticeable documents reflecting that the funds continue to exist today and by VRP's new allegations that the funds are party to a cooperation agreement with VRP and remain entitled to 17.5% of any recovery in this litigation," the motion further states.

The suit's claims are also time-barred, according to the motion, since securities fraud claims are subject to a two-year statute of limitations.

"Although the facts purportedly exposing defendants' alleged fraud existed no later than Dec. 16, 2019, VRP waited nearly four years, until Dec. 6, 2023, to file this lawsuit. VRP's claims are therefore untimely," the motion states.

Boeing further argued that even if the court were to reach the merits of the suit's securities fraud claims, they would still fail because Value Recapture fails to plead any actionable false or misleading statements made by the defendants.

Additionally, the suit fails to plead scienter, or knowledge of wrongdoing, since the suit merely relies on allegations "about what 'Boeing' supposedly knew — often related to technical engineering judgments made at an operational level during the 737 Max's development — without alleging what the senior executives actually responsible for the challenged statements knew."

Finally, the suit still fails to plead loss causation, Boeing said Tuesday, because Value Recapture fails to explain how the information revealed through the alleged corrective disclosures relates to, or corrects, any of the challenged statements.

"On each [corrective disclosure] date, there is an obvious alternative explanation for [Boeing's stock price] decline," the motion states.

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

Value Recapture accused Boeing and Muilenburg of making misleading public statements about the 737 Max 8's safety and reliability, regulatory compliance, production rate and production backlog, and the true nature of an automated flight-control software feature that was unique to that line of jets.

Following the two crashes in 2018 and 2019, all 737 Max 8 jets were grounded globally until November 2020. The jets were outfitted with a unique automated feature called the maneuvering characteristics augmentation system, which affected the plane's flight control system. Accident investigators and other official review panels have since determined that the maneuvering system was vulnerable to faulty sensor readings that could inadvertently trigger the system and push the plane into a nosedive.

Over the years, Boeing has been hit with a number of securities fraud suits alleging that it waged a disinformation campaign by reassuring investors and the public that the 737 Max 8 jets were safe, despite knowing and failing to disclose that the jets were flawed and wouldn't easily clear sharp regulatory scrutiny following the two accidents.

Value Recapture raised similar allegations in a consolidated proposed class action, known as In re: Boeing Company Aircraft Securities Litigation, that is **pending** in Illinois federal court.

Boeing, meanwhile, has maintained that it made general statements about its commitments to safety and core values, and repeatedly cautioned investors and the public about the potential duration of the grounding and production stoppages while the 737 Max 8 jets awaited the all-clear from aviation regulators.

Value Recapture is represented by Lawrence M. Rolnick, Marc B. Kramer, Michael J. Hampson and Nicole T. Castiglione of Rolnick Kramer Sadighi LLP and by Jordan A. Finfer of Patzik Frank & Samotny Ltd.

Boeing and Muilenburg are represented by John F. Hartmann, Brenton A. Rogers and Jules H. Cantor of Kirkland & Ellis LLP.

The case is Value Recapture Partners LLC v. the Boeing Co. et al., case number 1:23-cv-16550, in the U.S. District Court for the Northern District of Illinois.

–Additional reporting by Linda Chiem. Editing by Karin Roberts.

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'Do Not Use This Report': J&J Hid Asbestos Test, Jury Told

By **Craig Clough**

Law360 (May 6, 2026, 10:00 PM EDT) -- Johnson & Johnson and a consultant it hired in the 1970s altered the conclusions of tests that found alarming levels of asbestos in the company's talc products before giving different results to the U.S. Food and Drug Administration, a former FDA commissioner told a Los Angeles jury Wednesday.

Dr. David A. Kessler, who was FDA commissioner from 1990 through 1997, continued his testimony from **the day before** as the first witness in a bellwether trial over claims that Johnson & Johnson's talc products caused three women's fatal cancer.

After an FDA-commissioned scientist named Seymour Lewin discovered asbestos in J&J's talc in the early '70s, the company had its longtime testing consultant McCrone & Associates test the same samples, which came back positive for toxic tremolite asbestos fibers, Kessler said.

That report, which was addressed to a J&J scientist and shown to the jury, contained a handwritten note on the front page stating "Do Not Use This Report: Replaced By Another Version," and the second version which substantially reduced the amount of tremolite found was given to the FDA by J&J, Kessler said.

"If you look at this compared to the original magnitude of that trial, it was not in that second [report], so it was removed from the second," Kessler said.

The second version's summary called the samples "substantially free" of asbestos, but acknowledged a "few" tremolite rods were found, Kessler said. The original report found up to 0.5% of the sample contained tremolite, which he said may sound like a "small amount," but actually represents millions of particles of asbestos.

Leigh O'Dell of Beasley Allen Law Firm, representing the husband of one of the late women, told Kessler J&J had sent a letter to the FDA claiming that "no asbestos form structures" was ever found in its talc, and asked if that statement was true.

Kessler said it was not true, based on the McCrone report and several other documents shown the jury on Tuesday when Kessler said he's seen "hundreds" of internal J&J documents in which the company discusses potential asbestos in its talc.

Another internal company document from 1973 that Kessler discussed Wednesday shows the company considered alternatives to talc in its baby power, including cornstarch, that it said would "protect our powder franchise."

"It doesn't say, 'To protect our consumers,' does it?" O'Dell asked. Kessler agreed it did not.

Kessler spent less than two hours on the witness stand Wednesday before the plaintiffs called another witness out of order, and he is expected to continue his testimony at a later date. He has not yet been cross-examined.

Dr. Judith Wolf, a gynecologic oncologist, also testified as an expert for the plaintiffs Wednesday. She told the jury that talc is a risk factor for causing ovarian cancer and discussed several studies that reached the same conclusion.

Those studies included one from 2024 published in the Journal of Clinical Oncology, one from the National Toxicology Program that concluded inhaled talc can cause lung cancer in mice and an International Agency for Research on Cancer study that said there is evidence to support talc is carcinogenic in animals, Wolf said.

Under cross-examination, Wolf said that during decades of seeing patients, she never considered talc to be a risk factor, because when she was getting her medical degree in the 1980s, the doctors training her said asbestos had been removed from talc. It wasn't until she considered working with the plaintiffs and reviewed the medical literature on talc that she concluded it was a risk factor for ovarian cancer, she said.

Mary Owens, Bonnie Tienken and Geneva Williams, the three deceased women at the center of the trial, all used J&J's talc products for feminine hygiene and other purposes for decades because they believed the company's assurances it was safe, the attorneys told the jury during opening statements Monday. Relatives of the women are now representing them.

The trial is the second ovarian cancer bellwether out of hundreds of consolidated cases in Los Angeles Superior Court to go before a jury since J&J last year abandoned its effort to use Chapter 11 bankruptcy to resolve the thousands of talc cases it is facing nationwide. Kessler also **appeared as a witness** in the first ovarian cancer trial.

In the first bellwether trial, a Los Angeles jury hit J&J with a **$40 million verdict**, finding its talc products were a substantial factor in causing two women's ovarian cancer, while declining to award punitive damages. The LA cases are among tens of thousands pending nationwide.

Accusations that talc can cause mesothelioma and ovarian cancer have dogged J&J for years, leading the company to spin off its talc unit into a separate entity and seek bankruptcy protection for it in a so-called Texas two-step maneuver, a request the bankruptcy court rejected three times.

Johnson & Johnson developed baby powder using the mineral talc and started selling it in the United States in 1894. The ingredients were reformulated in 2020 in the United States and in 2023 for international markets, with cornstarch powder replacing talc as the main ingredient.

The hundreds of coordinated Los Angeles cases resulted in at least one trial in 2017; in that case, a Los Angeles jury reached a **$417 million** verdict concluding Johnson & Johnson was liable for a woman's ovarian cancer, only for the judge to overturn the verdict.

In October 2025, a Los Angeles jury hit J&J with a **$966 million** verdict after finding it liable for an 88-year-old woman's death from mesothelioma, although a Los Angeles judge cut the award to **$16 million,** saying the estate's counsel had failed to sufficiently show that the pharmaceutical giant acted maliciously.

The trial is scheduled to resume Thursday.

Plaintiff John Owens is represented by Daniel S. Robinson of Robinson Calcagnie Inc.

Plaintiffs Kimberly J. Hedrick, Eric D. Tienken and Kevin Tienken are represented by Ari S. Friedman of Wisner Baum.

Plaintiff Harold Williams Jr. is represented by Andy Birchfield of Beasley Allen Law Firm and Daniel S. Robinson of Robinson Calcagnie Inc.

J&J and Red River Talc LLC are represented by Shaila Diwan and Julia E. Romano of Kirkland & Ellis LLP.

The individual cases are Mary Owens et al. v. Johnson & Johnson et al., case number CIVDS1618507 Bonnie Tienken et al. v. Johnson & Johnson et al., case number 18CECG01553, Harold Williams Jr. v. Johnson & Johnson et al., case number CIVDS1807370, and the coordinated proceeding is Johnson & Johnson Talcum Powder Cases, case number JCCP4872, all in the Superior Court of the State of California, County of Los Angeles.

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Google Users Say DOJ Win 'Leaves Only Damages For Trial'

By **Bryan Koenig**

Law360 (May 6, 2026, 7:07 PM EDT) -- Consumers want a California federal judge to go straight to trial over the amount of damages Google owes them for illegally monopolizing online search, arguing the company's violation of antitrust law "is now an undisputed fact as a matter of law."

In a motion for partial summary judgment, the consumers ask the Northern District of California to find that the company is unquestionably liable in their private action due to the U.S. Department of Justice's **2024 win** in Washington, D.C., federal court.

In the DOJ case, a federal court in Washington, D.C., held that Google LLC illegally monopolized online search and search advertising by paying billions of dollars in search ad revenue to Apple Inc., Samsung, Mozilla and others to be made the default search engine on their browsers and devices, in effectively exclusive agreements that left rival search engines hopelessly behind.

"Plaintiffs respectfully submit that Google's violation of Section 2 of the Sherman Act is now an undisputed fact as a matter of law, and [the California district] court should grant partial summary judgment on liability and causation, leaving only the issue of the amount of damages for trial or further proceedings," the consumers say in Monday's brief.

Joseph M. Alioto of Alioto Law Firm, who represents the consumers, told Law360 that Section 5(a) of the Clayton Act allows private plaintiffs to use government antitrust wins as prima facie evidence. He added that the consumers are entitled to collateral estoppel barring Google from relitigating liability and an impact on users from reduced choice.

In the brief, the consumers say the issues in the DOJ case "are identical to the core liability issues in this private antitrust action."

"Google had a full and fair opportunity to litigate these issues and did so vigorously, with extensive discovery, expert testimony from leading economists, and comprehensive trial advocacy," they say. "The doctrine of collateral estoppel bars Google from relitigating questions of liability, market definition, monopoly power, exclusionary conduct, foreclosure, anticompetitive effects, the rejection of procompetitive justifications and impact on the users."

Google is appealing its loss to the DOJ, even as it and the government move forward on **implementing remedies** designed to give current and would-be search rivals a chance to compete by furnishing them with search data and syndicated search results. U.S. District Judge Amit P. Mehta rejected the DOJ's most sweeping remedies proposals, including a ban on the default payments and the forced sale of the Chrome browser, prompting a cross-appeal from the government.

Google is also battling a lawsuit from Yelp Inc., which has similarly **sought a finding** of issue preclusion on the question of liability, using the DOJ win.

The consumers in the California case, headlined by named plaintiff Mary Katherine Arcell, originally accused Google of paying off Apple not to develop its own search engine. Their **lawsuit** was first filed in 2022, two years after the DOJ filed suit.

U.S. District Judge Rita F. Lin in August 2024 **tossed the conspiracy claims** against Apple, as well as some allegations that Google paid off the iPhone-maker not to make its own search engine. But the following January the judge **kept intact** other monopolization claims claiming Google's dealings stifled competition and lifted a stay on discovery.

Even though Apple has long been dismissed from the case, the company accuses the plaintiffs of an attempt "to improperly fish for evidence as part of a broader scheme to 'reinstate' Apple as a defendant," via repeat bids to depose senior executives, including outgoing CEO Tim Cook. Apple has since **sought sanctions** for those efforts.

Nevertheless, the consumers continue to seek those depositions after the lower court turned them down, filing a petition late last month with the Ninth Circuit for a writ of mandamus allowing them to depose Cook as well as Google CEO Sundar Pichai and other senior executives from both companies.

And, Apple remains in the plaintiffs' sights. Alioto told Law360 in an interview that the plaintiffs would soon once again seek to rope Apple back into the case as a defendant, a bid Judge Lin previously rejected on a prior motion for reconsideration.

"The monopoly could never have taken place without Apple," Alioto said Wednesday, arguing it was clearly a potential competitor "and was paid not to be."

The DOJ case did not involve accusations of a payoff to keep Apple out of the search market although Judge Mehta concluded in his August 2024 liability decision that the billions of dollars in revenue sharing annually "disincentivizes Apple from launching its own search engine when it otherwise has built the capacity to do so." Apple executives testified in that trial that the company never had any interest in developing its own search engine.

Google did not immediately respond Wednesday to a request for comment.

The consumers are represented by Joseph M. Alioto and Tatiana V. Wallace of Alioto Law Firm, Josephine L. Alioto of The Veen Firm, Robert J. Bonsignore of Bonsignore Trial Lawyers PLLC, Jeffrey K. Perkins and Lawrence G. Papale.

Apple is represented by Sarah M. Ray and Aaron T. Chiu of Latham & Watkins LLP.

Google and its parent Alphabet are represented by John E. Schmidtlein, Graham W. Safty and Kees D. Thompson of Williams & Connolly LLP.

The case is Mary Katherine Arcell et al. v. Google LLC et al., case number 3:22-cv-02499, in the U.S. District Court for the Northern District of California.

--Additional reporting by Lauren Berg, Dorothy Atkins, Matthew Perlman, Bonnie Eslinger, Hailey Konnath and Rae Ann Varona. Editing by Kristen Becker.

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Judge Tosses 'Futile' Leaf EV Fire Risk, Charging Defect Suit

By **Jonathan Capriel**

Law360 (May 6, 2026, 9:54 PM EDT) -- Nissan has defeated a proposed class action brought by Leaf owners who claimed the electric vehicle's battery contains a defect that makes fast charging a fire risk, with a California federal judge ruling that the drivers failed to show the cars were unsafe and that amending at this point would be "futile."

The drivers' claims "at best" gesture to "a mere inconvenience," rather than an issue that would render the 2019 to 2020 Nissan Leaf models useless, U.S. District Judge John F. Walter said in a 16-page order. Additionally, none of the six lead plaintiffs actually claim their vehicle broke or caught fire. In fact, all appeared to still be driving their Leafs, the judge's order said.

The order, issued on Friday, dismissed with prejudice the entire proposed class action and denied giving the drivers an opportunity to amend, saying that there is no way the drivers could salvage their case.

"In this case, the court concludes that it would be futile and thus, unnecessary to provide plaintiffs another opportunity to amend their claims for relief." the order said.

The drivers first filed suit in **2025**, claiming Nissan designed and manufactured the Leaf vehicles with a battery defect, caused by the absence of an active thermal management system. They said that creates a substantial fire risk during "Level 3 fast charging."

In October 2024, Nissan sent letters to Leaf drivers telling them to avoid Level 3 charging until a software fix could be implemented, but as of January 30, no fix had been made available, the second and final amended complaint said.

But none of the drivers alleged that they had experienced fires or any kind of damage to their vehicles caused by Level 3 charging, the court order said. Moreover, they did not claim their vehicles had been rendered inoperable because of the defect.

"Plaintiffs allege, at best, a mere inconvenience as a result of being required to utilize other standard methods of charging, which does not render their Nissan Leafs incapable of providing safe transportation," the judge said.

Counsel for Nissan declined to comment. Counsel for the drivers did not respond to a request for comment.

Nissan North America Inc. is represented by John J. Powers, Kaylee A. Racs and E. Paul Cauley Jr. of Faegre Drinker Biddle & Reath LLP.

The drivers are represented by Christopher R. Rodriguez, Andrew D. Bluth and John R. Ternieden of Singleton Schreiber LLP, David Greifinger of Law Offices of David R. Greifinger and Howard A. Goldstein of Law Offices of Howard A. Goldstein.

The case is Proudfoot et al. v. Nissan North America Inc., case number 2:25-cv-09115-JFW-PVC, in the U.S. District Court for the Central District of California.

--Additional reporting by Emily Field. Editing by Nick Siwek.

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2 AI Snafus Show Why Attys Can't Outsource Judgment

By **John Powell** (May 4, 2026, 4:01 PM EDT)

John Powell

On April 18, Sullivan & Cromwell LLP, one of the most prestigious law firms in the country, apologized to a New York bankruptcy judge after **discovering** that one of its court submissions in In re: Prince Global Holdings Ltd. contained fabricated or misquoted case citations attributed to artificial intelligence hallucinations.

The errors were caught by opposing counsel. Corrected papers were filed with the U.S. Bankruptcy Court for the Southern District of New York. The co-head of the firm's global restructuring group wrote a letter directly to the judge apologizing for the erroneous submission.[1]

This mistake was not made by a solo practitioner or an under-resourced public defender's office. The hallucination problem is not a capacity gap that elite institutions are immune to. Hallucination is a mathematical and structural property of the technology.

On April 3 in U.S. v. Farris, in an instructive opinion that focused on AI in legal practice, the U.S. Court of Appeals for the Sixth Circuit **said** much the same thing.[2] The court stated early in the opinion: "The first tell was the file name of the principal brief: 'CoCounsel Skill Results.' CoCounsel is the name of Westlaw's internal artificial-intelligence platform."

Defense counsel had not renamed the file before filing it with the court. That metadata artifact, the digital equivalent of leaving the price tag on a gift, was what tipped the court off to AI usage.

The bar discourse has fixated on the fabricated citation problem: AI invents case names, fictitious reporters and phantom holdings. Farris reveals that the problem has evolved beyond that frame — the citations in Farris were real.

What Actually Happened in Farris

Court-appointed defense counsel directed a staff member to upload district court documents to Westlaw's CoCounsel platform to generate a first draft of the principal brief. Counsel then worked in that file for six hours, repeated the process for the reply brief and filed both.

The Sixth Circuit found three problematic citations:

- U.S. v. Washington, 715 F.3d 975;
- U.S. v. Anthony, 280 F.3d 694; and
- U.S.S.G., Section 3B1.1.

All three are real. These were not hallucinations in the sense that they were fabricated.

However, the quotations placed inside the citations were not real. The AI invented quotations and placed them inside of the real cases and guidelines. And in the instances of the two Sixth Circuit cases, it inverted the holdings.

The brief attributed the following holding to Washington: "[S]imply facilitating the offense without exercising decision-making authority is insufficient." It did so to support a leadership enhancement, asserting that the Sixth Circuit had reversed the enhancement on those facts. However, Washington actually upheld the enhancement.

The citations would have passed a citation-existence check. The court was precise about this: The fact that the briefs cited real legal authorities, as opposed to hallucinations featuring fictitious cases, did not absolve counsel. The AI failure mode represents, in essence, an advancement in hallucination.

The sanctions were serious. Counsel received no Criminal Justice Act compensation for time spent on the appeal. The opinion was forwarded to the chief judge of the Sixth Circuit for consideration of disciplinary proceedings. Replacement counsel was appointed, the briefs were locked and the briefing schedule reset — all at the expense of an indigent criminal defendant waiting for resolution of his appeal.

The court called the transgressions inexcusable.

The Profession's Framing, and Why it Is Incomplete

The dominant framing in bar-level AI discourse is this: AI hallucinates citations, so verify your citations.

The remedy implied by that frame is a citation check: Run the case through Westlaw or Lexis, confirm it exists, and confirm the citation is accurate. The citation check is a necessary step. Farris demonstrates that it is not sufficient.

The failure mode in Farris required something that citation verification cannot provide: reading the citation's opinion and understanding what it held. As the court noted: "Attorneys should not utilize technology without knowing the ways in which it can be misused or contribute to inaccuracies. That remains true even when new tools are sponsored by trusted legal technology providers."

And, as Sullivan & Cromwell learned this week, this remains true even when the new tools are used by the best-resourced practices in the country.

There is a deeper reason this failure mode cannot be automated away, and it is worth noting explicitly: Hallucination is not a software defect waiting to be patched. A 2024 research paper, which used formal mathematical proofs, established that hallucination is a structural property of large language models.[3] The paper notes that training data can never be complete, information retrieval is undecidable and no fact-checking mechanism can eliminate hallucinations in a finite number of steps.

Each of these claims is formally proved, not asserted. The hallucination problem will likely continue to trend toward zero with new model versions, but the math dictates that it will never reach zero.

The verification discipline is not a work-around for a fixable bug. It is the correct response to a mathematically irreducible property of the technology.

The profession's current framing, that this is a citation problem, asks attorneys to perform a task that automated tools can largely handle. The correct frame states something harder: This is a judgment problem, and judgment cannot be delegated to AI.

What the Empirical Evidence Shows

The bar's instinct, when confronted with Farris and incidents like Sullivan & Cromwell's, may be to treat AI as possibly too dangerous for legal work. That instinct is also wrong, and the evidence is now clear enough to say so directly.

A 2026 randomized controlled trial published in the Journal of Law and Empirical Analysis tested next-generation AI tools on realistic legal tasks against a control group using no AI. The AI-assisted group produced 50% to 130% productivity gains with measurable quality improvements. This is peer-reviewed empirical evidence, not vendor marketing. The tools work.[4]

But the same study found that a general-purpose reasoning model produced 11 hallucinations in the sample, compared to three for a retrieval-augmented tool and four for no AI at all. The productivity gains are real. The hallucination risk is also real. Both are true simultaneously, and a practice framework must account for both.[5]

A companion Minnesota Legal Studies research paper published in April adds a finding with direct implications for how attorneys should think about their own role in AI-assisted work.[6] The study found that participants who produced strong initial work product often delivered worse results after using AI to revise it. At the same time, AI helped weaker writers improve.

The researchers concluded that the mechanism explaining this seeming contradiction involves AI displacing the careful reasoning that capable performers would otherwise bring to revision. The tool does not discriminate between the attorney who is checking their work and the attorney who has stopped checking.

This is the problem Farris illustrates as it relates to professional consequences. Defense counsel worked in the AI-generated file for six hours. He did not stop working.

What a Properly Architected Response Looks Like

The empirical evidence points toward a three-part answer.

First, use the tools.

The productivity data discussed above is not a reason to avoid AI; it is a reason to adopt it deliberately with a framework that captures the gains while managing the risks. Attorneys who decline to engage with these tools are not avoiding risk; they are surrendering a competitive capability while the risk landscape evolves around them regardless.

Second, treat verification as essential, not optional.

In Farris, counsel delegated verification to staff. The court cited Kentucky Supreme Court Rule 3.130(5.3), the supervision of nonlawyers rule, in explaining why that method fell short.[7]

Verification of AI-generated legal propositions requires an attorney to read the cited authority and confirm not just that it exists, but that the cited authority says what the brief says it says, and that it says it in the context the brief implies. Citation checking is the floor, not the ceiling.

Third, keep evaluative judgment engaged throughout the process.

The finding that capable performers can lose ground when they delegate revision to AI without engaging their critical faculties identifies the specific failure mode that produces a situation that leads to one like that in the Farris or Sullivan & Cromwell cases. The attorney who uses AI well is not the attorney who produces the most output with AI assistance; it is the attorney who can evaluate the output thusly: knowing what a sound legal argument looks like, recognizing when an AI-generated holding summary inverts the actual holding, and bringing that judgment to bear at every step of the process, rather than reserving it for a final review that may never come.

The Model Rules of Professional Conduct have always required this duty. American Bar Association Formal Opinion 512 from 2024 notes that Rule 1.1's competence requirement encompasses the obligation to understand the tools being used.[8] What has changed is the specific way that obligation can be violated. The specific way it was violated in Farris is more sophisticated, and therefore more instructive, than anything that came before it.

The Practical Question

The legal profession is approaching an inflection point. The question in this space is shifting from "Is anyone using AI?" to "Who is using it well?" The attorneys positioned to use it well will not be the ones who avoided the technology. They will be the ones who engaged it with a framework using the tools where the empirical evidence supports their use, verifying outputs in a way that requires genuine legal judgment, and maintaining the evaluative discipline that distinguishes legal analysis from legal production.

The Farris case is not a cautionary tale about what happens when you use AI. It is a cautionary tale about what happens when you use AI without a framework that captures the empirical gains, keeps verification essential and maintains the evaluative judgment for which no tool can substitute. Neither is the Sullivan & Cromwell incident a cautionary tale about elite firms using AI; it is confirmation that the structural hallucination problem that research has proved mathematically does not yield to institutional prestige.

The court in Farris found inexcusable what every attorney should find instructive: AI does not supervise itself. That obligation has always belonged to the lawyer, and it still does.

Correction: A previous version of this article misstated the name of the case decided by the Sixth Circuit. The error has been corrected.

John Powell is the attorney at the Kentucky School Boards Association.

[1] Sullivan & Cromwell Apologizes for AI Hallucinations in Court Filing, Reuters (Apr. 21, 2026).

[2] United States v. Farris , — F.4th — , 2026 WL 915082 (6th Cir. Apr. 3, 2026).

[3] Banerjee, Agarwal & Singla, LLMs Will Always Hallucinate, and We Need to Live With This, arXiv:2409.05746 (Sept. 2024).

[4] Schwarcz, Manning, Barry, Cleveland, Prescott & Rich, AI-Powered Lawyering: AI Reasoning Models, Retrieval Augmented Generation, and the Future of Legal Practice, J. of Law and Empirical Analysis (2026). DOI: 10.1177/2755323X261427048.

[5] Schwarcz, Manning, Barry, Cleveland, Prescott & Rich, AI-Powered Lawyering: AI Reasoning Models, Retrieval Augmented Generation, and the Future of Legal Practice, J. of Law and Empirical Analysis (2026). DOI: 10.1177/2755323X261427048.

[6] Bednar, Cleveland, Erbsen & Schwarcz, Does AI Make Lawyers Worse at Thinking? New Research Offers a More Complicated Answer, National Law Review (Apr. 15, 2026).

[7] Ky. Sup. Ct. R. 3.130(5.3) (2022).

[8] Model Rules of Pro. Conduct r. 1.1 cmt. 8 (A.B.A. 2012).
