Securities

Coinbase Judge Tears Apart Token Holders' Securities Fraud Case

May 8, 2026, 11:03 AM PDT

Coinbase Global Inc. customers who held tokens allegedly pegged to Terraform Labs' LUNA coin can't proceed with their lawsuit for a host of reasons, a federal judge in Manhattan said, explaining his earlier ruling tossing their case.

The token holders failed to adequately plead any aspect of their securities fraud claims against Coinbase, Judge Jed S. Rakoff said Thursday for the US District Court for the Southern District of New York. The claims are also untimely, he said.

The 82-year-old jurist's opinion hinges to some degree on a fluency in blockchain-specific concepts and terminology, highlighting the demands on courts hearing securities disputes over the developing technology. Rakoff also appealed to common sense in finding some aspects of the claims implausible.

More than a dozen exchange users who held LUNA and Ethereum blockchain-compatible "Wrapped LUNA" tokens sued Coinbase in May 2025, saying it had a conflict of interest because of its relationship with Terra. They sued as individuals, not on behalf of a class, over alleged losses following a Terra blockchain system collapse in May 2022 and Coinbase's suspension of WLUNA trading.

The exchange customers said Coinbase had marketed the WLUNA token misleadingly by saying it was pegged to LUNA, misrepresented the suspension as temporary, and provided inaccurate account records and tax documents.

Rakoff issued a ruling in April dismissing the securities claims and sending the rest of the claims in the suit to arbitration. His two-page order indicated that his reasoning would follow.

The non-securities claims are subject to a clear arbitration clause, and the plaintiffs provided no concrete facts showing the agreements were unconscionable, Rakoff said Thursday.

As for the securities claims, the token holders' explanations for filing suit three years after they could have discovered the underlying facts don't hold water, Rakoff said, holding the claims time-barred.

But his analysis also considered the sufficiency of the pleading. "Quite aside from their untimeliness, none of plaintiffs' three claims of fraudulent misstatements" meet the heightened pleading standards of the Private Securities Litigation Reform Act, he said.

The plaintiffs, for example, didn't provide specific allegations that Coinbase and its top executives "knew that the word 'wrapped' carried a particular meaning, and that the defendants intentionally used that word despite knowing WLUNA did not fall within that definition," he said.

They failed to show intent as well, the judge said. The token holders "argue that Coinbase, given its investment in Terraform and its technical due diligence in listing WLUNA, must have known that the WLUNA smart contract contained no on-chain peg enforcement logic," he said.

"The Court has some sympathy for the intuition underlying this argument: it is not implausible, as a general matter, that a sophisticated exchange conducting due diligence might have reviewed WLUNA's smart contract and discovered its architecture. But intuition is not pleading," he said.

Bulldog Law PC and Berwish Law represented the plaintiffs. Paul, Weiss, Rifkind, Wharton & Garrison LLP represented Coinbase and its Coinbase Inc. subsidiary.

The case is Heabeart v. Coinbase, Inc. , 2026 BL 167950, S.D.N.Y., No. 25-cv-9197, 5/7/26 .

To contact the reporter on this story: Martina Barash in Washington at mbarash@bloomberglaw.com

To contact the editor responsible for this story: Michael Smallberg at msmallberg@bloomberginustry.com

Securities

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Bristol-Myers $239 Million Celgene Investor Deal Gets Assent (1)

May 11, 2026, 7:39 AM PDT; Updated: May 11, 2026, 9:18 AM PDT

Bristol-Myers Squibb Co. earned a federal judge's final approval of a $239 million class settlement, resolving allegations from investors that acquired company Celgene Corp. misrepresented a multiple sclerosis drug's approval prospects and a psoriatic arthritis treatment's sales.

Judge Michael E. Farbiarz's final blessing of the deal May 8 ends eight years of litigation against the pharmaceutical company that Bristol-Myers bought out in 2019 and two former Celgene executives. A reasonable jury could've found the former executives acted with the level of intent for securities fraud claims when they failed to disclose the risk that the Food and Drug Administration would turn down the company's application for its MS drug ozanimod, the US District Court for the District of New Jersey judge said in 2024, partially denying a bid to toss class claims.

The agreement, which came ahead of an early 2026 trial date, covers Celgene investors who acquired stock from April 27, 2017, to April 27, 2018

Bristol-Myers—which wasn't a separate defendant—in 2020 gained FDA approval of ozanimod, sold as Zeposia, to treat relapsing forms of MS

"We are gratified by this recovery which marks the largest settlement of a securities case in the Third Circuit in the past five years," Matthew Mustokoff of class counsel Kessler Topaz Meltzer & Check LLP said by email

Latham & Watkins LLP, Jones Day, and Gibbons PC represented Celgene and the executives. Bristol-Myers, Latham, and Jones Day didn't immediately respond to emails seeking comment.

The case is In re Celgene Corp. Sec. Litig. , D.N.J., No. 2:18-cv-04772, final judgment 5/8/26 .

(Updates with investor attorney comment in third bullet.)

To contact the reporter on this story: Gillian R. Brassil in Washington at gbrassil@bloombergindustry.com

To contact the editor responsible for this story: Michael Smallberg at msmallberg@bloombergindustry.com

News from Bloomberg Terminal

Judge to Review Musk, SEC Settlement Deal in Twitter Stake Case

May 8, 2026, 3:50 PM PDT

By Megan Howard and Nicola M White

(Bloomberg) --

A federal judge is asking for more information about a proposed settlement between Elon Musk and the US Securities and Exchange Commission, after the billionaire agreed to pay $1.5 million to end a lawsuit alleging he waited too long to disclose his growing stake in Twitter.

Attorneys for Musk and the SEC are set to appear before US District Judge Sparkle Sooknanan on May 13, according to the order she issued Friday. Sooknanan will consider if "the settlement is fair, adequate, reasonable and appropriate" and "whether it was tainted by improper collusion or corruption."

It is typical for judges to review these types of agreements before approving them.

The deal between Musk and the SEC was reached earlier this week. Musk didn't admit or deny the regulator's allegations, according to a filing on Monday.

Read More: Musk Agrees to Pay $1.5 Million Over SEC Twitter Stake Case

The SEC sued Musk in January 2025, days before President Donald Trump took office, saying he waited too long in 2022 to disclose that he'd accumulated more than 5% of Twitter's stock. That delay cost Twitter shareholders more than $150 million, the regulator said at the time.

Musk later bought the company in 2022 and renamed it X.

The case is Securities and Exchange Commission v. Musk, 25-cv-105, US District Court, District of Columbia (Washington).

--With assistance from Zoe Tillman.

To contact the reporters on this story:
Megan Howard in Washington at mhoward70@bloomberg.net;
Nicola M White in Washington at nicwhite@bloomberg.net

To contact the editors responsible for this story:
Ben Bain at bbain2@bloomberg.net
Steve Stroth, Peter Blumberg

US judge will not rubber-stamp Elon Musk settlement with SEC

reuters.com/legal/government/us-judge-will-not-rubber-stamp-elon-musk-settlement-with-sec-2026-05-08

Jonathan Stempel May 8, 2026

Elon Musk appears in the courthouse to attend the trial in his lawsuit over OpenAI for-profit conversion at a federal courthouse, in Oakland, California, U.S., April 29, 2026. REUTERS/Manuel Orbegozo/File Photo Purchase Licensing Rights, opens new tab

May 8 (Reuters) - A federal judge on Friday declined to quickly approve the U.S. Securities and Exchange Commission's $1.5 million settlement with Elon Musk over his purchase of Twitter, saying she wants more information about whether the accord is fair and how it was reached.

The settlement would resolve an SEC lawsuit accusing Musk of waiting 11 days too long to disclose he had amassed a 5% stake in Twitter, and saving $150 million by the time he revealed a 9.2% stake in April 2022. Musk, the world's richest person, bought Twitter for $44 billion six months later.

U.S. District Judge Sparkle Sooknanan in Washington, D.C. said that before approving the settlement, she must consider several factors including its fairness to both sides, whether it is consistent with the public interest, and whether it is "tainted by improper collusion or corruption."

She ordered both sides to appear in court on May 13, and be prepared to propose a timeline to file briefs supporting the settlement.

Lawyers for Musk did not immediately respond to requests for comment. The SEC did not immediately respond to a similar request.

The SEC sued Musk on January 14, 2025, six days before then- Democratic President Joe Biden left the White House.

Musk is a former adviser to Republican President Donald Trump, and has claimed that the lawsuit was politically motivated. He has also said the delayed disclosure was inadvertent.

The Trump administration has curtailed enforcement activity against some types of suspected corporate misconduct, and current SEC Chairman Paul Atkins has been refocusing the regulator's enforcement priorities.

Musk and the SEC disclosed settlement talks on March 17, one day after SEC enforcement chief Margaret Ryan abruptly left her job.

The settlement did not require Musk to admit wrongdoing, or give up money he allegedly saved.

Twitter, which Musk renamed X, is now part of his rocket company SpaceX.

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

Securities

This Week in Chancery Court: Notorious B.I.G., WWE-UFC Merger

May 11, 2026, 2:00 AM PDT

Whether Vince McMahon and other senior WWE leaders tampered with evidence related to alleged sexual misconduct during a suit challenging the wrestling company's merger with the UFC and a fight over The Notorious B.I.G.'s musical catalog are the highlights on the Delaware Chancery Court calendar this week.

Monday: Barrow v. Evans, Del. Ch., No. 2025-0760, videoconference 5/11/26.

At issue: Record executive Wayne Barrow, who's been serving as estate executor for The Notorious B.I.G.'s late mother, seeks summary judgment in a dispute with the hip-hop icon's widow over his musical legacy. Barrow asked the court to decide whether the estate of Voletta Wallace is a member of the LLC that co-owns the rapper's catalog. The hearing comes amid a protracted fight between Barrow and R&B singer Faith Evans, who also are involved in parallel litigation in Pennsylvania challenging Wallace's will. Barrow sued Evans about three months after Primary Wave Music acquired a 50% stake in her late husband's catalog and likeness. Wallace allegedly negotiated the sale, and Barrow claims Evans is trying to oust him from a managerial role he effectively held before Wallace died in February 2025.

Court action: Videoconference.

Notorious B.I.G. Dispute Advances Between Faith Evans, Producer

Monday: BitGo Holdings, Inc. v. Galaxy Digit. Holdings LP, Del. Ch., No. 2022-0808, pre-trial teleconference 5/11/26.

At issue: The Delaware Supreme Court revived BitGo Holdings Inc.'s breach of contract suit against investor Mike Novogratz's Galaxy Digital over their failed merger. Since that May 2024 ruling returning the case to the Chancery Court, the parties continued litigation and are headed to trial on May 18 before Chancellor Kathaleen St. Jude McCormick. The trial was rescheduled from November.

Court action: Pre-trial teleconference.

Novogratz's Galaxy, BitGo Merger Dispute Revived in Delaware

Wednesday: In re World Wrestling Ent. Inc. Merger Litig., Del. Ch., No. 2023-1166, hearing 5/13/26.

At issue: An Ohio pension fund claims co-founder McMahon and other senior leaders "knowingly destroyed relevant evidence related to McMahon's alleged sexual misconduct and related investigations" amid litigation challenging World Wrestling Entertainment Inc.'s $21.4 billion merger with mixed martial arts giant Ultimate Fighting Championship. McMahon and WWE's directors and officers deny the allegations that they've destroyed evidence in the case. The fund is trying to create a discovery dispute because it hasn't been able to find any evidence "the Merger was unfair from over *one million pages* of discovery," McMahon said in a brief.

Court action: Hearing in Wilmington.

WWE-UFC Merger Suit in Delaware Will Be Led by Ohio Pension Fund

To contact the reporters on this story: Jennifer Kay in Philadelphia at jkay@bloombergindustry.com; Quinn Wilson in California at qwilson@bloombergindustry.com

To contact the editor responsible for this story: Alicia Cohn at acohn@bloombergindustry.com

Baltimore ends its opioid lawsuit after major loss on appeal

thebanner.com/politics-power/local-government/baltimore-opioids-lawsuit-mckesson-cencora-SEGPJUXFF5FBXA3V42QBGREKQQ

Madeleine O'Neill May 8, 2026

Baltimore ends its opioid lawsuit after suffering a major loss on appeal

Madeleine O'Neill

The city argued that the companies failed to halt suspiciously large orders of prescription painkillers, flooding the region with addictive pills that were diverted to the illicit market and eventually pushed users to more dangerous street drugs. (Ulysses Muñoz/The Banner)

Baltimore's high-profile lawsuit against the drug companies accused of contributing to the city's deadly opioid epidemic ended Friday with a whimper.

After being dealt a fatal blow on appeal, the city quietly agreed to dismiss the remainder of the case in a brief court filing. In doing so, the city's legal team acknowledged that they will lose out on the $152 million won following a jury trial in late 2024.

The mayor's office did not immediately respond to a request for comment.

Baltimore can keep the more than $400 million it received in settlements ahead of the trial — still a sizable victory for a community that experienced the highest rate of overdose deaths of any major American city.

But the trial verdict, which was the crown jewel in the city's victories against pharmacies and opioid companies, is officially gone. A jury of city residents awarded Baltimore [$266 million] at the end of a seven-week trial against two manufacturers, McKesson and AmerisourceBergen, now known as Cencora.

The city argued that the companies failed to halt suspiciously large orders of prescription painkillers, flooding the region with addictive pills that were diverted to the illicit market and eventually pushed users to more dangerous street drugs.

The judge overseeing the trial, Baltimore City Circuit Judge Lawrence Fletcher-Hill, [slashed the jury's verdict] and offered the city a deal: Accept reduced winnings of $152 million or go to trial again. Baltimore's lawyers took the money but also appealed to the Maryland Supreme Court. The drug companies also appealed.

In a brief order last month, the high court [threw out] the city's winnings entirely. The justices had [recently rejected] a legal theory central to Baltimore's argument: that the drug companies could be held responsible for causing a "public nuisance" with their products.

The Maryland Supreme Court held that public nuisance law was not broad enough to encompass social issues like the opioid crisis, especially since there is a complex web of regulations already in place for legal drug distribution.

The decision was a blow to the city's legal strategy. Legal observers said the case was all but dead. And Friday's filing, in which the city voluntarily agreed to dismiss the remainder of the lawsuit, made it official.

It was a bitter ending for the city's [high-risk legal strategy] that pushed for a trial even as most local governments — and the state of Maryland — chose to enter massive "global" settlements with opioid companies. By proceeding alone, Baltimore won nearly as much in settlements as the entire state will receive as part of a [$26 billion deal] to end the majority of claims against several pharmaceutical giants.

Cencora did not immediately respond to a request for comment. A spokesperson for McKesson referred back to a previous statement on the Maryland Supreme Court decision, which the company said was supported by the law and the record in the case.

A Second Wave of Tariff Recovery Litigation and Expanding D&O Risk

dandodiary.com/2026/05/articles/tariffs/a-second-wave-of-tariff-recovery-litigation-and-expanding-do-risk

Sarah Abrams

May 11, 2026

Following the U.S. Supreme Court's decision invalidating tariffs imposed under the International Emergency Economic Powers Act (IEEPA), litigation risk has entered a new phase. As previously noted on The D&O Diary, early lawsuits seeking recovery focused on companies that passed tariff costs on to consumers. A newly filed class action against Sony Interactive Entertainment suggests a second wave may now be emerging; one targeting companies for allegedly pursuing a "double recovery" by retaining both higher consumer prices and government tariff refunds.

The legal backdrop continues to evolve. For example, following the Supreme Court's IEEPA ruling, on March 5, 2026, the U.S. Court of International Trade struck down a second round of tariffs imposed under Section 122 of the Trade Act of 1974, in litigation led state attorney generals. The ruling shows that the administration's tariff efforts remain subject to challenge and reversal, further complicating the landscape for companies that adjusted pricing in response.

The following discusses the Sony lawsuit in more detail, including the evolving tariff-related litigation trend and potential D&O exposures.

The Sony Complaint and the Emerging "Double Recovery" Theory

The lawsuit filed against Sony in the Northern District of California by PlayStation purchasers alleges that Sony retained what they characterize as a "substantial windfall" tied to unlawful tariffs. The complaint follows the U.S. Supreme Court's decision in *Learning Resources, Inc. v. Trump*, which held that tariffs imposed under IEEPA exceeded the statutory authority granted to the President.

The plaintiffs' theory is relatively straightforward. During the tariff period, Sony allegedly incurred increased costs associated with importing PlayStation consoles manufactured abroad. Like many companies facing tariff-related pressures, Sony purportedly responded by raising retail prices on its products. According to the complaint, Sony increased prices on certain PlayStation models by as much as $150 over the course of the tariff period.

Following the Supreme Court's ruling, the plaintiffs allege that Sony, like other importers, is now entitled to seek refunds from U.S. Customs and Border Protection for tariffs previously paid. The complaint contends this creates an inequitable result because Sony has already recovered those costs through higher prices charged to consumers.

The plaintiffs characterize this as an unjust "double recovery" or "windfall." They argue that the tariff-related portion of the purchase price paid by consumers effectively belongs to them and that any refund of those amounts should be returned to the consumers who bore the economic burden.

Notably, the complaint contrasts Sony's alleged conduct with that of other companies, such as logistics providers, that have publicly stated an intention to pass tariff refunds back to customers. The plaintiffs emphasize that Sony has made no such commitment, which they argue strengthens the case for judicial intervention.

In addition, the plaintiffs seek declaratory relief establishing that any tariff refunds obtained by Sony must be returned to consumers. The complaint also requests injunctive relief, restitution, and monetary damages on behalf of the proposed class.

Discussion

The Sony lawsuit, along with similar actions against Nike, Fabletics, and Costco, arises as the federal government works to unwind the approximately $166 billion in tariff collections. Following the Supreme Court's decision, the Trump Administration terminated the tariff regime and implemented a refund process through U.S. Customs and Border Protection.

Central to this process is the CAPE (Consolidated Administration and Processing of Entries) portal, through which importers can submit applications seeking refunds for previously paid duties. According to the complaint, Customs indicated that refunds could potentially be processed within 60 to 90 days after approval of an application.

The lengthy refund process itself may be contributing to a new category of litigation risk, and the Sony lawsuit may represent a further expansion of that trend. Rather than focusing solely on disclosure deficiencies, the plaintiffs seek affirmative recovery based on the alleged inequity of companies retaining refunds tied to costs already borne by consumers. Thus, from a D&O liability perspective, the litigation developing around the invalidated IEEPA tariffs may present several important considerations.

First, these cases may raise increasingly complex disclosure issues for public companies. During the tariff period, many companies characterized price increases as responses to inflationary pressures, supply chain disruption, and tariffs. Few companies appear to have disclosed the possibility that tariffs could later be invalidated, creating potential refund-driven windfalls and corresponding litigation exposure. Plaintiffs may now attempt to argue that companies failed to adequately disclose the extent to which tariff-related pricing decisions could later generate windfall recoveries or restitution exposure.

In addition, the emerging litigation may highlight board-level governance concerns. Decisions regarding pricing, cost pass-through strategies, and whether to return tariff refunds to consumers are inherently sensitive from both a legal and reputational perspective. Boards that fail to actively oversee these decisions could face allegations that they inadequately managed foreseeable litigation or reputational risks.

The recently filed cases may further underscore the importance of internal escalation procedures and coordinated disclosure controls. The Sony complaint repeatedly contrasts Sony's alleged conduct with companies that are publicly committed to returning refunds to customers. Plaintiffs may increasingly attempt to use those distinctions to argue that certain companies act more responsibly or transparently than others.

Finally, these developments reflect a broader category of "after-the-fact" litigation risk. In these scenarios, liability does not necessarily arise from the initial business decision itself, in this case, increasing prices during the tariff period, but instead from subsequent developments that change the legal or economic landscape. These types of claims can be particularly difficult to predict and underwrite because they depend on future judicial rulings, administrative actions, and policy reversals.

Taken together, the recent tariff-related litigation reinforces an increasingly familiar theme: macroeconomic and political events can create litigation exposure that extends far beyond the original government action itself. The recently filed Sony lawsuit suggests that plaintiffs may now be targeting the economic aftermath of tariff reversals themselves.

If this trend continues, companies with significant import exposure and consumer-facing pricing models may face scrutiny not only for how they responded to tariffs, but also for how they respond to their unwinding. The emerging "double recovery" theory suggests that plaintiffs' lawyers are now focused not just on the impact of tariffs, but on who ultimately keeps the money once they are gone.

Nike sued by consumers for not refunding tariff costs

reuters.com/sustainability/boards-policy-regulation/nike-sued-by-consumers-not-refunding-tariff-costs-2026-05-08

Jonathan Stempel May 8, 2026

Nike sneakers are seen on display at a store in Westfield Stratford City, London, Britain, July 30. REUTERS/Mina Kim/File Photo Purchase Licensing Rights, opens new tab

May 8 (Reuters) - Nike (NKE.N), opens new tab was sued on Friday by consumers who accused the athletic apparel and footwear maker of not refunding tariff-related costs it passed on in the form of higher prices.

In a proposed class action, consumers said Nike should not be allowed to keep "significant" refunds it can expect after the U.S. Supreme Court in February struck down sweeping tariffs that President Donald Trump imposed under the International Emergency Economic Powers Act.

The Beaverton, Oregon-based company has said it paid about $1 billion in tariffs on imported goods as a result of Trump's actions. Consumers said Nike raised prices on some footwear by $5 to $10 and some apparel by $2 to $10 to offset the costs.

"Nike has made no legally binding commitment to return tariff-related overcharges to the consumers who actually paid them," the complaint said.

"Unless restrained by this court, Nike stands to recover the same tariff payments twice — once from consumers through higher prices and again from the federal government through tariff refunds."

Nike did not immediately respond to requests for comment.

It joins a variety of companies including Costco (COST.O), opens new tab and Ray-Ban sunglasses maker EssilorLuxottica (ESLX.PA), opens new tab that have been sued by consumers for allegedly failing to pass on tariff refunds to consumers.

The Nike lawsuit was filed in the Portland, Oregon, federal court.

In a March 31 conference call, Nike said its fiscal quarter ending in August 2026 would likely be the final quarter when tariffs are a material year-over-year headwind to gross margin.

Reporting by Jonathan Stempel in New York; Editing by Bill Berkrot

Meta and Google verdict offers roadmap for future liability claims

reuters.com/legal/legalindustry/meta-google-verdict-offers-roadmap-future-liability-claims--pracin-2026-05-01

Casey Waughn May 1, 2026

CommentaryAttorney Analysis from Westlaw Today, a part of Thomson Reuters.
A 3D printed image of Meta Platforms' logo is seen in front of displayed Google logo in this illustration created on November 2, 2021. REUTERS/Dado Ruvic/Illustration/File Photo Purchase Licensing Rights, opens new tab

May 01, 2026 - When a California jury handed down a $6 million verdict against Meta and Google in March 2026 finding both companies negligent and at-fault for a young woman's use of Meta's Instagram platform and Google's YouTube platform, the case was immediately hailed as both a landmark decision and bellwether.

But the real attention-grabber was not the damages awarded (which were a small fraction compared to the companies' respective annual revenue — Meta reported $200.97 billion in revenue for 2025, and Google reported $402.84 billion), but the liability itself which provides a potential roadmap for future claims not only of a like-kind, but for technology litigation more generally.

Unlike certain recent cases involving technologies and platforms, this case did not attempt to take old statutes, such as the Electronic Communications Privacy Act of 1986, the Video Privacy Protection Act of 1988, or the California Invasion of Privacy Act, and impute liability for modern technology uses. It also did not require a Ph.D. in engineering or dozens of technical experts for the jury to understand the issues.

Instead, it took the centuries-old, bedrock legal principle that all individuals and companies have a duty to act reasonably under the circumstances they face and applied it to the relatable, everyday use case of platform users, presenting two key questions: When does a company fail to design their technology platform using reasonable care, and under what circumstances does a company have a duty to warn about the potential for their technology to be addictive?

In the California lawsuit styled K.G.M. v. Meta Platforms, Inc., et al, a teen user of Instagram and YouTube and her mother alleged that the design of both platforms was negligent because it caused the user to become addicted to the platforms and use the platforms compulsively starting at a young age.

The claims also alleged that the platforms targeted minor users and failed to warn users and parents of teen and child users of known potential, negative impacts of the platforms, borrowing from products liability theories.

Notably absent from the user's claims were any allegations that content on the platform caused or contributed to the injuries. This is significant, and likely intentional, because it shifted the focus away from the content on the platforms, to the conduct of the platforms and users. It also took away key defenses from the platforms that frequently formed the prior playbook in technology litigation.

In the past, technology companies often relied on defenses available under Section 230 of the Communications Decency Act. Section 230 provides immunity for providers of platforms for most user content posted on their platforms, which often allows lawsuits against technology platforms and providers to be dismissed in the early stages of litigation.

But this defense is irrelevant when the allegations center on conduct, not content, as was the case here. Thus, instead of litigating the issue of whether the platforms could be liable for the statements of third parties, the inquiry in this case shifted to the conduct of the platforms, whether such conduct was reasonable, and whether the platforms' conduct caused the injuries alleged.

With Section 230 defenses aside, from the outset, causation was at the heart of the issues: Did Meta and Google's platform design cause the user's alleged injury, or did factors in the user's own life and background cause her injury?

With respect to causation, it is easy to overlook that negligence liability does not turn on whether the party was the sole cause of the harm, but rather whether the party was a substantial factor or substantial cause of the harm. Therefore, in this case, even if the user or user's surroundings caused some of her injuries, as long as the platforms also caused her injuries, the platforms could be found liable.

Beyond causation, the case also highlights the circumstances in which platforms and other technology companies may have duties to act, or refrain from acting, in certain ways. To this end, another key aspect of the allegations surrounded whether the platforms were negligently designed, and whether the companies negligently failed to warn users and parents of teen users about potential impacts of their platforms.

Inherent in these allegations is the question of whether the companies had a duty to design the platforms in a certain manner, and in particular, with safety in mind. Relatedly, the circumstances in which platforms and technology companies have a duty to warn users about potential negative impacts of their platforms were highlighted. Internal documents and studies conducted by Meta about child and teen users were key pieces of evidence for these allegations.

Using these documents, including an internal study conducted by Meta called "Project Myst," the plaintiffs argued that Meta and YouTube concealed known harms to teen and child users. Many of these internal documents indicated that

Meta was on notice of the potential negative impacts its platform had on certain subsets of users. This allowed the plaintiffs to argue that Meta had a duty to disclose known, harmful effects to them and other users.

Internal documents and memoranda have long been the bane of litigators' existence because they are often discoverable in litigation, and can be an Achilles heel, as this case aptly demonstrates. However, it is not always feasible for companies to refrain from documenting certain known risks in the current regulatory environment.

Internal documents and risk assessments that analyze the risk of products, technologies and tools, and their potential impact on subsets of users or specific use cases are increasingly required by regulations that impact technology uses and companies. For example, most state consumer privacy laws require a privacy impact assessment before undertaking certain activities. Similarly, statutes and regulations that govern the use of AI technologies often require companies to document and maintain documentation about certain risks of AI technologies and use cases.

As this case demonstrates, when companies choose to or are required to document known harms of technologies, as organizations increasingly are through various regulatory schemes, the existence and content of these documents can arm plaintiffs with additional arguments and easily create potential paths to liability.

How technology companies and plaintiffs will adapt their arguments with this new blueprint remains something to watch, as this case highlights key legal issues for plaintiffs and defendants who seek to impute or avoid liability.

Casey E. Waughn is a senior associate in Armstrong Teasdale LLP's St. Louis office, where she advises clients regarding complex regulatory regimes, particularly in the data privacy, cybersecurity, and technology spaces. She has experience litigating complex disputes and developing compliance strategies. She can be reached at cwaughn@atllp.com.

News | **Privacy**

GM to Pay $13M to Settle Claims It Sold Californians' Driving Data

If approved, the settlement would mark the largest financial recovery under the Consumer Privacy Act.

May 08, 2026 at 04:07 PM By **Cheryl Miller**

General Motors Global Headquarters sign at the Renaissance Center in downtown Detroit. Credit: ehrlif/Shutterstock.com

General Motors Co. will pay $12.75 million and change its customer data collection and retention practices to settle claims it sold Californians' driving and location information to data brokers, Attorney General Rob Bonta said Friday.

The settlement, if approved by a Napa County Superior Court judge, would mark the largest financial recovery under California's Consumer Protection Act since the law took effect in 2020.

GM admitted no liability in agreeing to the settlement. The company was represented by in-house counsel and attorneys from King & Spalding.

At an online press conference, Bonta said that from 2020 to 2024, GM collected the names, contact information, geolocation details and driving behavior records of thousands of Californians who subscribed to the automaker's OnStar emergency help service. Then, without their customers' knowledge or consent, GM sold that information to data brokers for $20 million, according to Bonta's office.

Those companies packaged the data for sale to insurance companies for possible use in setting rates, the office added.

While California law prohibits insurers from using such data to set premiums, "the same cannot be said for drivers in other states," Bonta said.

"We're talking about data that not only shows how a person drove, but also precisely where they drove, which could easily be used to paint a picture of their everyday habits and movements," Bonta added. "Think about all the places you drive every day, where you drop off your kids at school, where you go to the doctor, where you go to work, where you go to church, where you live, personal, sensitive data that consumers have the right to control.… General Motors broke the law."

A message left with GM's media relations department was not immediately returned Friday afternoon.

California's proposed settlement with GM follows the Federal Trade Commission's approval in January of a 20-year order resolving similar allegations that GM mishandled consumers' geolocation and driving behavior data.

Allegations surrounding GM's data-collection practices gained widespread notoriety in 2024, when a New York Times reporter obtained data broker files that detailed her own family's travels in their Chevrolet Bolt. Those records included the distances and times the car traveled as well as the number of instances the driver "hard braked" and accelerated rapidly.

GM now faces privacy class actions over its use of customers' data.

GM's proposed $12.75 million settlement with California is the largest under the state's fledgling privacy law since February's $2.75 million agreement with The Walt Disney Co. over allegations the company's streaming services failed to honor customers' opt-out directions.

The sanction is small compared to GM's enormous size and revenues, which reached $43.6 billion last quarter. But Bonta said the injunctive remedies are "the most important … curb[ing] this behavior going forward."

As part of the settlement, GM has agreed to stop selling customers' driving data to consumer reporting agencies for five years and to delete retained driving information within six months unless a customer approves of other arrangements. The company will also develop a privacy program compliant with California law and report its progress to state officials.

“With the combination of the penalties and more importantly, the injunctive relief, we feel very confident that it will stop the conduct from happening again,” Bonta said.

As proposed, the settlement will send 40% of GM’s $12.75 payment to four counties—Los Angeles, Napa, San Francisco and Sonoma—whose district attorneys participated in the case. The remaining money will be split among funds controlled by the attorney general and the California Privacy Protection Agency.

Netflix sued by Texas for allegedly spying on children, addicting users

reuters.com/world/netflix-sued-by-texas-allegedly-spying-consumers-2026-05-11

Reuters May 11, 2026

The Netflix logo is shown on one of the company's Hollywood buildings in Los Angeles, California, U.S., July 12, 2023. REUTERS/Mike Blake/File Photo Purchase Licensing Rights, opens new tab

(NFLX.O), opens new tab was sued on Monday by Texas Attorney General Ken Paxton, who accused the streaming company of spying on children and other consumers by collecting their data without consent, and designing its platform to be addictive.

Texas said Netflix has for years falsely represented to consumers that it did not collect or share user data, when it actually tracked viewing habits and preferences and sold the data to commercial data brokers and advertising technology companies, making billions of dollars a year.

The complaint quoted former Netflix Chief Executive Reed Hastings as saying in 2020 "we don't collect anything," as he sought to distinguish Netflix from Amazon.com (AMZN.O), opens new tab, Facebook (META.O), opens new tab, Google (GOOGL.O), opens new tab with regard to data collection.

"When you watch Netflix, Netflix watches you," according to the complaint filed in a state court in Collin County, near Dallas.

Netflix did not immediately respond to a request for comment.

Reporting by Jonathan Stempel in New York; Editing by Chizu Nomiyama

Our Standards:

Class Action

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KKR, Instructure Sued After Canvas EdTech Tool Data Breach (1)

May 8, 2026, 10:40 AM PDT; Updated: May 8, 2026, 12:09 PM PDT

Summary by Bloomberg AI

AI Generated

- KKR & Co. and its Instructure Inc. unit are facing several federal class actions after cybercriminal group ShinyHunters allegedly breached their education technology tool Canvas.
- The breach compromised names, student ID numbers, and messages among Canvas users, but no government identifiers or financial information, according to Instructure.
- Instructure was hit with at least seven federal suits, and KKR is a named defendant in a case filed in the Southern District of New York, with plaintiffs asserting claims including negligence and breach of legal obligations.

KKR & Co. and its Instructure Inc. unit are facing several federal class actions after cybercriminal group ShinyHunters allegedly breached their education technology tool Canvas, affecting schools worldwide.

ShinyHunters exploited an issue with Instructure's Free-for-Teacher accounts—a demo program for educators whose schools weren't Canvas users, the company said. It said names, student ID numbers, and messages among Canvas users were compromised in the breach, but no government identifiers or financial information.

Instructure was hit with at least seven federal suits, six filed in the US District Court for the District of Utah. KKR, which purchased Instructure in 2024 for approximately $4.8 billion, is a named defendant in a case filed in the Southern District of New York.

"Yesterday, Instructure discovered the unauthorized actor involved in our ongoing security incident made changes to the pages that appeared when some students and teachers were logged in. Out of an abundance of caution, we immediately took Canvas offline to contain access and further investigate," Instructure said in a statement to Bloomberg Law. Temporarily shutting down the Free-for-Teacher accounts gave "us the confidence to restore access to Canvas, which is now fully back online and available for use. We regret the inconvenience and concern this may have caused."

ShinyHunters claims the breach impacted 275 million students, teachers, and staff members worldwide across nearly 9,000 educational institutions. KKR declined to comment.

The timing of the hack, as the academic year came to a close, disruptedclasses, finals, and services at academic institutions worldwide, including at Stanford, Yale, Princeton, the University of Manchester, and the University of Oslo.

Edtech companies have been the targets of massive data breaches in the past. PowerSchool suffered a breach in 2024 that exposed the information of nearly 50 million K-12 students and teachers and 4,700 school districts. Litigation over it is ongoing, with PowerSchool and owner Bain Capital largely unable to convince a federal court to dismiss the claims made by individual victims.

And Illuminate Education Inc. agreed last year, at the Federal Trade Commission's behest, to implement a data security program following a cybersecurity incident that exposed millions of students' academic records and health-related information.

KKR failed to honor its responsibility to protect personal data, according to the New York complaint filed by a University of Denver alum. He asserts negligence claims against the investment firm and Instructure. The lawsuits in federal Utah court collectively assert negligence, breach of legal obligations, and unjust enrichment claims on behalf of a proposed nationwide class.

Marshall Olson & Hull PC represents the plaintiffs in Utah. Milberg PLLC, KO Lawyers, and Carella Byrne Cecchi Brody Agnello PC represent the plaintiff in the first-filed case, Jabon Peterman. Yagman PLLC represents the plaintiff who filed in New York, Aaron Hinds.

The cases are Hinds v. KKR & Co. Inc. , S.D.N.Y., No. 1:26-cv-03816, complaint filed 5/8/26 and Peterman v. Instructure Inc , D. Utah, No. 2:26-cv-00374, complaint filed 5/5/26 .

(Paragraph four updated with statement emailed to Bloomberg Law.)

To contact the reporter on this story: Ufonobong Umanah in Washington at uumanah@bloombergindustry.com

To contact the editor responsible for this story: Nicholas Datlowe at ndatlowe@bloombergindustry.com

Expert Opinion | **Artificial Intelligence**

Ground Truth: The Realities of Generative AI in E-Discovery

The goal of this article is to address the most common questions practitioners are asking today about gen AI in e-discovery.

May 08, 2026 at 11:30 AM By **Esther Birnbaum**, **Michallynn Demiter**, **Ben Sexton**, **Jim Sullivan** and **Cristin Traylor**

Since generative AI (gen AI) first entered e-discovery in 2023, the topic has dominated industry discourse. Early questions focused on security and feasibility—could large language models (LLMs) even handle sensitive data, let alone classify documents?

Those questions have largely been answered. Today, the conversation has moved to firmer ground: whether gen AI classification can fit within the existing technology-assisted review (TAR) framework, and whether interpretive uses like summarization and fact synthesis require entirely new validation standards. The goal of this article is to address the most common questions practitioners are asking today about gen AI in e-discovery.

What Do We Really Mean When We Say Gen AI in E-Discovery?

Over the past three years, gen AI has entered numerous stages of the e-discovery lifecycle and the practice of law generally. When evaluating use cases for gen AI, we need to recognize that there are two fundamentally different categories of gen AI output in e-discovery: 1) classification (e.g., document review), and 2) interpretation (e.g., fact synthesis, timeline generation). Understanding the distinction between these two categories is essential to having productive conversations about how we deploy, validate, and govern these tools responsibly.

Classification uses a LLM and instructions or criteria drafted by one or more knowledgeable subject matter experts (SMEs) to produce a binary output. The most common examples of this in e-discovery are relevance/responsiveness and privilege designations. There is typically an iterative process where the SMEs calibrate the instructions for the model to ensure the appropriate classification designations are made. The results can be compared against a ground truth—a single correct answer—and are measurable. Because of this, the process is compatible with established TAR validation methodologies. Courts and parties have accepted recall, the percentage of all responsive documents found, as a reliable measure of review quality for over a decade. *See Da Silva Moore v. Publicis Groupe*, 287 F.R.D. 182 (S.D.N.Y. 2012); *Rio Tinto PLC v. Vale S.A.*, 306 F.R.D. 125 (S.D.N.Y. 2015); In re Diisocyanates, 2021 WL 4295729 at *6 (W.D. Pa.

Aug. 23, 2021). In TAR, metrics of precision (percent of predicted-responsive documents that are actually responsive) and elusion (an input to recall that measures responsiveness of the set predicted not responsive) can also be helpful to evaluating performance.

Interpretative use cases produce written summaries or analyses as outputs. Examples include summarization, fact extraction, privilege log creation, and timeline creation. These outputs are inherently open-ended and do not have a single ground truth to measure against. However, provided attorneys are reviewing these outputs, qualitative validation is at least informally built into the overall e-discovery process and serves as a guardrail. Attorneys should assess whether outputs are accurate and applicable to the matter, including identifying hallucinations or material omissions. While no quantitative validation rules apply to interpretive outputs, attorneys retain ethical accountability for the outputs on which they rely. As Microsoft's General Manager of Ediscovery Programs, EJ Bastien, explains, "We use gen AI to create timelines and draw insights across key document sets, which saves time and reduces costs, but we still must verify the accuracy. Regardless of the technical capability, the purpose of the technology is to accelerate our understanding of the specific facts—the value is essentially lost without the verification."

Classification Task	**Interpretive Task**
Relevance/Responsiveness Review	Summarization
Privilege Review	Chronologies
Issue Coding	Fact Extraction
Hot Document Identification	Deposition Preparation
PII/Sensitive Information Identification	Research and Drafting
Objective Classification (e.g., Document Type)	

The fundamental differences in outputs and purpose of these two divergent uses of gen AI require different oversight frameworks. Tara Emory, a court-appointed neutral and founder of Aligned Discovery PLLC, explained, "When defensibility requires finding and producing most of the responsive documents, meaning high recall, the same validation process should be used regardless of the classification technology used. Gen AI review for that purpose should involve search iteration and validation, because it is just a new form of TAR."

The extent to which results of any legal gen AI use are validated should be purpose-driven and calibrated to the stakes of each use type. The stakes vary based on how these outputs are used—a hallucinated citation has different consequences than a privilege log with omissions. For any use of gen AI in e-discovery, the level of human oversight and quality control processes should be proportional to the risk and use of the output.

Is TAR a Process or an Algorithm?

One of the most persistent sources of confusion in the current gen AI conversation is the assumption that gen AI-based document review is something fundamentally new that requires an entirely new validation framework. There are certainly new aspects to gen AI-based review, for example: prompt iteration, but as Emory, Jeremy Pickens & Wilzette Louis point out in their TAR 1 Reference Model, which demonstrates that TAR applies to gen AI review, "One can view predictive algorithms as engines, while the TAR 1 process is a vehicle. The engines may vary, but the steering, seating, wheels, and other key features of the vehicle are unchanged." *TAR 1 Reference Model: An Established Framework Unifying Traditional and gen AI Approaches to Technology-Assisted Review*, 25 SEDONA CONF. J. 109 (March 2024).

Consider how the algorithms used in traditional TAR workflows have changed over the past decade, and, even to this day, vary from product to product. The industry has never required a TREC-style evaluation of a specific algorithm as a prerequisite to its use in production. Linear regression, support vector machines (SVM), and k-nearest neighbor have all powered different TAR products without practitioners demanding algorithm-level benchmarking before deploying them. That is because TAR, as a process, gives us the means to validate classification independently from the algorithm in the field. The legal question has never been which algorithm is used; it is whether the producing party can demonstrate, through accepted validation methods and documented quality controls, that the workflow achieved reliable results. As with any TAR process, memorialization of the steps, decisions, and metrics are key to ensuring defensibility in the event of challenge.

Likewise, there is no requirement for a separate validation regime simply because the tool is newer. If a gen AI workflow is being used to make classification decisions, the same familiar disciplines are available: define the criteria, test performance against a control or validation sample, measure recall and precision, assess recall (i.e., sample to statistically determine precision of the "hit" set and elusion in the discard set), document the process, and remediate if the results fall short. Those are the very same methods courts and practitioners have relied on for years to evaluate whether a TAR was reasonable under applicable rules.

As Adam Rouse, senior counsel at Walgreens and professor at Loyola University School of Law, explains, “It would be a mistake to assume that novelty in the model changes the legal standard. What matters is disciplined workflow design, practical quality assurance, and when required, statistically sound validation of outcomes. Gen AI classification fits comfortably within the existing legal framework rather than outside it. The methodology to measure the effectiveness of any such review process already exists and should not be ignored.”

Do the Guardrails for Gen AI in E-Discovery Already Exist?

Much of the current debate about other uses of gen AI in e-discovery assumes that new guardrails are needed. But the legal profession already has a framework for ensuring that lawyers use tools responsibly and verify their work before relying on it. That framework is professional responsibility and the Federal Rules of Civil Procedure (and comparable state rules).

One of the biggest concerns around gen AI is automation bias, or the tendency for humans to overly-rely on or uncritically accept the outputs of AI tools, even when they are incorrect. The risks that stem from automation bias vary by the use case. For example, a lawyer who relies on unverified gen AI in a brief to the court faces a different risk than one who uses gen AI to search received or already-produced documents for a particular issue for further attorney review. However, the fix is not another governance layer on top of the technology. Instead, attorney training and professional judgment will help calibrate the appropriate level of oversight to the circumstances. Consider, similarly, a senior lawyer blindly relying on a junior lawyer to prepare a brief. The same ethical obligations remain, including duties of supervision.

The notion that gen AI introduces novel risks that don’t fit within existing frameworks is quelled when looking at how practitioners are actually using the tools in production environments: they are applying the same judgment that they have always used—calibrated to the stakes and context of the particular use case. A lawyer who relies on unverified gen AI output in a way that harms a client or misleads a tribunal is exposed to the same range of professional discipline that applies to any competence failure: malpractice liability, sanctions under Rule 11 or Rule 26(g), bar grievances, and in extreme cases, disciplinary action up to and including suspension.

The bottom line is that oversight frameworks belong where outputs are shared and both sides care about getting it right, which in e-discovery means document search, review, and production. For analytical or interpretive work, the oversight framework already exists: professional responsibility. As Liz Gary of Morgan, Lewis & Bockius LLP puts it, “Some degree of disclosure may be appropriate where the output of the process impacts the scope of production. But a party’s own analysis, preparation, or work product is sufficiently governed by existing obligations of professional responsibility." In other words, we don't need new rules. Rather, what is needed is simply an understanding of the tools being used and adherence to existing rules.

Is Gen AI Now an Established Tool for Classification in E-Discovery?

Practitioners are measuring gen AI classification performance using the same recall, precision, and elusion testing protocols the profession has relied on since *Da Silva Moore*. The results are being published, and they are strong.

A very early study of the effectiveness of LLMs in classification tasks showed much higher recall than human review (96% v. 54%), as evidenced by Roshanak Omrani, *Beyond the Bar: Generative AI as a Transformative Component in Legal Document Review*, Relativity ODA LLC (2024).

Since then, multiple platforms have published production metrics from real matters, measured using established validation protocols. The following table summarizes reported recall and precision across published case studies:

Platform / Tool	**Matter Type**	**Recall**	**Precision**	**Other**
Everlaw AI Assistant	4 litigation datasets	89%	67%	+36% recall vs. human reviewers
Everlaw AI Assistant (Am Law 100)	126,000+ doc review	85%	63%	F1: 0.72; 90%+ accuracy
Relativity aiR (JND eDiscovery)	Large antitrust matter	96%+	71%	750+ review hours saved
DISCO Auto Review (Am Law 100)	~100,000 doc engagement	89%	99.5%	—
DISCO Auto Review (Lit. boutique)	Fortune 500 breach of contract	95%	91%	Completed in ~2 hours

HaystackID Core Intelligence	Securities firm (30,000 docs)	94.76%	91.69%	Refined methodology

Sources: Everlaw, *GenAI Document Review Surpasses Human Performance on Real World Litigation Data* (Sept. 2024); Everlaw, *Am Law 100 Firm Slashed Doc Review Time by Two-Thirds with GenAI* (Apr. 2025); Relativity, *JND Saves Corporate Clients Hundreds of Review Hours and Cuts Costs by Nearly 60% with Relativity aiR for Review* (2025); DISCO, Am Law 100 Firm Achieves 89% Recall and 99.5% Precision Using DISCO Auto Review (2025); DISCO, *The Future of Document Review: Top Lit Boutique Embraces DISCO Auto Review* (2025); HaystackID, *Core Intelligence AI Review: Combining AI Technologies and Human Expertise to Reimagine Legal Review* (Mar. 2025); Relativity, *How to Leverage AI in Issues Analysis to Meet Tight Deadlines and Reduce Costs* (2025).

In addition to case study metrics from service providers, similar results have come from law firms independently validating their own production processes, using the same defensibility protocols courts have accepted for TAR. Quinn Emanuel Urquhart & Sullivan, LLP (Quinn Emanuel) used Syllo's agentic review platform on a set of more than 30,000 documents, where elusion testing confirmed estimated recall above 98% and estimated precision above 74%. Across multiple reviews using the same platform, Quinn Emanuel reported an average estimated recall of 97.8%, with a median of 99.4% and four reviews reaching an estimated recall of 100%. Median estimated precision was 85.9%. Syllo, *Agentic AI Document Review Is Transformative for Complex Litigation* (2025).

Royer Cooper Cohen Braunfeld LLP reported estimated recall of 93.44% and estimated precision of 69.81% on a matter using the same platform, with the firm's partner stating that it is now standard practice to use gen AI review on any matter of significant size rather than hiring outsourced review teams. Hueston Hennigan reported 95% recall and 91% precision on a high-stakes litigation using DISCO Auto Review. DISCO, *DISCO Brings Gen-AI-Powered Auto Review to the EU, UK* (June 2025) (quoting Emily Michael Munson, Hueston Hennigan). Morgan Lewis recently reported successfully using gen AI for document review in responding to SEC and DOJ subpoenas, which the agencies had agreed to prior to its use. Relativity, *Morgan Lewis: Relativity aiR* (2025).

These cases demonstrate that law firms are using gen AI for review and demonstrating defensibility with the same validation processes and statistical rigor they would use for any TAR, and in Morgan Lewis's case, doing so with advance regulatory approval.

In addition, industry bodies and courts are increasingly keeping pace. The *ILTA GenAI Guide*, launched in April 2025 as an addendum to its *Active Learning Best Practice Guide*, recommends consistent validation through testing, random sampling, and calculating precision and recall, maintaining prompt audit logs, and identifying documents or issues unsuitable for gen AI at the outset. ILTA, *GenAI Guide (*Addendum to *Active Learning Best Practice Guide)* (Apr. 2025). In *EEOC v. Tesla*, 727 F.Supp.3d 875 (N.D. Cal. 2024), the parties submitted a stipulated discovery order that explicitly contemplated the use of gen AI alongside TAR, governed by the same transparency and statistical validation principles.

Taken together, the record is substantial. Platform providers are demonstrating that gen AI classification can be measured. Law firms are independently validating their own production processes and publishing the results. Industry bodies and courts are converging on standards and frameworks that treat gen AI classification as subject to the same validation discipline as any other technology-assisted review. Courts are incorporating gen AI into discovery orders under existing frameworks.

As Robert Keeling, partner at Redgrave LLP, observed, "The protocols already exist. The metrics already exist. We do not need to reinvent the wheel when it comes to gen AI review. If validation is needed, practitioners may validate gen AI classification using the same tools they have relied on for years. What we should not do is allow unjustified skepticism of a new form of machine assistance—or demands for extraordinary proof of its efficacy—to create barriers to adoption that we have never imposed on any other review methodology."

Jake Ancona, eDiscovery and legal hold counsel at Fidelity National Financial, agrees: "We've moved well past the proof-of-concept stage. The frameworks are proven, the results are measurable, and practitioners across the industry have been relying on them in live matters. At this point, the question isn't whether gen AI works in review. It's about how teams can operationalize it."

Jeff Johnson, chief innovation officer at Purpose Legal, adds: "Gen AI workflows have been applied across many live matters involving millions of documents, and the results are consistently strong. With proper workflow design and oversight, validated recall averages above 90%, often exceeding 95%, while precision remains consistently above 80%. These results meaningfully outperform traditional TAR benchmarks."

Final Thoughts

Gen AI does present new considerations that practitioners should take seriously. As discussed, automation bias and other new challenges exist, and practitioners need to be vigilant against the

Litigation Trends to Watch: Cases Center on Multilevel Marketing, Supplement Serving Sizes and OnlyFans Disputes

Vitamin and supplement companies are accused of manipulating serving sizes.

May 08, 2026 at 02:21 PM By **Mike Neighbors**

Credit: doucefleur/Adobe Stock

Welcome to the Trend Detection Weekly Scan from Law.com Radar. This weekly article highlights shifts and patterns in case filings that are surfaced by Law.com Radar's award-winning Trend Detection system.

New to Trend Detection? This proprietary system employs specialized algorithms to identify early signs of litigation trends in state and federal filings. Click here to learn more about Law.com Radar's new suit alerting and trend detection capabilities.

Here's what caught our attention this week:

- FTC cracks down on 'made in USA' claims and multilevel marketing.
- Promotional emails trigger suits under California anti-spam laws.
- Class actions surge over supplement serving sizes.
- OnlyFans content creators face copyright claims.
- Litigation ticks upward in California's health care sector.

► **Federal Trade Commission**

The **U.S. Federal Trade Commission** launched a swarm of enforcement actions in April. The agency filed nine cases alleging anticompetitive business practices across multiple industries. Three suits accuse companies of deceptively labeling products as 'made in the USA' even though the goods are primarily made with foreign materials. The suits, which target **Americana Liberty**, **Oak Street Bootmakers** and **TouchTunes Music**, are part of a wave of cases centering on 'made in the USA' and similar statements, including several consumer class actions.

Another trio of FTC actions centers on multilevel marketing. For instance, **LifeWave**, a seller of phototherapy patches, is accused of falsely representing that sales representatives, referred to by the company as 'brand partners,' are likely to earn substantial income even though average annual earnings are only $650. Other defendants include **Total Life Changes** and **Forever Living Products**.

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► **Privacy | Class Actions | U.S., Southern District of California**

Privacy class actions surged last month in California Southern District Court. At least nine cases were filed in April, which is about four times the typical monthly average. The suits span multiple industries and center on allegations of deceptive digital marketing and unlawful data collection practices. Defendants, including **Vivint Smart Home**, **Sam’s West** and **Empower Health Labs**, are accused of violating California anti-spam laws by sending commercial emails with falsified headers, spoofed domains and misleading subject lines. Several lawsuits also allege businesses used tracking pixels, hidden code or third-party monitoring tools to collect sensitive consumer data without consent in violation of California privacy and wiretapping laws.

Who's bringing the heat? **Pacific Trial Attorneys** launched five cases, while **Siri & Glimstad** filed two.

[View Data]

► **Class Actions | NY-Kings County**

Law.com Radar detected a flurry of class actions in New York Supreme Court for Kings County, home to Brooklyn, during the week of April 27. At least seven cases were filed, two of which accuse supplement companies of deceptively advertising the vitamin C content of their gummies. A suit against **RB Health**, maker of Airborne chewable tablets, claims the 'Vitamin C 1000 mg' label on the packaging falsely suggests each tablet contains 1000 mg of vitamin C when in fact each tablet only contains 250 mg, and **Aldi** faces identical allegations over its Welby-branded vitamin C gummies.

Law.com Radar has recently spotted similar lawsuits centering on other supplements, such as melatonin, probiotics and apple cider vinegar. The suits are primarily backed by **Sheehan & Associates**.

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► **Copyright | U.S., District of Delaware**

Copyright lawsuits ticked up in Delaware District Court last month. At least eight cases were filed, about three times the typical monthly average. **Nova Marketing**, which manages distribution, promotion and IP portfolios for content creators on **OnlyFans**, brought two lawsuits alleging that Brazilian content creators distributed photos and videos to third parties on the adult media platform without the plaintiff's authorization. Nova Marketing is represented by **Panitch Schwarze Belisario & Nadel**.

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► **Health Care | California**

Litigation involving major health care companies is heating up in California, according to Law.com Radar. The platform spotted 71 cases initiated by or against Fortune 500 health care entities in April, continuing a rising trend that dates back roughly one year. In the 12 months preceding the trend period, about 34 cases were initiated per month, a number that has shot up to 52 cases during the trend period. Many suits accuse **Aetna**, **Elevance Health** and other insurers of failing to timely reimburse providers for medical services following arbitration under the federal No Surprises Act.

Also, **Boston Scientific** and **Abbott Laboratories** are facing several product liability cases alleging the companies modified their spinal cord stimulators without FDA approval. The suits contend that although the original versions of the devices were approved, numerous upgrades and modifications like Bluetooth-enabled programming, waveform functions and new battery architecture materially transformed the devices and should have triggered new FDA review. **Dexcom** has been hit with similar lawsuits over changes to its continuous glucose monitoring devices.

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Sam Alito Put Fake Facts In A Supreme Court Opinion!?!?

abovethelaw.com/2026/05/sam-alito-put-fake-facts-in-a-supreme-court-opinion

Joe Patrice May 8, 2026

(Photo by Alex Wong/Getty Images)

In his opinion functionally striking down the Voting Rights Act, Justice Sam Alito included fake data.

In any functional justice system, this disqualifying act of judicial irresponsibility would shock the nation's conscience. Realizing that a majority of the Supreme Court couldn't be bothered to conduct superficial fact-checking before signing their names to the opinion would register as an all-timer scandal. But it's America in 2026, so it barely registers more than a "sure."

In an exclusive report, *The Guardian* identified false data included in the Alito authored majority opinion in *Callais v. Louisiana*. The factual claim, that Black voter turnout exceeded white voter turnout in two of the five most recent presidential elections, comes "almost verbatim" from an amicus brief filed by the Trump Department of Justice. Alito cited this data to support the premise that the Voting Rights Act was unnecessary.

Are you sitting down? Because this is shocking: the same Department of Justice repeatedly caught lying to courts… *lied to the Court!*

> But a review of turnout and racial data in Louisiana reveals that assertion relies on an unusual methodology. The justice department brief that Alito citedcalculated Black and white voter turnout in Louisiana as a proportion of the total population of each racial group over the age of 18. Such an approach is not preferred by experts in calculating statewide turnout because the general over-18 population may include non-citizens, people with felony convictions and others who cannot legally vote. But it does yield Alito's conclusion that Black voter turnout exceeded white voter turnout in the 2012 and 2016presidential elections in Louisiana.

One would hope this speaks to why Alito delivered such an unhinged response when Justice Jackson baited him into acknowledging that the *Callais* opinion was reverse engineered. That somehow her needling got to Alito because he realized he'd uncritically parroted false data in an opinion. Sadly, that probably had nothing to do with it. Indeed, it's unlikely that Alito and company will even consider the gravity of enshrining lies into the nation's constitutional legacy.

Hey, let's give Alito the benefit of the doubt… he probably figured it out it was false and included it anyway. It's certainly not the first time the Court's conservatives have embraced falsehood in order to get the outcome they desire.

> The widely accepted approach is to consider voter turnout as a proportion of the citizen voting age population or the voter eligible population, the latter of which excludes non-citizens as well as people who cannot vote because of a felony conviction or because they have been deemed mentally incapacitated. When the Guardian analyzed turnout numbers in Louisiana using the citizen voting age population, it found that Black voter turnout in Louisiana only exceeded white voter turnout in the 2012 presidential election.

While conservative apologists will try to split hairs and argue that that this is a misleading mistake as opposed to false, *The Guardian* brought in one of the country's leading experts to analyze the data. The University of Florida's Michael McDonald concluded:

> "They had to fudge how they're calculating the turnout rate to get there, and they're not even taking into account margin of error, and all these other methodology issues about the current population survey to arrive at that number," he said. "Someone knew what they were doing."

Someone knew what they were doing. That's a lot nicer than *everyone involved* knew what they were doing.

Isn't it pretty to think so.

Samuel Alito's Voting Rights Act ruling cited misleading data from DoJ [The Guardian]
Samuel Alito Cited Fudged Data in His Ruling Gutting Voting Rights Act [The New Republic]

Earlier: Ketanji Brown Jackson Sends Sam Alito Raging

News | **Law Firm Associates**

Law Firm Disrupted: Are Associate Ranks Headed for a 'Course Correction'?

Some corporate clients only want to use a law firm when it's partner-level work, noted one New York recruiter. How will that shape the future of associate legal work?

May 08, 2026 at 03:27 PM By **Christine Simmons**

Credit: khunkornStudio/Adobe Stock

Business-of-law editors Dan Packel, Sarah Tincher-Numbers, David Gialanella and Christine Simmons write this weekly briefing, where the team digs into the emerging and persistent competitive pressures on law firms and how leaders are navigating those pressures. As always, we welcome your feedback and ideas. Want to be alerted to this dispatch in your inbox? Sign up here.

The law firm business model was doing fine and well in the first quarter of 2026, when revenue surged by 13% across the legal industry compared with the first quarter of 2025, and demand went up by 4.5%, according to figures from Wells Fargo Legal Specialty Group.

Law firms are relying on an even greater number of associates—and associate billing rate hikes—to push up revenue and profits. Last year, the total number of associates in the Am Law 100 swelled by 3.3% to 67,546 associates, according to Law.com data. In 2024, it went up by 7.4%.

Yet, the effects of adopting AI—which can cut the time of a doc review or writing a memo in half or more—appear to be increasingly at odds with the Big Law business model. At what point will law firms need to change their business model so they are relying less on associates for legal work that AI can do? Some believe a "course correction" is coming for the model soon.

"What I'm hearing from the top [of some firms] is that partners are interested in cutting the amount of hours they need to rely on associates," Katherine Loanzon, a New York recruiter at Kinney Recruiting, told me, while clients "are no longer paying for law firms to train (junior) associates on legal. They refused to pay for that work."

Yes, corporate clients have been saying for years that they don't want to pay to train first-year associates. But this feels different, and corporate clients are becoming more vocal, said Loanzon, who is also a co-founder of legaltech start-up SmartEsq, which automates elements of the fund formation process by applying AI and machine learning technologies to workflows.

The tech start-up's clients are law firms as well as PE firms that give out legal work to law firms.

Some corporate clients "are using AI internally to cut back on their reliance of law firms. So the only time they want to use a law firm is when it's partner-level work," Loanzon said. "They are being much more selective."

While it hasn't become a complete trend yet, private equity and corporate clients are "pulling back" work from law firms, she said.

Meanwhile, firms are more serious about adopting AI internally and that will probably affect headcount in some way, Loanzon said. That first pass of some legal work can now be done in 15 minutes, when a junior associate could take five to eight hours for the same work, she said.

Loanzon said she's not sure if associate layoffs will be coming as a result of the AI adoption, but there is "probably some sort of correction" coming as more law firms adopt AI internally and as clients rely on it more. Loanzon, who predicts smaller summer associate classes and first-year classes, said she has spoken with retiring partners who don't see the law firm model surviving.

Already, some GCs are tracking how firms bill for AI work to make sure they are efficient with it. For instance, one media industry general counsel told Law.com's Greg Andrews that his company created a special code in its e-billing software to identify work that involved AI. He said the vendor said that was not possible to do, but his company and outside counsel came up with a workaround.

To be clear, the sky is not falling for law firms or their associates. For now, they are doing well with the law firm model built on associate leverage. For Am Law 100 firms specifically, revenue was up 13.5%in 2025; for the Second Hundred firms, it was up almost by double-digits, coming in at 9.8%.

Still, the elements are in place for events to rapidly shift for firms. Can law firms survive on a model that doesn't rely on profits from associates on rudimentary tasks? Can they train associates to be the next law firm partners if some of that work goes away?

“Firms need to probably review the way they bill out junior lawyers,” Loanzon said, adding firms will “have to eat the cost of training juniors on simulations.”

Some law firms have already been approaching her about solutions for adopting tech to compete against native AI law firms, which are charging a fraction of the cost, because they don't have overheads or associates, she said.

Many are watching to see when client use of AI will have a tangible effect on associate work and associate hiring. McDermott Will & Schulte and Paul Weiss confirmed associate cuts this week, but AI was not said to be a factor in the moves.

Still, the cuts demonstrated that no work or jobs can be taken for granted, even at some of Big Law's most prestigious white-shoe firms. Observers said it's possible other firms could make their own cuts now, encouraged that two firms apparently did it this year, without showing signs of financial weaknesses.

“I'm cautiously watching the trend of associate attrition,” noted Loanzon, “because of the conversations I'm having from the startup side.”

In the News

>>The Am Law 200 launched this week. According to reporting by Brenda Sapino Jeffreys, revenue for the Am Law Second Hundred collectively rose by 6% in 2025, totaling $29.4 billion, although that revenue growth lagged the Am Law 100's 13% improvement. The Second Hundred firms, while posting largely positive results across financial metrics, also trailed the Am Law 100 in revenue per lawyer growth and in profits per equity partner.

>>Read Dan Roe's coverage of the explosive insider trading case unsealed by prosecutors this week. Over the course of a decade, three Big Law attorneys accessed confidential M&A data from six Am Law 100 firms on nearly 30 transactions for the purpose of selling the information to

friends and family members who could trade on it, say federal prosecutors and SEC officials in court papers unsealed Wednesday.

>>Associate cuts hit two Am Law 50 law firms this week. According to reporting by Ryan Harroff and Patrick Smith, industry sources are wondering if other firms will now feel encouraged to make their own cuts.

Why Most Legal AI Tools Make Junior Lawyers Worse, Not Better

abovethelaw.com/2026/05/why-most-legal-ai-tools-make-junior-lawyers-worse-not-better

Olga V. Mack

May 11, 2026

Legal AI is often sold as a training accelerator. Give junior lawyers faster answers, cleaner summaries, and clearer issue spotting, and they will ramp more quickly. That theory is tidy. It is also wrong.

In practice, many legal AI tools are quietly eroding the very skills junior lawyers most need to develop. Not because the tools are inaccurate, but because they collapse judgment into answers too early in the learning curve. When that happens, junior lawyers stop thinking before they have learned how.

This dynamic became hard to ignore during a series of empirical classroom pilots run through Product Law Hub using an AI-based product law coach called Frankie. The pilots were conducted in a product counseling course and designed to observe, not market, how law students and early-career lawyers interact with AI when learning judgment-based legal skills. The findings were based on a mix of quantitative engagement data and qualitative interviews conducted during and after the course.

What emerged should worry law firms investing heavily in AI as a training solution.

Junior Lawyers Already Struggle With Confidence And Framing

Anyone who has supervised junior lawyers knows the pattern. They are often technically capable but hesitant. They look for the “right” answer instead of learning how to frame a problem, assess tradeoffs, and explain risk in context. Confidence does not come from correctness alone. It comes from repeated exposure to uncertainty and the experience of reasoning through it.

AI tools that jump straight to answers short-circuit that process. They remove the productive discomfort that forces a junior lawyer to ask, “What am I missing?” or “Why does this matter to the business?” Over time, that matters more than speed.

In the classroom pilot, this showed up quickly. When the AI behaved like an answer engine, delivering conclusions without first engaging the student’s reasoning, engagement dropped. Quantitative usage data showed shorter sessions and fewer follow-up interactions. Students moved on faster, but they did not go deeper.

When AI Answers Too Fast, Thinking Stops

The most striking finding from the pilot was not about accuracy. The AI's legal guidance was generally sound. The problem was timing.

When students were given answers before they had articulated their own reasoning, many disengaged. In interviews, several described feeling less confident, not more. They deferred to the system's output without fully understanding why it was correct. Others described a subtle sense that their own analysis no longer mattered.

This is exactly the opposite of what junior lawyers need. Early in their careers, they need to build judgment muscles, not outsource them. AI that answers too quickly trains deference instead of reasoning.

In contrast, when the AI forced students to slow down by asking clarifying questions or prompting them to articulate tradeoffs before responding, engagement increased. Students stayed longer, revised their thinking, and were more willing to defend their conclusions. The difference was not intelligence. It was design.

Confidence Erosion Is Easy To Miss And Hard To Fix

One of the more concerning qualitative signals from the pilot was how easily confidence eroded when AI interactions felt overly directive. Several students reported that they second-guessed themselves more after using the system in answer-forward modes. Even when they agreed with the output, they felt less ownership over the reasoning.

In a firm setting, this kind of erosion is easy to miss. Junior lawyers may appear productive. They may turn work faster. But over time, they become overly reliant on tools to tell them what to think. That dependence shows up later, when they struggle to explain their reasoning to a partner, a client, or a regulator.

AI did not create this risk, but it amplifies it.

Training Environments Reveal What Practice Hides

Classrooms are unusually good at surfacing these dynamics because learners have fewer incentives to hide confusion. They disengage visibly. They complain. They stop using the tool. In practice, junior lawyers adapt instead. They comply, even if the tool is making them worse.

That is why the Product Law Hub pilot is instructive beyond education. It offers an early warning signal for what will happen as AI tools are embedded deeper into firm training and workflows. If a tool discourages reasoning in a low-stakes learning environment, it will do the same under billable pressure.

The Problem Is Not AI. It Is How We Deploy It.

None of this argues against AI in legal training. It argues against lazy deployment.

AI can support junior lawyers when it behaves like a mentor instead of an oracle. The most effective interactions in the pilot occurred when the system asked questions before giving answers, explained why an issue mattered in context, and made tradeoffs explicit instead of hiding them.

Those design choices kept the human in the loop cognitively, not just procedurally. They reinforced the idea that judgment is something you build, not something you receive.

What Firms Should Take Seriously

If firms want AI to help junior lawyers improve, they need to be honest about what they are optimizing for. Speed is easy to buy. Judgment is not.

Tools that prioritize instant answers may look efficient in demos, but they risk producing lawyers who are faster and less capable at the same time. That is not a trade most firms would accept if they saw it clearly.

The classroom data suggests a simple but uncomfortable truth. AI does not automatically make junior lawyers better. In many cases, it makes them worse, unless it is deliberately designed to slow them down, challenge them, and force them to think.

That may feel counterintuitive in a profession obsessed with efficiency. But judgment has never been built quickly. AI should not pretend otherwise.

Olga V. Mack is the CEO of TermScout, where she builds legal systems that make contracts faster to understand, easier to operate, and more trustworthy in real business conditions. Her work focuses on how legal rules allocate power, manage risk, and shape decisions under uncertainty. A serial CEO and former General Counsel, Olga previously led a legal technology company through acquisition by LexisNexis. She teaches at Berkeley Law and is a Fellow at CodeX, the Stanford Center for Legal Informatics. She has authored

several books on legal innovation and technology, delivered six TEDx talks, and her insights regularly appear in Forbes, Bloomberg Law, VentureBeat, TechCrunch, and Above the Law. Her work treats law as essential infrastructure, designed for how organizations actually operate.

Quinn Emanuel founder John B. Quinn steps down from firm's helm

DJ **dailyjournal.com**/articles/391339-quinn-emanuel-founder-john-b-quinn-steps-down-from-firm-s-helm

John B. Quinn

Four decades after launching Quinn Emanuel Urquhart & Sullivan LLP, litigator John B. Quinn is stepping down as leader of the firm he built.

Quinn will remain a partner and serve as non-executive chair, focusing on promoting the firm and developing client relationships, according to a firm statement.

The transition leaves Bill Burck and Mike Carlinsky, who have shared the co-managing partner role with Quinn since 2022, in charge of the firm's day-to-day operations. The firm said it expects a seamless transition.

"We thank John for his tireless efforts over the last 40 years in building the world's leading disputes firm," Burck and Carlinsky said. "John has been a great firm leader and lawyer, and it continues to be a privilege to be a part of this great firm."

A graduate of Harvard Law School, Quinn co-founded the litigation-only firm in Los Angeles in 1986. The firm now has more than 1,300 attorneys across 35 offices in 12 countries.

Legal industry consultant Peter Zeughauser said Quinn transformed the economics and structure of elite litigation firms, proving that a litigation-only model could compete with -- and take market share from -- the nation's largest corporate firms.

"He's obviously built among the best litigation boutiques," Zeughauser said. "He showed what could be done."

Quinn pioneered the use of premium contingency-fee arrangements in high-stakes corporate litigation, demonstrating that clients were willing to pay significantly for successful outcomes. He also proved a litigation-focused firm could thrive without a traditional corporate department -- long considered essential to building a client roster needed for a major law firm.

"He proved clients would pay a lot of money if they had confidence they could win a trial," Zeughauser said. "And he gave them that."

Quinn's management style also stood apart from more committee-driven firms. Zeughauser described Quinn as a highly centralized leader whose compensation and strategic decisions generated enormous profits for partners.

"There was never any question that he was in charge of the firm," Zeughauser said.

Quinn's move is significant because he is one of the industry's most closely watched leaders. Since 2022, he has also expanded his influence through his podcast, Law, Disrupted, where he interviews top law firm leaders; the firm says the show has surpassed 1 million streams and downloads.

Zeughauser said Quinn's influence extended beyond his own firm, inspiring a generation of elite trial boutiques that followed his model.

"He broke the mold," Zeughauser said. "A number of top trial firms have come to be because John Quinn showed it was possible."

#391339

Douglas Saunders Sr.

Law firm business and community news
douglas_saunders@dailyjournal.com

John Quinn Stepping Down From Running Quinn Emanuel

abovethelaw.com/2026/05/john-quinn-stepping-down-from-running-quinn-emanuel

Joe Patrice May 11, 2026

Founder-led law firms that stand the test of time must eventually negotiate the transition from personality cult with letterhead. Not all of them make it. It's usually not for lack of trying, but it's just that it's hard to chart a path into the future when the founder's neutron star personality is still down the hall and even harder for the founder to know they no longer control an institution that still has their name on the door.

Quinn Emanuel just took a big step in its process.

John Quinn, who co-founded the firm in 1986 with Eric Emanuel and built it into a 1,300-lawyer, 35-office, 12-country litigation juggernaut, is stepping down from firm management. He'll keep the partner title and a non-executive chair role, which Bloomberg Law reports will let him focus on "promoting Quinn Emanuel and client development" — which sounds a lot like stuff John Quinn has always done, but without having to deal with the budget. Co-managing partners Bill Burck and Mike Carlinsky, who took on those roles in 2022, will now run the place in earnest.

How smooth was the transition? Depends on who you ask. Bloomberg framed it as the natural next step in a multi-year succession plan. Law.com described the Quinn announcement as arriving "abruptly." Those frames might not be as different as they appear. Quinn reportedly told partners that he planned to pull this string at some point this year, adding that "some recent events make now an opportune time to do so."

Either way, the underlying fact is the same. The man who told *American Lawyer* last year that he wasn't retiring or moving into an emeritus role anytime soon, inviting anyone questioning his fitness to lead at age 72 to come run with him at the Rose Bowl, is now moving to something that looks an awful lot like an emeritus role.

For a guy who, when asked in 2018 what he wanted his legacy to be, said, "When I'm gone, I don't give a shit what happens," Quinn has done a lot to make sure his firm has a strategic plan for after he's gone.

***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.*

News | **Law Firm Partners**

John Quinn Steps Down From Quinn Emanuel Leadership

Quinn, who co-founded Quinn Emanuel Urquhart & Sullivan in 1986, made the sudden announcement to partners on Sunday.

May 10, 2026 at 11:11 AM By **Amanda O'Brien**

John Quinn, Quinn Emanuel Urquhart & Sullivan

What You Need to Know

- Quinn Emanuel co-founder John Quinn has stepped down from firm leadership.
- He will remain a partner at the firm and retain a non-executive chair title,
- The firm will continue to be managed by co-managing partners Bill Burck and Michael Carlinsky,

John Quinn, founding partner of Quinn Emanuel Urquart & Sullivan, abruptly told partners Sunday that he is stepping down from firm leadership, effective immediately, according to emails reviewed by Law.com.

“I had always expected to resign from execom at some point during this year. Some recent events make now an opportune time to do so,” Quinn wrote in his email to the firm, obtained by Law.com. “I would welcome the chance to speak with anyone who would like to about my commitment to this unparalleled firm that we have all created together and how I might be helpful to you going forward. My sole focus will be to work tirelessly to grow our firm to even greater heights.”

The firm will continue to be managed by co-managing partners Bill Burck and Michael Carlinsky, and Quinn, who is in his mid-70s, will remain as a partner at the firm and retain a non-executive chair title, according to a representative from the firm. Quinn will also continue to act as an ambassador to the firm, focusing on client and business development.

“We thank John for his tireless efforts over the last 40 years in building the world's leading disputes firm," Burck and Carlinsky said in response to a request for comment. “John has been a great firm leader and lawyer, and it continues to be a privilege to be a part of this great firm.”

Quinn’s decision to step down as executive chairman comes as the firm posted its third consecutive year of financial growth. Quinn Emanuel posted 12.6% growth in gross revenue to reach nearly $2.8 billion, while net income grew by 16% to reach roughly $1.8 billion. According to Law.com data, the firm’s full-time-equivalent headcount dipped in 2025 by about 8.7%, but a firm spokesperson said the firm implemented a new methodology for counting lawyers in 2025, and the firm's headcount grew last year.

Founded in 1986 by Quinn and colleagues Eric Emanuel, David Quinto and Phyllis Kupferstein, Quinn Emanuel has become a global litigation powerhouse, expanding strategically into markets like Singapore, Dubai, and Abu Dhabi, just to name a few of the firm’s recent office launches.

The firm has also made headlines in other contexts, such as when President Donald Trump called for Burck to be ousted from his role as outside ethics adviser for the Trump Organization in 2025, as well as the firm’s representation of Harvard against the Trump administration after the administration targeted the school over its diversity programs and cut billions in federal grant funding.

The firm had been synonymous with Quinn's leadership for decades, and for years, he was in charge of most major partnership decisions. Partners at the firm in May 2022 formally named Carlinsky and Burck to co-global managing partner roles after years of acting in unofficial leadership roles and as liaisons between Quinn and the growing partnership.

Securities

Quinn Emanuel Founder John Quinn Steps Down From Leadership Role

May 10, 2026, 2:58 PM PDT

Quinn Emanuel Urquhart & Sullivan founder John Quinn is stepping down from managing the firm he founded.

Quinn will remain a partner at the firm and retain a non-executive chair title, allowing him to focus his efforts on promoting Quinn Emanuel and client development, the firm announced Sunday.

“We thank John for his tireless efforts over the last 40 years in building the world’s leading disputes firm,” co-managing partners William Burck and Mike Carlinsky said in a statement.

Quinn’s move is significant because he is a singular leader among Big Law firms and his activities—as well as his comments about the industry—are closely watched by rival managers. Since 2022, he’s added to his public profile by taking on the role of quasi-journalist, as he interviews Big Law leaders for his podcast “Law, disrupted,” which according to his firm has over 1 million streams and downloads.

“John has been a great firm leader and lawyer, and it continues to be a privilege to be a part of this great firm,” Burck and Carlinksy said.

Quinn, 74, co-founded the firm in 1986, alongside Eric Emanuel and were joined by Phyllis Kupferstein and David Quinto. His litigation-only operation—the world’s largest such firm—is known for taking on high-profile cases on behalf of celebrity clients such as Alec Baldwin and Elon Musk.

Under Quinn’s leadership, the firm grew to 1,300 attorneys in 35 offices in 12 countries. He gave his first hint of a leadership transition in 2022, when he added Burck and Carlinsky as co-managing partners and took the new post of chairman.

The firm reached a milestone early this year when it said it expects to pay equity partners $9 million on average for 2025, making it just the third large law firm to reach that profits mark.

The American Lawyer earlier reported Quinn’s move.

To contact the reporter on this story: Meghan Tribe in New York at mtribe@bloomberglaw.com

Analysis | **White Collar Crime**

How Six Big Law Firms Lost Confidential M&A Data to a Global Insider Trading Scheme

Alleged perpetrators in some cases accessed material non-public information on deals in which they weren't staffed, charging documents show.

May 08, 2026 at 05:00 AM By **Dan Roe**

Photo: Diego M. Radzinschi/ALM

Over the course of a decade, three Big Law attorneys accessed confidential M&A data from six Am Law 100 firms on nearly 30 transactions for the purpose of selling the information to friends and family members who could trade on it, say federal prosecutors and SEC officials in court papers unsealed Wednesday.

The documents outline the sheer scope of a plan that involved six Big Law firms. In some cases, the attorneys were able to access material non-public information for matters on which they weren't staffed.

Together, the three ex-Big Law attorneys allegedly stole non-public information from their former employers, including Wachtell Lipton Rosen & Katz, Latham & Watkins, Goodwin Procter, Sidley Austin, Weil Gotshal & Manges, and Willkie Farr & Gallagher.

The lawyers include Nicolo Nourafchan, whom the DOJ accused of co-leading the scheme alongside Robert Yadgarov. Nourafchan worked as a corporate associate at Cleary Gottlieb Steen & Hamilton after graduating from Yale Law School in 2011, before moving to Sidley Austin in 2013.

Nourafchan left Sidley for a year-long stint as in-house counsel at a film production company in 2018 and then arrived at Latham & Watkins in 2019. Nourafchan was terminated by Latham in August 2020, according to an unsealed indictment, and went to work for Goodwin Procter in 2021. Goodwin terminated Nourafchan in September 2023, per the indictment.

Gabriel Gershowitz graduated from Columbia Law School and in 2010, joined Weil, Gotshal & Manges, where he worked until his 2019 move to DLA Piper. Gershowitz then joined Willkie Farr & Gallagher in 2021 and worked there until 2025, when he became a cooperating witness for the U.S. Attorney's Office for the District of Massachusetts.

A third lawyer, addressed as "co-conspirator 2," worked at Wachtell Lipton Rosen & Katz from 2013 to 2022, at which point he joined an investment bank.

Law.com has identified a former Wachtell lawyer whose education and work history matches the DOJ's description of co-conspirator 2. The lawyer has not responded to multiple requests for comment.

Nourafchan was the most prolific thief of non-public information, the DOJ and SEC documents indicate, having misappropriated confidential M&A data in 11 matters at Goodwin, five matters at Latham and two at Sidley.

At Goodwin, Nourafchan was able to view confidential information in nine matters on which he was not staffed by accessing the firm's "computer servers," the SEC complaint stated.

He was similarly not staffed on four of the five matters in which he accessed non-public information while at Latham, but was still able to access this information, including "a draft merger agreement, diligence review tracker, timeline, and signing checklist," per the SEC.

The DOJ and SEC documents provided incomplete or nonexistent information on whether Nourafchan, Gershowitz or co-conspirator 2 were staffed on matters in which they accessed and shared non-public information at the four other firms.

In an email, a spokesperson for Wachtell said the second co-conspirator left the firm four years ago and noted that there are no allegations of wrongdoing against the firm. "Wachtell Lipton has cooperated fully with the U.S. Attorney's office and will continue to do so," the spokesperson said.

A Latham spokesperson referred Law.com to an earlier statement, in which the firm noted that Nourafchan had left the firm five years ago and said the alleged conduct would "reflect a serious violation of our robust policies and procedures."

Representatives of the four other firms did not immediately respond to questions about how their non-public information was accessed and how they would prevent misuse of confidential client data in the future.

Gershowitz declined to comment through his attorney, Scott Morvillo. An attorney for Nourafchan, Eric Rosen, did not immediately respond to a request for comment.

Code Names and Tips

The "tipping scheme," as the SEC called it, included layers of middlemen who handed off material non-public information from the three corporate attorneys in order to avoid detection, although the DOJ indicated that some of the co-defendants traded on information they had been instructed not to trade on by other members of the scheme.

It began in 2014 with Burger King's acquisition of Tim Hortons, in which Wachtell represented Tim Hortons. Co-conspirator 2 provided non-public information to Nourafchan and Yadgarov, which induced co-defendant Ilya Gavrilov (whom Naroufchan and Yadgarov recruited) to purchase Tim Hortons securities ahead of the acquisition's announcement.

The scheme targeted long positions on companies whose stocks were expected to rise in value after public deal announcements, which a network of traders were able to get ahead of, thanks to the deal lawyers' insider information.

The second co-conspirator accessed and shared non-public data for eight deals while at Wachtell, with the most recent deal being Occidental Petroleum's 2019 acquisition of Anadarko Petroleum.

While at Weil, Gershowitz also accessed and provided non-public information to Nourafchan on the Anadarko deal, in which Weil represented investment banks and Wachtell represented Anadarko. Gershowitz was staffed on the deal, the SEC stated in its complaint.

Gershowitz also shared non-public information with Nourafchan and Yadgarov on a planned 2019 combination of a specialty packaging business owned by Ardagh Group with Exal Corporation, in which Weil advised a controlling Exal shareholder.

Then, while at Willkie in 2024, Gershowitz was staffed on Sixth Street's acquisition of global insurer Enstar Group Limited, in which Willkie represented Sixth Street. Gershowitz drafted a document titled “Project Elk-Reinsurance Diligence Call Agenda Items,” in reference to the project’s codename, before sharing non-public information with Yadgarov in May 2024.

Gershowitz also shared information on the deal with Nourafchan while the two were in Gershowitz’s apartment in July 2024. Co-defendant Joseph Suskind made $630,000 in illicit profit on the subsequent trade.

While most alleged co-defendants made four-figure gains on each tip, some tips proved more lucrative—and some co-defendants took out larger positions than others.

Defendant Nowel Milik made $1.2 million on two trades, having purchased thousands of out-of-the-money call options on iRobot before its deal was announced. He also “traded profitably,” per the SEC, on a deal involving IT firm KnowBe4, thanks to information from Nourafchan.

The alleged perpetrators attempted to conceal their activities using codenames, with tips referred to as “airline flights” and “learning,” referring to the act of trading information.

Similarly, the law firms that were targeted used codenames to avoid the leaking of material non-public information. Goodwin internally titled the iRobot acquisition “Project Integrator,” while Willkie dubbed the acquisition of a global insurance group “Project Elk.”

A total of 30 men were charged in Wednesday’s unsealed indictments, with charges including securities fraud, conspiracy to commit securities fraud, money laundering conspiracy and obstruction of justice, among others. The SEC’s complaint alleged violations of the Securities Exchange Act of 1934 against 21 men. Nourafchan and co-conspirator 2 were each charged and sued by the DOJ and SEC, respectively.

White collar crime

How top Wall Street law firms became a pipeline for insider trading

Deal advice has evolved into a huge legal business but leaves firms vulnerable to misuse of confidential information

Advising on mergers and acquisitions is one of the most lucrative areas of business for Wall Street law firms © AP

Julia Rock, **Sujeet Indap** and **Oliver Barnes** in New York

Published MAY 10 2026

Lawyers at Goodwin Procter were representing iRobot, maker of the automated Roomba vacuum cleaners, as talks to be acquired by Amazon heated up in the summer of 2022.

In the following months, according to US authorities, a network of more than a dozen people — including three brothers and a hairdresser — began amassing iRobot stock and options. When a deal was announced that August, the group allegedly netted more than $1.7mn in profits; two members of the ring texted each other with champagne emojis.

US prosecutors and securities regulators now say they were working off intelligence that came from inside Goodwin Procter itself.

In criminal charges unsealed on Wednesday, prosecutors said Nicolo Nourafchan, a 43-year-old Yale Law graduate who worked at elite firms Sidley Austin, Latham & Watkins and Goodwin, was at the centre of a decade-long insider trading scheme.

This alleged scheme extended from the halls of Ivy League law schools to Wall Street law offices to pilfer confidential deal information from the firms and feed it to a web of friends and contacts.

Authorities have charged 30 individuals. The Securities and Exchange Commission separately filed civil charges against 21 individuals.

Advising on mergers and acquisitions has become one of the most lucrative areas of business for Wall Street law firms, with even junior associates now earning hundreds of thousands of dollars a year. The work makes firms custodians of confidential information on multibillion-dollar public company transactions, leaving them little choice but to put their faith in their employees.

“What’s outstanding about this is it was a really comprehensive plan over almost a decade to mine law firm information for serial mergers,” said David Axelrod, a litigator at Ballard Spahr and former US prosecutor.

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.”

Over the course of a decade, Nourafchan allegedly passed information on pending deals to his George Washington University college classmate Robert Yadgarov and others.

Nourafchan and Yadgarov, who has his own personal injury practice, also recruited two other early-career corporate lawyers to share information, according to prosecutors.

In 2014 they allegedly involved Avi Sutton, according to multiple people familiar with the matter as well as matching information from the indictment with public records. Sutton attended Yale Law School with Nourafchan and was working at Wachtell when he allegedly shared his first tip, regarding Burger King’s imminent acquisition of Tim Hortons. He has not been indicted, and appears as an unnamed co-conspirator in one of the indictments.

A few years later, Nourafchan began socialising in New York City with another George Washington classmate, Gabriel Gershowitz, whom he knew was also an M&A lawyer.

Nourafchan and Yadgarov taught him about the scheme and told him they’d earned “several million dollars in illicit profits”, according to the SEC complaint.

Gershowitz, a graduate of Columbia Law School, was working at Weil Gotshal in 2019 when he allegedly began sharing tips.

An attorney for Gershowitz declined to comment. Sutton could not be reached for comment. Attorney information for Nourafchan or Yadgarov could not be found.

According to prosecutors, the friends shared tips on nearly 30 deals involving such companies as Johnson & Johnson, Qualtrics and Occidental Petroleum. Traders allegedly made a collective tens of millions of dollars of illicit profits.

The lawyers were paid kickbacks from the trading proceeds, according to prosecutors. In the first five years of the scheme, Yadgarov allegedly collected more than $6.3mn in kickbacks from a single trader based in Russia, some of which he passed on to the other lawyers.

A former friend and law school classmate of one of the lawyer defendants told the FT that even as dealmaking was a glamorous and high-paying profession, the pressure to keep up a lifestyle with peers in New York City created a crushing demand for cash.

As Nourafchan attempted to convince Gershowitz to join the scheme in 2018, he explained to his friend how he accessed information on deals, according to the SEC complaint. Nourafchan said he viewed documents in the firm's document management system "in preview or read-only mode" to minimise detection, the complaint says.

Prosecutors alleged he at times accessed documents from deals he was not assigned to work on, including the iRobot deal. Nourafchan, while on a "leave of absence" from Goodwin, accessed a draft merger agreement and other files, according to authorities.

In the iRobot deal, a childhood friend of Nourafchan's met with a trader at a Florida casino to share the tip, according to authorities. The childhood friend also shared information with the three brothers, authorities allege, who had a WhatsApp chat group called "Brothers in the Market."

Nourafchan also allegedly tipped off his brother Lorenzo to the pending transaction, who told his hair stylist who told a friend.

Ahead of the public deal announcement, the hair stylist's friend bought iRobot shares and out-of-the-money call options, according to prosecutors. When Amazon announced it was acquiring iRobot in August, the friend texted the hair stylist: "You were right." Amazon and iRobot later abandoned the deal.

"You have to wonder how so many smart folks thought that this would work," said Bill Singer, a former regulatory defence lawyer. "It did work and flourished for a decade, so maybe the smart folks were smart, but not smart enough for the long haul."

Another instance in the indictments involves the investment bank LionTree, where Sutton began working in 2022. He was the bank's general counsel and as recently as last week was listed on LionTree's website as part of its executive leadership.

The following year, Sutton allegedly shared a tip with Yadgarov related to a potential acquisition of Adevinta, as LionTree was advising one of the online classifieds company's largest shareholders.

LionTree said in a statement, "We are aware of the filing identifying LionTree as one of many victims in this alleged scheme. There are no allegations of wrongdoing against the firm. The individual in question was immediately placed on leave and is no longer active at the firm."

"No matter how strong a firm's training, policies and procedures are, it is still unfortunately possible for a bad apple to breach client confidences and break the law," said Josh Naftalis, a litigator at Pallas Partners and former federal prosecutor.

Wachtell and Latham said in statements that the accused individuals had not been associated with the firms for several years, stressing that both individuals acted in contravention of their policies and the firms were not accused of wrongdoing.

Weil said in a statement that the alleged conduct was "extremely serious" and that the accused individual had not been associated with the firm in over six years. It also noted that the firm was "among the victims of the alleged scheme."

Sidley did not respond to a request for comment.

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US companies

Insider trading

White collar crime

Insider trading case exposes gaps in law firm security

reuters.com/legal/government/insider-trading-case-exposes-gaps-law-firm-security-2026-05-08

Sara Randazzo May 8, 2026

People walk along a corridor of an exhibition hall in Tokyo January 25, 2008. REUTERS/Toru Hanai/File Photo Purchase Licensing Rights, opens new tab

LOS ANGELES, May 8 (Reuters) - An insider-trading scheme unveiled this week by federal prosecutors in Boston laid out what looked like the perfect crime of opportunity. Corporate lawyers allegedly mined internal law-firm systems for deal secrets and tipped accomplices to earn tens of millions of dollars off well-timed trades.

Based on the information in the indictments, the insider tips the lawyers gleaned didn’t require breaking through any doors, physically or metaphorically: they had access by virtue of working at the law firms. The sprawling scheme includes 30 defendants and has ensnared some of the most elite law firms in the country, including Latham & Watkins; Wachtell, Lipton, Rosen & Katz; and Goodwin Procter. The law firms haven't been accused of wrongdoing and are considered victims by prosecutors.

One could argue that no internal security system can guard against every bad actor, but law firms have reason to know better at this point. Reading the indictment, it struck me that I’ve seen versions of this scam before — many times. Over the last dozen years, several well-known corporate law firms have been embroiled in similar insider-trading scandals involving information employees nabbed from internal databases. Those cases should have served as a wake-up call for law firms that they needed to do more to secure their internal systems.

In the days of banker boxes full of documents, locked conference rooms kept files secure, and law firms trusted their partners to uphold their ethical duties to clients. Law firms have invested heavily in security in recent years, in part out of fears of cyberattacks.

That doesn’t always help, however, when the threat comes from inside.

“The reality is you cannot really eliminate insider risk or access to sensitive data,” said Avi Sambira, a director at cybersecurity firm Sygnia.

While a stray document on a printer or overheard watercooler chatter can always be a risk, the biggest internal vulnerability these days stems from who has permission to access internal documents housed on law firm servers.

Cybersecurity professionals and lawyers I spoke to said law firms have grown more sophisticated over the last decade in how they restrict such data, often granting permission matter-by-matter rather than more broadly to everyone who shares a client or practice group.

“Firms having access to something doesn't mean everyone should have access equally,” said Devon Ackerman, an executive at cybersecurity firm LevelBlue. Instead, he said, permissions should be granted on a “need-to-know” basis.

A pair of indictments and a related Securities and Exchange Commission civil case filed this week suggest that lawyers determined to access insider information can find gaps in the system.

The scheme spans a decade and centers around Nicolo Nourafchan, a deal lawyer who worked at Sidley Austin, Latham & Watkins and Goodwin Procter. Notably, prosecutors allege he repeatedly obtained access to documents related to sensitive M&A deals that he was not assigned to work on, including a draft merger agreement, diligence review tracker, timeline and signing checklist.

Prosecutors say he even accessed documents 10 days after he was terminated from what the indictment calls Law Firm B, while on a leave of absence from Law Firm C, and on the day he turned in his firm-issued laptop at a firm.

Nourafchan’s attorney, Eric Rosen, didn’t respond to a request for comment.

In one telling detail, the SEC complaint alleges that in 2018, Nourafchan told a co-conspirator that “he searched the system using key words and viewed documents in preview or read-only mode so as to minimize any electronic trail of his access to the files.” Nourafchan’s co-conspirators at one point marveled at the “genius” of his going into deal work at large firms, to help enable the trades, according to court filings.

For law firms, setting tight restrictions on internal documents can be tedious, requiring hundreds of individual permissions to be granted and constantly monitored. Looking for anomalies in who is opening documents is tricky, cybersecurity professionals said, but AI and other technology is continually evolving to help.

Some of the allegations in the Boston case date back to as early as 2014, so it’s very possible the law firms involved have since sharpened their practices. Latham, Sidley and Goodwin Procter, which all employed Nourafchan, didn’t respond to requests for comment on their security protocols.

Latham said in response to the indictments, however, that “the conduct as alleged would reflect a serious violation of our robust policies and procedures.” Goodwin said it was disappointed a former employee “is alleged to have violated the trust placed in him and misused confidential information.”

The new allegations hark back to incidents from the past.

In a 2017 case [involving Foley & Lardner](), a partner was later sentenced to more than two years in prison for using internal client documents from matters he wasn't working on to make illegal stock trades. In that case, the law firm caught the behavior and reported it to law enforcement.

In another memorable case from 2014, an employee at Simpson, Thacher & Bartlett funneled deal information from internal databases to two others, in a trading ring that involved swallowing papers used to exchange tips in New York's Grand Central Station.

More recently, in 2023, prosecutors charged an attorney from Brazil working at Gibson, Dunn & Crutcher on a short-term contract with insider trading after he allegedly improperly viewed files on a pharmaceutical M&A deal he wasn't assigned to work on and used the information to purchase stock in one of the companies.

Foley, Simpson and Gibson didn't respond to requests for comment on whether the cases led them to change their practices.

Everyone I spoke to stressed that even with state-of-the-art technology and protocols, human behavior can be hard to outwit.

"You can't have a completely foolproof system no matter what steps you take," said Stephen Frank, a former securities fraud prosecutor now at Quinn Emanuel Urquhart & Sullivan, speaking generally and not about the new case. Law firms undoubtedly try to avoid such incidents, Frank said, because when breaches happen, "those are a lot of very uncomfortable conversations to be having with clients."

A NOTE FROM SARA: Welcome to Power of Attorney, my new column exploring the business and power dynamics of the legal industry. I'm interested in all levels of the legal system, from the big-law lawyers billing $3,000 an hour to plaintiffs representing themselves.

I first started covering the legal industry in 2009, at a time when the Great Recession was causing turmoil within large law firms.

I've followed the highs and lows of the profession since, watching the revolving door of attorney poaching, the changing demands of law-firm clients and plaintiffs attorneys looking for the next hot target.

I want to hear from you with ideas for future columns. Please reach me at sara.randazzo@thomsonreuters.com, opens new tab.

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Sara Randazzo is a columnist for Reuters covering the business and power dynamics driving the nation's legal system. Based in Los Angeles, she previously reported on law firms and litigation for The Wall Street Journal and legal trade publications in California and New York. Contact: sara.randazzo@thomsonreuters.com.

Litigation

Manage Newsletters

Hedge Funds Move In as Litigation Finance Assets Slump (1)

May 11, 2026, 9:11 AM PDT

Summary by Bloomberg AI

AI Generated

- A losing streak in litigation finance is attracting hedge funds and other alternative investment managers looking to invest in legal claims at distressed valuations.
- Firms including Davidson Kempner Capital Management LP and Attestor are looking to buy up such assets at valuations as low as 10 cents on the dollar, or in some cases, taking on distressed assets for free.
- Some traditional litigation funders are "running out of cash" due to lengthy court cases and investor flight, leading to a surge in supply of distressed legal claims in the market.

A losing streak in litigation finance is attracting hedge funds and other alternative investment managers looking to invest in legal claims at distressed valuations, according to people familiar with the matter.

Firms working in distressed-debt special situations including Davidson Kempner Capital Management LP and Attestor are looking to buy up such assets at valuations as low as 10 cents on the dollar, the people said, asking not to be identified discussing private deals. In some cases, buyers are taking on distressed assets for free, and agreeing to pay the seller a small amount if the underlying lawsuit wins.

Litigation finance has doubled in size over the past decade to become a $20 billion industry, channeling capital into lawsuits spanning everything from allegations of corporate malfeasance to bankruptcy disputes. But a combination of tougher regulations in key jurisdictions, protracted legal battles and investor flight has stunted its growth.

Spokespeople for Davidson Kempner and Attestor declined to comment.

The building that houses the office of boutique fund Attestor in London, on March 14, 2024.
Photographer: Chris J. Ratcliffe/Bloomberg
The Assets Being Targeted:

In litigation finance, an investor provides capital to support a legal claim, typically by covering legal fees or other costs as a case moves through the courts. If the side backed by the investor prevails (or a settlement is reached), they get a share of the proceeds. The asset is the financial interest in that claim, rather than the lawsuit itself.

Some traditional litigation funders are simply "running out of cash," said Zachary Krug, a managing director in NorthWall Capital 's legal asset investment team. Lengthy court cases in particular have emerged as a headache, he said, upending the financial logic of what had once seemed like solid bets.

And as early-stage investors walk away, "you are seeing a lot of supply into the market," Krug said.

Fortress Investment Group is among asset managers regularly hunting for opportunities in the market, the people said. Bench Walk Advisors , itself a litigation funder, has also been buying up distressed legal claims in Italy and the Netherlands and is now looking to do the same in Germany and Spain, according to **Adrian Chopin**, the firm's co-founder and managing director.

A representatives for Fortress declined to comment.

Longtime litigation funders are expected to face additional hurdles including stricter regulations in key jurisdictions such as the UK. Sarah Sackman, minister of state for justice, has told lawmakers that such adjustments are needed in order to encourage fairness and transparency. She also said the goal is to introduce "proportionate regulation" of litigation funding agreements, in a statement to parliament in December.

Fund managers looking to scoop up assets have started appearing in person at litigation finance events, people familiar with the matter said. Such gatherings, which have traditionally been attended by insiders who know each other, are increasingly filled with unfamiliar faces understood to be representatives of firms looking for deals at distressed valuations, the people said.

At a conference hosted by law firm Brown Rudnick in October, participants acknowledged they were losing money and that investors were pulling back, Bloomberg reported in December. And appetite for such deals appears to have deteriorated further since.

In March, a $16.1 billion judgment favoring YPF SA investors against Argentina was overturned in a US appeals court, sending shockwaves through the market. Burford Capital Ltd., which had been financing the lawsuit, saw its share price plunge 47% in a single day on the news.

Signage at the YPF SA headquarters in Buenos Aires, Argentina.
Photographer: Anita Pouchard Serra/Bloomberg

Following the drop, Burford Chief Executive Officer **Christopher Bogart** said the firm had always treated YPF as separate from its core business, and said he was confident it would continue to grow. The firm, whose shares are down 44% this year, has already realized value from YPF and had $740 million of cash and marketable securities at the end of March.

Alternative investment managers, meanwhile, appear to have little to lose given the prices at which deals are being struck. For them, the appeal lies in deploying excess capital in strategies that are uncorrelated to the wider market. In most cases, they're also able to buy insurance for such bets, limiting potential losses if deals sour, people with knowledge of the matter said.

For now, there's little to indicate relief is on the way for litigation funders. In the US, for example, market conditions "remain tight," according to Westfleet Advisors. The advisory firm wrote in a March report that "many funders continue to face significant challenges in raising new capital from investors."

(Adds more detail on Burford in third last paragraph.)

--With assistance from **Hema Parmar**.

Securities

Burford Says YPF Court Loss Caused $2.4 Billion Asset Drop

May 8, 2026, 8:18 AM PDT

Litigation funder Burford Capital Ltd. said Friday it recorded a $2.4 billion drop in assets last quarter because of its major court loss over the seizure of state-run oil company YPF SA.

Capital provision assets fell to $3.1 billion in the three months ending March 31, down from $5.3 billion in the same period of 2025, Burford said in presenting its quarterly financial results. The company reported a $1.6 billion loss for the quarter, compared with a $37 million profit in the year-ago period.

“The YPF loss was disappointing and it’s something that we expect to turn around, but it is an entirely non-cash event,” said Burford CEO Christopher Bogart.

The US Court of Appeals for the Second Circuit on March 27 reversed a ruling that ordered Argentina to pay $16.1 billion to investors over the seizure of YPF. Burford stood to win a large share of the award before the reversal because it funded the investors’ lawsuit against YPF.

Burford will file an en banc petition later Friday asking the entire appeals court to take a look at the case again, Bogart said on an earnings call. He also said the case is well setup for arbitration.

“We have a high level of confidence that some time from now, in the future, we’re going to be coming back to you with good news from an arbitration award, good news from an arbitration tribunal,” Bogart said.

The case dates back to 2012 when Argentina nationalized the oil giant YPF. Petersen Energia Inversora SAU and other investors filed suit in 2015, claiming the country did not offer a payout to shareholders as required. Burford acquired the right to pursue the claims for 15 million euro ($16.6 million).

US District Judge Loretta Preska issued the $16.1 billion award in 2023, after finding the nationalization violated YPF’s bylaws requiring a tender offer to shareholders. The award since swelled to $18 billion with interest.

Burford previously sold off more than a third of its interest to other investors, mainly large hedge funds, for $236 million.

In the aftermath of the court loss, Burford said it would write down the value of YPF in its portfolio.

To contact the reporter on this story: Emily R. Siegel at esiegel@bloombergindustry.com

To contact the editors responsible for this story: John Hughes at jhughes@bloombergindustry.com

News from Bloomberg Terminal

Ohio Public Safety Head Named Next State Attorney General (1)

May 11, 2026, 7:20 AM PDT

Summary by Bloomberg AI

AI Generated

- Ohio's top public safety official, Andy Wilson, will serve as the state's next attorney general through the end of the year, Gov. Mike DeWine announced.
- Wilson is currently the director of the state Department of Public Safety, a role he's held since 2022, and will take on high-profile cases including a prosecution of two former FirstEnergy Corp. executives.
- The appointment comes after current attorney general Dave Yost said he'd step down to take a job with the conservative Christian legal group Alliance Defending Freedom, and Wilson will serve until the winner of November's election is sworn in.

By Eric Heisig

(Bloomberg Law) --

Ohio's top public safety official will serve as the state's next attorney general through the end of the year, Gov. Mike DeWine announced Monday.

Andy Wilson will be the state's top cop from June until January, when the winner of November's election is sworn in, the Republican governor announced at a news conference in Columbus. Wilson is currently the director of the state Department of Public Safety, a role he's held since 2022.

"I have a great deal of confidence in Andy Wilson," DeWine said. "He has carried out everything I've ever asked him to do. He's done it with great professionalism. He's done it with great vigor and great enthusiasm."

Wilson, with his family by his side, said that "for the seven months that I'm there, we're going to go a hundred miles an hour and we're going to lead with energy and passion."

The announcement comes a few days after current attorney general, Dave Yost (R), said he'd step down effective June 7 to take a job with the conservative Christian legal group Alliance Defending Freedom. Yost is barred by the state constitution from seeking a third term, and his resignation provided an appointment opportunity for DeWine, who's also term-limited.

"Governor DeWine's appointment of Andy Wilson is a wise selection to ensure that the mission of the office and the great progress we've made in the past seven-plus years remains in steady hands," Yost said in a statement.

Temporary Post

DeWine acted quickly after receiving Yost's resignation letter because Wilson "has to start conversations today with the men and women in the attorney general's office and certainly with the attorney general," he said, adding that he made his pick on Sunday.

A former county prosecutor, Wilson has been a DeWine adviser since 2019. He currently leads a department with about 4,000 employees, which includes the Ohio Highway Patrol.

Among the most high-profile cases he'll take on is a prosecution of two former FirstEnergy Corp. executives for corruption charges. A trial against the executives ended in March with a hung jury; another trial is set for September.

Wilson wouldn't commit Monday to seeing the trial through, but rather said he'd like to sit down with people in the office to find out more.

"I'd be negligent right now if I'm giving you opinions about a case that I haven't talked to that trial team about," he said

Columbus-area attorney John Kulewicz, a Democrat, and State Auditor Keith Faber (R) are running against each other to succeed Wilson.

Faber called Wilson "a solid pick" in a post on X, and Wilson made clear that he supports the auditor to succeed him.

DeWine said he considered appointing Faber, but decided against it because that would involve additional appointments. Several statewide officeholders are seeking their colleagues' positions in November, and appointing a slate of new officials after Yost's resignation "just didn't look right to me," DeWine said.

To contact the reporter on this story: Eric Heisig in Cleveland at eheisig@bloombergindustry.com

To contact the editor responsible for this story: Alex Clearfield at aclearfield@bloombergindustry.com

(Updates with additional information from the news conference.)

News from Bloomberg Terminal
KKR Buys Back Some Private Credit
May 11, 2026, 11:24 AM PDT

By Matt Levine

(Bloomberg Opinion) --

FS KKR

The situation with business development companies is that their market value is less than their net asset value. A BDC is basically a retail private credit fund; it has a portfolio of loans, it marks them to market every quarter, and it computes a net asset value per share. "Our portfolio is worth $20 per share" or whatever, it tells investors. And then:

- If it's a publicly traded BDC, its stock trades at $17 or $13 or $10 on the stock exchange: Most public BDCs' stocks trade at a discount to their NAV.
- If it's a *non-traded* BDC, its stock doesn't trade, but shareholders submit a lot of redemption requests, hoping that the BDC will cash them out at NAV. This implies that the shareholders think the BDC is worth, you know, $17 or $13 or $10, so getting cashed out at $20 is a better deal.

Meanwhile the private credit firms that run the BDCs emphasize that everything is fine: Their loans are good, the net asset values correctly reflect the values of the funds, and this is all irrational panic. But what can they do about it? There are two conflicting impulses:

1. If you run a fund and think that it is worth $20 per share, you should invest your own money at $20 per share, to demonstrate that you really think everything is fine.
2. If you think that your fund is worth $20 per share, but its market price is $15, you should invest your own money at $15 per share, because you're not an idiot. Your clients are paying you to make good investing decisions. Buying good assets at a discount is a good investing decision. Paying full price for assets that are easily available at a discount, just to prove a point, is not.

We have discussed both approaches. The synthesis is probably "You should buy some shares of your own fund at NAV to demonstrate confidence, and you should buy some other shares of your own fund at a discount to make a buck." Here's this:

KKR & Co. is injecting $300 million into a private credit fund it manages with Future Standard as performance continues to deteriorate.

KKR will invest $150 million in preferred equity and tender for $150 million of FS KKR Capital Corp. common shares at $11 per share, according to a statement Monday. The preferred equity is convertible to common shares if the stock price, which ended last week at $10.84, rebounds to $18.83.

FSK, as it is called, released its first-quarter earnings today; here is the earnings release, which also describes KKR's investment. The $18.83 conversion price of the preferred stock is the fund's net asset value per share as of quarter-end. Buying a convertible preferred stock (which pays 5% cash or 7% in kind) with a conversion price of $18.83 is not quite the same thing as investing at the NAV, but it is, you know, optically almost that. Tendering for the stock at $11 per share, though, gets you $18.83 of assets for $11, which is an economically better trade. You might as well do a little of each.

Elsewhere, the Wall Street Journal reports:

Apollo Global Management has been holding talks to sell MidCap Financial Investment Corp., its publicly listed business-development company, a type of private-credit fund, according to people familiar with the matter. …

MFIC's stock trades at roughly 85% of net asset value, reflecting anxieties about future losses.

The buyer is likely to be another BDC, which could use shares in its own fund to purchase MFIC, one of the people said. Analysts have said that it is unlikely any buyer would be willing to pay the full NAV amount in cash.

If you think your fund is worth 100 cents on the dollar, you can't really sell it for 85. But if the market thinks it's worth 85, you can't really sell it for 100. The trick is to sell it for stock in another BDC that also trades at around 85 cents on the dollar.

And still elsewhere in private credit, Bloomberg's Davide Barbuscia and Yizhu Wang report:

Private credit firms saw their lending volume shrink 14% in the first quarter, even as banks saw an eye-popping 12.7% increase in lending to companies, the fastest growth since 2022. The data, and anecdotal reports from lenders, suggest that some private credit firms are losing business as fears of loan losses have pushed funding costs higher.

At the same time, US banks are benefiting from a wave of deregulation that has allowed them to offer cheaper funding for riskier companies and transactions. The head of the Office of the Comptroller of the Currency said explicitly in January that the agency was trying to relax post-crisis rules for leveraged loans to help banks better compete with private credit.

One broad story you could tell is that private credit found a better funding model for business lending than banks had, so private credit grew and banks "re-tranched." And then private credit's funding model turned out not to be quite as good as advertised, so the banks are, uh, de-re-tranching again.

What is an event?

Did Virginia's redistricting referendum pass? The basic facts are [1]:

1. In March, the Virginia legislature proposed a referendum to the state's voters about redrawing its congressional districts.
2. In April, the referendum passed with about a 3.3% margin of victory (51.7% voting yes, 48.3% voting no).
3. Various news articles said things like "Virginia Voters Approve Democratic Plan to Redraw Districts."
4. There were lawsuits, and last week the Virginia Supreme Court ruled that the referendum process violated the state constitution, which "irreparably undermines the integrity of the resulting referendum vote and renders it null and void."
5. The Virginia Department of Elections had not yet certified the results of the referendum vote, and now won't: "As a result of the court's ruling, the State Board of Elections will take no further action in relation to the election," says its website, though it continues to report "unofficial" results showing that a majority voted for the referendum.

So: Did it pass? I don't know. I think "if a referendum is submitted to voters, and it needs a majority to pass, and a majority vote for it, then it passed" is a reasonable interpretation. I think "if a referendum is submitted to voters, and a majority vote for it, but then it is declared null and void by the highest court and so the board of elections does not certify it" is *also* a reasonable interpretation. As a human, I find the first reading more reasonable; as a former lawyer, I see the appeal of the second. But obviously this is not up to me.

In a sense it's not up to anyone: It is not informative to say "yes it passed" or "no it didn't pass," and it is better simply to describe the facts. "It got a majority of the votes but was nullified by a court and will not be implemented": A comprehensible description that explains reality in a way that "yes" or "no" would not. Nothing about, for instance, congressional elections — nothing about *reality* — turns on whether it "passed" or "did not pass." Future events turn on the complex reality of past events, not on "yes" or "no."

But, of course, millions of dollars of *gambling* turn on the question "did it pass," because Kalshi, the prediction market, took millions of dollars of bets on that question. Did it pass, for Kalshi's purposes? Ahahahaha, incredibly the answer is "I don't know." Here is Kalshi's market on "Will the Virginia redistricting referendum pass," which got about $5.7 million of bets and which resolved to "Yes." Here is Kalshi's market on "Virginia redistricting referendum margin of victory," which got almost $10 million of bets and which has not resolved, although the most intuitively correct answer — "Yes, 3-6%" — got to about a 97% probability in April but is trading at about 9% now. For Kalshi's purposes, the referendum apparently *has* passed (in the first contract) and also *hasn't* (in the second).

If you look at Kalshi's rules for the referendum contract, you can sort of see what happened. There are two ways for the referendum to "pass." One is the official way:

A referendum "passes" when it meets ALL of the following conditions:

- Receives the minimum percentage of "Yes" or "For" votes required by the applicable
- constitution, law, or electoral rules (whether simple majority, supermajority, or other threshold)
- Meets any minimum voter turnout requirements if applicable
- Is certified as passed by the official electoral authority

By that standard, the referendum probably didn't pass: It got the required votes, but it has not been certified by the board of elections, and won't be. ("Outcome verified from the Virginia Department of Elections," says the contract's web page.)

But the other is the accelerated way:

For United States based elections, this Contract may be resolved on an accelerated basis if (A) at least four (4) of the eight (8) Designated Media Sources have declared a winning candidate, party, or option, and (B) none of the Designated Media Sources have issued a contradictory declaration. "Designated Media Sources" are: The New York Times (NYT), The Associated Press (AP), Decision Desk HQ (DDHQ), CNN, Fox News, NBC News, CBS News, and ABC News. … For the purposes of this clause, a source declares a winning candidate, party, or option when it makes either (i) a formal projection of victory by its centralized decision desk, or (ii) an unambiguous statement in a news article that the candidate/party/option has won.

And that *did* happen, in April, so the main contract was accelerated and resolved. News reports are a binding oracle. The margin-of-victory contract waited for final results, and there won't be final results. The referendum "passed" in April and "did not pass" in May; the timing of the resolution determined its outcome.

This is super stupid, man; I don't know what to tell you. A few points:

- It is not unheard-of for some financial contract to resolve one way and then, upon subsequent information, to reverse. You could imagine two hedge funds entering into some sort of swap on this question, paying out the "Yes" bet in April, and then sending the money back in May. It is harder for an essentially *retail* contract, though: Taking the money back from the "Yes" bettors now is both bad customer service and also hard to do if they have closed their accounts.
- I have written before that we are early in prediction markets generally, and that ultimately each market will need to appoint "a committee of lawyers and philosophers to decide whether events have occurred," and then iterate each time a resolution is controversial. "Each time some event contract has a difficult and controversial determination, the committee changes the rules for future event contracts to make the resolution easier and less controversial." I suppose we're in that iterative loop now.
- If prediction markets are "truth machines," what is the right answer here? If the goal here is to provide information about market-implied probabilities of the referendum "passing," what is the right definition of "passing"? Did people look at this market to inform their views about *how Virginia voters would vote*, or to inform their views about *whether the redistricting would be implemented?*[2] What *should* a philosopher, or a lawyer, say about whether this referendum has passed? I am partial to my own answer, that the "Yes" or "No" question doesn't matter and that, for real-world purposes, we need a full description of the real events. But that's no good for gambling.

Calling in rich

Within my lifetime, it was conventional wisdom that investors should not let startup founders sell any stock before the company did an initial public offering. The theory was that, while a startup was private, it was still scrappy and uncertain, and the founder should be entirely focused on making sure it succeeded. She should have all of her net worth in the startup, sleeping in the office and living on ramen until it achieved success. The obvious marker of success was the IPO: Once the company was public, (1) it was probably big and stable and permanent and (2) in any case, the early venture-capital investors could cash out. So if the founder also wanted to cash out some of her shares and buy a house, fine, great. As long as the VCs got paid first.

And so, within fairly recent memory, there was a cultural divide between scrappy startups and big tech companies. At a startup, everyone got paid mostly in equity that they couldn't sell. They were all-in on the company's success, because if it didn't succeed they'd get nothing. If it did succeed — if it did an IPO — they could sell their stock and get rich. Meanwhile at the biggest public tech companies, everything was more relaxed: The company had already succeeded, the employees' stock had a fairly stable value, and they could sell it at the market price. "Rest and vest," is the standard term for the cultural effects of that.

But private markets are the new public markets and if you work at OpenAI you can sell $30 million worth of stock in its periodic tender offers, and *75 people did* in the most recent tender. The Wall Street Journal reports:

OpenAI allowed employees to sell up to $30 million worth of shares each in a recent financing, making them some of the earliest financial winners of the artificial-intelligence boom.

Last October, more than 600 current and former employees sold their shares in a single stroke, collectively making $6.6 billion. For roughly 75 of them, that meant walking away with the full $30 million, according to people familiar with the matter. …

OpenAI has overseen several tender offers in recent years, but previously limited sales to $10 million per employee, frustrating some top researchers and engineers who were eligible to sell far more than that amount. The company said it tripled the cap last fall in response to demand from investors.

The *investors* wanted the employees to sell more stock, presumably not because the investors thought "yeah no problem if every employee takes some chips off the table" but rather because they thought "I am desperate to buy OpenAI shares and the only people who are selling are employees." I don't know what the split is between current and former employees, but, man! The conventional story of artificial intelligence is that every AI researcher is so intrinsically motivated by the desire to achieve artificial general intelligence that they will all keep working 100-hour weeks even with $30 million in the bank, even the ones who are 28 years old and have only been there for three years. But: really? I wrote last year:

You want to pay your people enough that they don't leave for a more lucrative offer elsewhere, but not so much that they never need to work again. The financial industry has developed sophisticated tools to address this problem, tools like "your office rival has a house closer to the beach in Amagansett so you have to keep working to outdo her." The main financial centers offer an enormous array of arbitrarily priced positional goods, and the apprenticeship model of finance teaches people to value them, so by the time you are making $20 million a year you will find it perfectly reasonable to think "man if I made $30 million a year life would be good."

Meanwhile … the competition for hiring AI researchers has gotten so intense that as far as I can tell the going rate for a top AI researcher is "enough money that you can retire immediately." Also the AI researchers are all like 20 minutes out of PhD programs and haven't had time to learn which Hamptons are déclassé. The gap between "enough money to be competitive" and "enough that they never need to work again" has been completely erased. From the outside that seems to make hiring and compensation very hard.

The Journal suggests that the market is actually developing a solution to this problem, which is roughly "$30 million will buy you a two-bedroom in the San Francisco metro area":

The newfound wealth is driving up rental prices in San Francisco, and sparking concerns about a growing class divide within the city.

"Man, if I could just sell another $30 million of stock, life would be good."

Things happen

AI Chipmaker Cerebras Seeks $4.8 Billion in Upsized US IPO. The World's Highest-Flying Repo Men Are Collecting Spirit Airlines' Jets. Hedge Fund Trader 'Gazumps' Millennium Again to Join Citadel. Hackers Used AI to Build Zero-Day Attack, Google Researchers Say. US pension fund threatens to divest TotalEnergies stake over offshore wind exit. Inside a Year of Chaos and Conflict at Kevin Hart's Media Company. Behind the Claude Frenzy That Ate Up All the Mac Minis. Typing Is Being Replaced by Whispering—and It's Way More Annoying. Ex-OpenAI Researcher's Six-Week-Old Startup Targets Funding at $4 Billion Valuation. What Is a Bob Ross Painting Worth? "Like many young founders, my ex-boyfriend believes that in the next few years, the spoils of the AI boom will go to the people who capitalize on it now, while the rest of us will be trapped in a permanent underclass."

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To contact the author of this story:
Matt Levine at mlevine51@bloomberg.net

To contact the editor responsible for this story:
Michael Newman at mnewman43@bloomberg.net

1. Some of the facts are drawn from the Virginia Supreme Court opinion last week.

2. I think the answer is "how they'd vote," but my view doesn't matter!

Securities

Manage Newsletters

SEC Moves to End 'Gag Rule' Criticized by Musk and Cuban

May 11, 2026, 8:57 AM PDT

Summary by Bloomberg AI **AI Generated**

- The White House is reviewing a plan for the Securities and Exchange Commission to end its policy that lets companies and people settle enforcement actions without admitting wrongdoing.
- The policy, known as the no admit/no deny rule, has prompted criticism that the SEC silences defendants and takes away their First Amendment rights.
- Eliminating the rule would align the SEC with the majority of federal agencies and give the commission more flexibility in settling enforcement actions.

The White House is reviewing a plan for the Securities and Exchange Commission to end its decades-old policy that lets companies and people settle enforcement actions without admitting wrongdoing if they also promise not to dispute the allegations.

The White House Office of Management and Budget received the regulator's measure to end the policy – known among critics as the "gag rule" – on May 8, according to a post on a government website.

The SEC for more than 50 years has allowed parties to settle without admitting wrongdoing, but they risked voiding the deal if they publicly pushed back on the findings.

The policy, known more formally as the no admit/no deny rule, has prompted criticism that the SEC silences defendants and takes away their First Amendment rights. SEC targets like Elon Musk and Mark Cuban have spoken out against the policy and have supported attempts to end the rule. The SEC in 2024 rejected a petition to change its policy.

Revision's Impact

Eliminating the rule would align the SEC with the majority of federal agencies that don't have a policy requiring defendants to sign no-deny provisions "and give the commission more flexibility in settling enforcement actions – conserving resources, providing certainty and potentially expediting the return of money to injured investors," an SEC spokesperson said in a statement.

The rule has also been criticized for being too lenient, allowing companies and people to end enforcement actions without taking responsibility for misconduct. In 2013 the agency said it would seek such admissions in some cases. Rescinding the rule isn't expected to impact the SEC's ability to negotiate for admissions as part of a settlement.

Musk earlier this month agreed to pay $1.5 million to settle SEC allegations that he cheated Twitter shareholders in 2022 by failing to properly disclose his growing stake in the social media company. Musk didn't admit or deny the regulator's allegations.

To contact the reporter on this story:
Nicola M White in Washington at nicwhite@bloomberg.net

To contact the editors responsible for this story:
Megan Howard at mhoward70@bloomberg.net

Rick Green

Securities

SEC Audit Oversight Push Renews Questions for Enron-Era Watchdog

May 11, 2026, 1:45 AM PDT

The SEC's plan to dedicate more staff to investigate audit lapses has triggered fresh uncertainty over the role of the industry's embattled watchdog.

Through a series of job postings and a few public statements, the US Securities and Exchange Commission has promised to create a specialized unit to put extra power behind its auditor oversight, targeting what one official described as "fundamental" failures.

Investor advocates said they fear the move could hollow out the enforcement capabilities of the Public Company Accounting Oversight Board, which Congress stood up to ensure investors could rely on corporate financial reporting after the collapse of Enron Corp. and WorldCom Inc. in the early 2000s.

Accountants' defense lawyers, meanwhile, are watching for clues about the full scope of the specialty unit's work and what new risks the shifting accountability landscape might introduce for auditors.

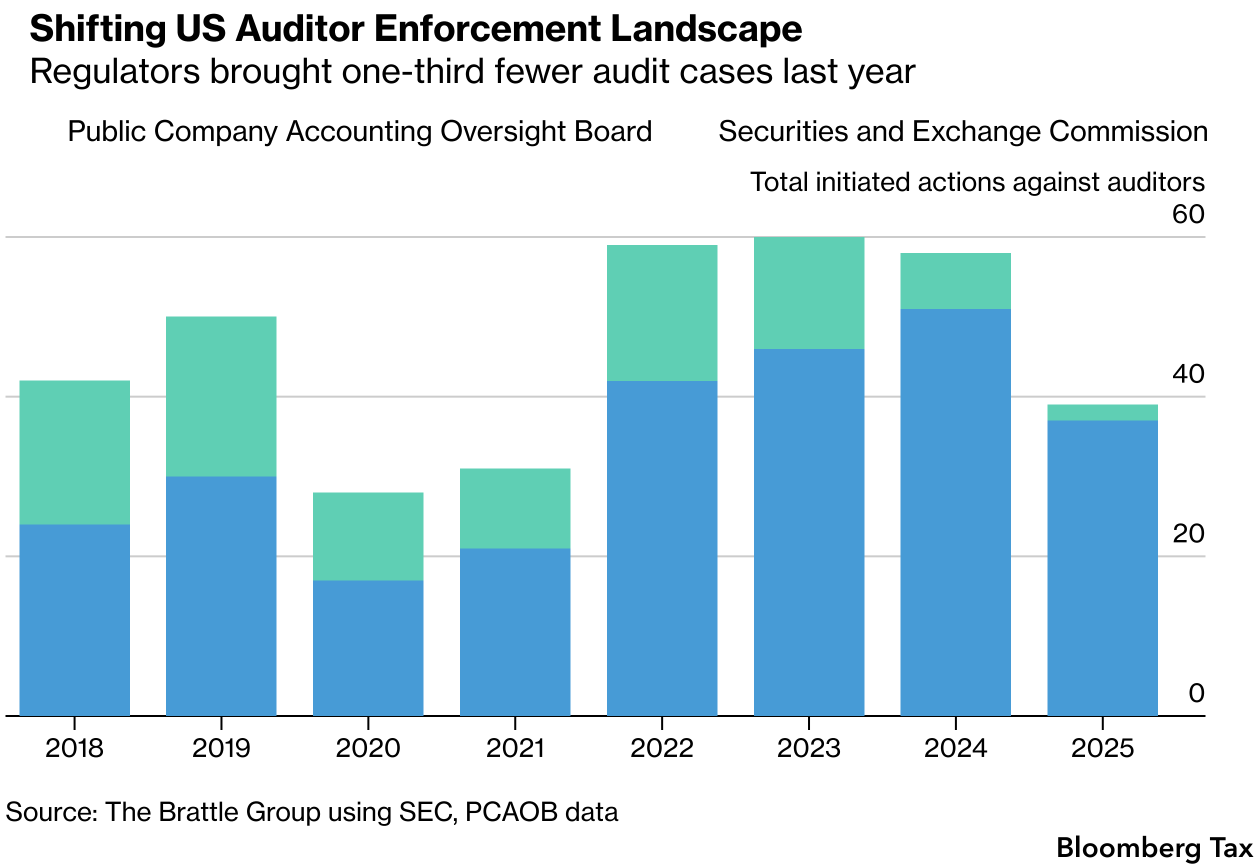
"This is a shadow policy change," said Corey Frayer, director of investor protection for the nonprofit Consumer Federation of America. "Congress mandated the existence of the PCAOB. It has a function and it is not the right of the chair to undermine those functions or to replace those functions whole cloth," he said, in reference to the head of the SEC.

The infusion of SEC resources for auditor oversight contrasts with the commission's track record so far under the Trump administration: an 18% cut in enforcement staffing last year and a sharp slowdown in enforcement actions. The PCAOB and SEC combined brought one-third fewer audit cases last year, according to data from the Brattle Group.

The audit board, which Congress attempted to dismantle last year, slashed its 2026 enforcement budget by 15% and is searching for a new director to run its investigations arm. It faces lawsuits challenging its enforcement authority.

"The establishment of this group at the SEC does not change the PCAOB's statutory mandate," the board said in response to questions about how the specialized unit would alter its own enforcement docket.

The SEC declined to comment. It has previously said that the new enforcement unit would “crack down on bad actors in the profession.”



Regulatory Overlap

For more than two decades, the SEC and PCAOB have shared the job of holding auditors to task for their work vetting the balance sheets and revenues of publicly traded companies collectively worth trillions.

The SEC typically brings marquee cases like its $100 million settlement with Ernst & Young LLP in 2022 related to staff cheating on internal training. The PCAOB later hit KPMG’s affiliate in the Netherlands with a $25 million penalty for similar exam cheating.

That overlapping authority has long been a source of frustration for auditors and critics of the PCAOB. In March, SEC Chief Accountant Kurt Hohl called for the two regulators to address such duplication.

The official steering the commission’s new unit, Ryan Wolfe, has said in public remarks that there is room for both regulators to pursue cases.

The new SEC group will focus on cases where auditors are “incompetent” or those involving clear violations of professional standards, such as skipping a required step that another partner outside of the audit team reviews the underlying work, he said during a Practising Law Institute event in March.

There are, however, some key differences between the two regulators—among them that SEC cases become public much earlier in the process. The commission also can pursue cases in federal court. That tactic has grown more common after a Supreme Court ruling limited the use of the SEC's in-house judges.

Under the PCAOB, cases can linger out of sight from investors for years before the misconduct becomes public.

The board relies on an in-house hearing officer to oversee disciplinary cases—a role that has been vacant since July, preventing the board from litigating its own cases.

In response to questions about the hearing officer, a PCAOB spokesperson pointed to its careers page, which didn't list an opening for the role.

Auditors and the lawyers who represent them hope to gain more clarity about the new audit unit's scope once the commission's new enforcement director starts and the team is fully staffed with attorneys and accountants.

"The expectation is that they will lead the charge on auditor enforcement," said Michael Plotnick, a partner with King & Spalding LLP and a former chief trial counsel for the PCAOB.

Still, he said he expects the audit board will continue to bring cases in certain areas. Agreements the board has struck with regulators around the world give the PCAOB unique access to individual auditors and their work papers, for example.

Violations stemming from the audit board's inspections and routine reporting requirements might also remain the purview of the PCAOB, Plotnick said.

Gatekeepers' Role

One advantage of the stand-alone audit regulator is the expertise of its accountants and lawyers, who bring a deep understanding how audits are conducted and the standards that guide them.

But such knowledge is needed at the SEC too, said Sandra Hanna, a partner with Steptoe LLP who leads the firm's SEC enforcement practice.

The commission's newly minted group could be a powerful tool to pursue auditors who pump out subpar work for clients, much like BF Borgers, once the auditor to President Donald Trump's social media company. In 2024, the SEC permanently suspended the firm, accusing its lone partner of rubber-stamping audits for hundreds of clients.

Shutting down such auditors is an effective tool to block fraudulent stocks from accessing the public markets. "It's entirely consistent with this administration's priorities to focus on gatekeepers," Hanna said.

Audit quality moves in tandem with oversight—when regulation is peeled back, that's when problems surface, said Rob Pawlewicz, assistant accounting professor at the University of Richmond.

“It’s not so much who does the regulating that matters, it’s how much,” he said.

To contact the reporter on this story: Amanda Iacone in Washington at aiacone@bloombergtax.com

To contact the editors responsible for this story: Andrea Vittorio at avittorio@bloombergindustry.com; Amelia Gruber Cohn at agrubercohn@bloombergindustry.com

Short seller Andrew Left to stand trial in LA over manipulation charges

reuters.com/legal/government/short-seller-andrew-left-stand-trial-la-over-manipulation-charges-2026-05-11

Michelle Price May 11, 2026

Andrew Left, the founder of Citron Research, speaks during the Reuters Global Investment 2019 Outlook Summit, in New York, U.S., November 12, 2018. REUTERS/Brendan McDermid/File Photo Purchase Licensing Rights, opens new tab

- Left accused of manipulation and hedge fund coordination; he denies wrongdoing
- Defense argues Left acted in good faith, legal experts question DOJ's aggressive prosecution
- Trial follows years-long probe into short sellers, criticism from companies

WASHINGTON, May 11 (Reuters) - High-profile short seller Andrew Left's criminal trial will kick off in Los Angeles this week, spotlighting a contentious cohort of investors who have for years goaded public companies in the U.S. and overseas with allegations of fraud and mismanagement.

U.S. authorities charged Left in July 2024, alleging he had manipulated the stock market and defrauded investors with misleading claims about his positions in multiple companies' shares, including Nvidia (NVDA.O), opens new tab and Tesla (TSLA.O), opens new tab, making at least $16 million in the process.

Jury selection is expected to begin on Monday and the trial could last weeks. The Justice Department expects to provide a number of witnesses, including retail investors, court filings show. It is unclear if Left, who denies the allegations, will testify.

Known for his sensational and colorful style, Left has, for more than a decade, been among the most prominent of a group of "short activists" who say they bet against public companies on the basis they are overvalued or engaging in outright fraud, drawing the ire of companies who have fought to curb their bets.

Left, who runs Citron Research, exploited his influence through social media and cable news appearances to tout what he said were his trades, only to quickly and secretly close out his positions to profit from short-lived price movements, the Justice Department alleges.

In return for compensation, Left also alerted hedge funds before publicizing his positions, allowing them to profit or mitigate losses, and concealed the coordination using fake invoices, according to prosecutors.

Left, who did not respond to an email seeking comment, pleaded not guilty and could face 25 years in prison if convicted of securities fraud. In a court filing last week, his attorneys said he "acted in good faith in making honest public commentary" and that there was no law that required him to hold his positions for a length of time.

AGGRESSIVE LEGAL THEORY?

Some legal experts have argued the case is aggressive. Long criticized, short sellers have often defended themselves by leaning on First Amendment rights. Investors are also free to change their minds.

"I think that theory standing alone would be a big swing by the DOJ," said Drew Bradylyons, founding partner at law firm Armstrong & Bradylyons and a former federal prosecutor.

"For that reason, the government really went out of its way to allege other facts in the indictment that bolster their case. It does a good job of telling a longer story - that he knew he was making false statements to profit."

Short sellers seek to profit off bets a stock will fall, although Left also took long positions.

Among Left's most high-profile short targets were the now-defunct China Evergrande, GameStop (GME.N), opens new tab, Valeant Pharmaceuticals and Shopify. Proponents of short activists say they play a crucial role in the market in exposing wrongdoing, but critics have accused them of "short and distort" tactics that have unfairly damaged public companies.

Left's trial is the culmination of a years-long probe by criminal prosecutors in Washington and Los Angeles, who began probing short sellers in 2019, Bloomberg, Reuters and others have reported.

Polish LOT sued Boeing over design flaws in 737 MAX -PAP

reuters.com/business/aerospace-defense/polish-lot-sued-boeing-over-design-flaws-737-max-pap-2021-10-26

Reuters October 26, 2021

Employees walk by the end of a 737 Max aircraft at the Boeing factory in Renton, Washington, U.S., March 27, 2019. REUTERS/Lindsey Wasson Purchase Licensing Rights, opens new tab

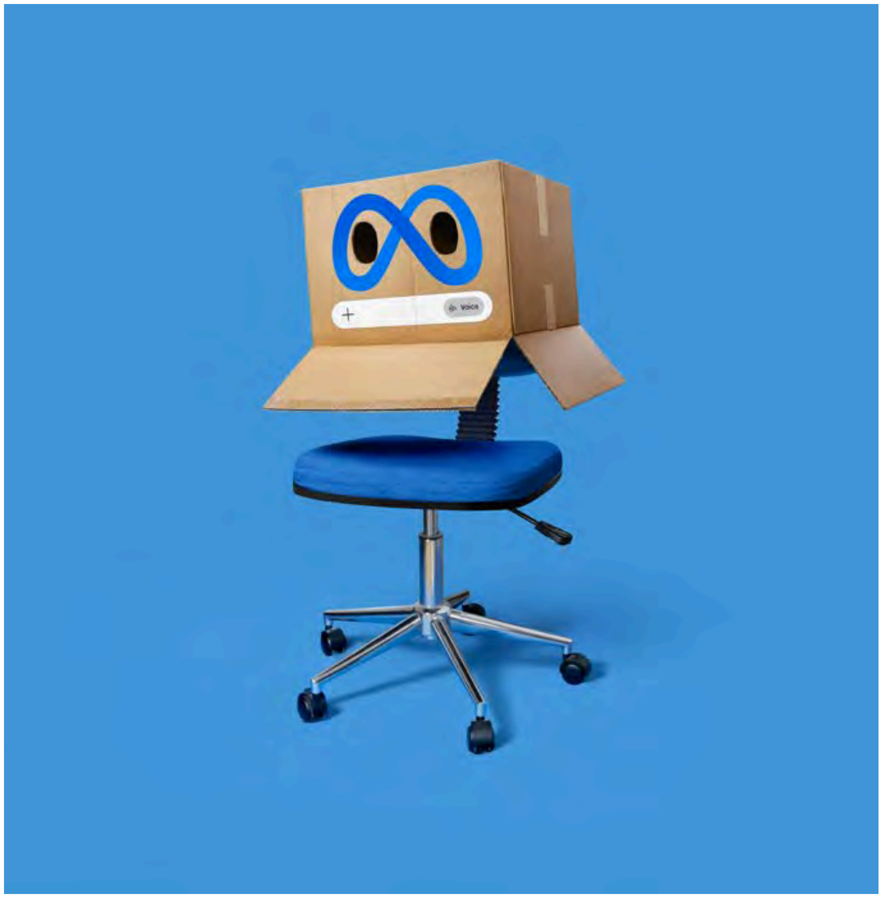
WARSAW, Oct 26 (Reuters) - Polish national airline PLL LOT has filed a lawsuit against Boeing in a court in Seattle due to design flaws in 737 MAX aircraft that led to their grounding, state news agency PAP reported on Tuesday citing unnamed sources.
LOT is demanding compensation of no less than 1 billion zlotys ($252.76 million)
The lawsuit was preceded by months of settlement negotiations that did not lead to an agreement, PAP reported.
LOT spokesperson Krzysztof Moczulski confirmed to Reuters that a lawsuit has been filed but did not provide any additional information.
737 MAX aircraft was grounded worldwide in 2019 following two deadly crashes.
Reporting by Alicja Ptak; Editing by Mark Porter

Our Standards:

Meta’s Embrace of A.I. Is Making Its Employees Miserable

nytimes.com/2026/05/08/technology/meta-ai-employees-miserable.html

Kalley Huang, Eli Tan, Kate Conger May 8, 2026



Credit...Doug Chayka

As it adapts to the artificial intelligence era, the company is pushing many of its 78,000 workers to use the technology, and preparing to lay some of them off.

Credit...Doug Chayka

In an internal post last month, Meta told its U.S. employees that it was making a change that would affect tens of thousands of them.

What employees typed into their computer, how they moved their mouse, where they clicked and what they saw on their screen would be tracked, Meta said. The goal, the company said, was to capture employee data so Meta’s artificial intelligence models could learn “how people actually complete everyday tasks using computers.”

Many workers immediately revolted. In online comments, they blasted the tracking as a privacy violation, calling it antisocial and callous.

"This makes me super uncomfortable," an engineering manager wrote in a comment in response to the announcement, which was reviewed by The New York Times. "How do we opt out?"

"There is no option to opt-out on your corporate laptop," replied Andrew Bosworth, Meta's chief technology officer. Employees reacted by posting more than 100 angry and surprised emojis, according to the messages.

Mark Zuckerberg, Meta's chief executive, has staked the future of his company on A.I. by weaving the powerful technology into apps like Facebook and Instagram and spending hundreds of billions of dollars on developing A.I. models and data centers. But as the Silicon Valley company tries to transition from an internet firm to an A.I. organization, its embrace of the technology has been awkward and, at times, downright ugly.

Meta is pushing its 78,000 employees to adopt A.I. tools and factoring their use of the technology in performance reviews. The company is also tracking employees' computer work to feed and train its A.I. models. And it is cutting jobs to offset its A.I. spending, saying last month that it would slash 10 percent of its work force.

That has led to anger and anxiety as employees await news of whether they are affected by the layoffs, which are slated to be carried out on May 20, according to 11 current and former Meta employees. Some said they no longer saw Meta as a place for a long career. Others were looking for new jobs or trying to signal that they wanted to be laid off so they could receive severance pay, the current and former employees said.

"It's incredibly demoralizing," an employee who does user research wrote in an internal post, which was reviewed by The Times.

The angst at Meta offers a preview of what may happen at other tech companies as they increasingly incorporate A.I. into their workplaces. Microsoft, Block and Coinbase have recently announced layoffs or buyouts as A.I. has reshaped work. The technology has been particularly disruptive at tech firms because A.I. tools are useful at generating code, which was typically written by the software engineers who underpin many digital businesses.

"A.I. can potentially make everyone a better coder and help them do way more things with fewer resources, but as a result, it also brings more intensity to the daily life of the worker," said Leo Boussioux, a professor of information systems at the University of Washington. "There is no playbook for A.I. in the workplace yet."

In a statement, Tracy Clayton, a Meta spokesman, said the purpose of the new employee tracking program was to train the company's A.I. products. "There are safeguards in place to protect sensitive content, and the data is not used for any other purpose," he said.

Reuters and The Information earlier reported some details of Meta's internal A.I. push.

Meta began reorienting itself around A.I. not long after OpenAI released the ChatGPT chatbot in 2022. Last summer, Mr. Zuckerberg spent billions to create a lab for "superintelligence," a futuristic form of A.I. that can act as the ultimate personal assistant, and overhauled its A.I. division. Mr. Zuckerberg, 41, has spoken at length about how superintelligence will improve people's lives.

Image

Meta chief executive Mark Zuckerberg at the Meta Connect event in September.Credit...Jason Henry for The New York Times

In March, Meta organized "A.I. Transformation Weeks" for its workers, five current and former employees said. The aim was to teach employees how to use A.I. coding tools and A.I. agents, which are digital assistants that can do tasks by themselves. Product designers, who style the way products look and how people interact with products, were told to use A.I. to try coding, and software coders were told to use A.I. to try designing products.

Meta also introduced internal dashboards to track employees' consumption of "tokens," a unit of A.I. use that is roughly equivalent to four characters of text, four people said. Some said the dashboards were a pressure tactic to encourage competition with colleagues. That led some employees to make so many A.I. agents that others had to introduce agents to find agents, and agents to rate agents, two people said.

On April 17, Reuters reported that Meta would soon lay off 10 percent of employees. Workers fretted over whether they had been training their A.I. replacements, three people said.

After Meta said late last month that it would start tracking employees' computer use, hundreds of workers spoke up. "Your callousness to the concerns of your own employees is concerning," one employee told Mr. Bosworth in an internal post.

In other posts that day, employees questioned whether Meta could safely secure the data it collected from workers while using that information to train A.I. models.

"This data is very tightly controlled," Mr. Bosworth replied. "This will not be a leak risk."

Two days later, Meta announced that it would lay off about 8,000 people this month. The cuts will allow the company "to offset the other investments we're making," Janelle Gale, Meta's head of human resources, said in an internal message. She added, "I know this leaves everyone with nearly a month of ambiguity which is incredibly unsettling."

Some employees have since shared layoff guides and nihilistic memes. "It do not matter," read one meme shared internally. Employees have created at least three websites counting down to the May 20 layoffs, with one website's header reading: "Big Beautiful Layoff," a play on the 2025 domestic policy law that President Trump called the "One Big Beautiful Bill."

Meta has hinted at more changes. "We don't really know what the optimal size of the company will be in the future," Susan Li, the chief financial officer, said during a call with investors last week. "I think there's a lot of change right now, with A.I. capabilities advancing rapidly."

The day after the investor call, Mr. Zuckerberg held a companywide question-and-answer meeting, along with other executives. During the meeting, a recording of which The Times reviewed, Mr. Zuckerberg said Meta was not gathering data on employees for “surveillance or performance tracking or anything like that.” Instead, the data would train A.I. on “how smart people use computers to accomplish tasks,” he said.

“I think we know that A.I. is one of the most competitive fields, probably in history,” Mr. Zuckerberg added.

Mike Isaac contributed reporting from San Francisco.

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Phone: +1 646 783 7100 | Fax: +1 646 783 7161 | customerservice@law360.com

Exxon Asks For Midtrial Judgment In Investor Class Action

By **Spencer Brewer**

Law360 (May 8, 2026, 9:33 PM EDT) -- Exxon Mobil Corp. filed a motion midtrial claiming that no reasonable jury could find that the energy giant breached securities laws with its representations of how much money some of its operations were making, saying that investors' class action claims failed as a matter of law.

Exxon filed its motion Thursday after the investors concluded their presentation of the case, saying that no jury could decide Exxon did anything other than follow the required securities laws and accounting rules. Lead plaintiff Eastern Atlantic States Carpenters Pension Fund told the jury that Exxon knew certain operations, including those in Kearl Lake in Canada and its Rocky Mountain dry gas assets, weren't as profitable as the company advertised and that the company breached securities law by delaying the release of that information to investors.

"After a full presentation of plaintiff's case, the record is devoid of legally sufficient evidence on the essential elements of any securities fraud claim," Exxon told the court.

After hearing the plaintiffs' case for over a week, no reasonable jury could find that Exxon made false statements or that it heard any reliable evidence that the investors **suffered damages** as a result of Exxon's actions. Additionally, Exxon said the jury heard not a shred of evidence that any of the company's disclosures actually corrected anything about Exxon's form 10-K from 2015. The investors claimed that Exxon **hid vital information** from investors in that year's annual report.

The plaintiffs failed to provide evidence showing that Exxon conducted any underhanded behavior or that executives **improperly pressured subordinate employees** to fudge the numbers in their analysis of the profitability of the company's operations, Exxon told the court.

"No evidence shows any discrepancy between what defendants knew about the disclosed information and what was actually disclosed," the company said. "Not one person involved in assessing and reporting the challenged statements disagreed with the information that was stated in the 2015 Form 10-K — not then, and not now."

In the lead-up to the class period, oil and gas prices weren't doing well and fell steadily around the globe. Exxon's oil and gas competitors took over $93 billion in write-downs and impairments, including to Canadian tar sand and dry gas assets similar to Exxon's Kearl reserves and Rocky Mountain dry gas assets that are at issue in the suit. Kearl Lake is the site of a Canadian oil sands deposit.

Despite suffering from the same pricing slump, Exxon alone refused to write down its Kearl reserves or Rocky Mountain dry gas assets, the investors alleged in their suit. Eventually, Exxon acknowledged the poor state of its operations in Kearl Lake and its Rocky Mountain dry gas assets. When it did so, its shares dropped by $3.44 per share, and the company's investors suffered losses, they alleged.

Representatives for the parties did not immediately respond to a request for comment.

The investors are represented by Darren J. Robbins, Michael J. Dowd, Spencer A. Burkholz, Scott H. Saham, Sam S. Sheldon, Jonah H. Goldstein, Nathan R. Lindell, Sara B. Polychron, Erika L. Oliver and T. Alex B. Folkerth of Robbins Geller Rudman & Dowd LLP, Joe Kendall of Kendall Law Group PLLC, and Balon B. Bradley of Balon B. Bradley Law Firm.

Exxon is represented by Theodore V. Wells Jr., Daniel J. Toal, Audra J. Soloway, Paul D. Brachman and Lyuba Shamailova of Paul Weiss Rifkind Wharton & Garrison LLP, Nina Cortell, Jason Bloom and Jason Neil Jordan of Haynes Boone, Thomas M. Melsheimer of King & Spalding LLP, and Scott C. Thomas of Latham & Watkins LLP.

Rex Tillerson is represented by D. Patrick Long of Squire Patton Boggs LLP.

The case is Ramirez v. Exxon Mobil Corp. et al., case number 3:16-cv-03111, in the U.S. District Court for the Northern District of Texas.

--Editing by Nick Siwek.

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Phone: +1 646 783 7100 | Fax: +1 646 783 7161 | customerservice@law360.com

Catalent Agrees To Pay $78M To Settle Securities Suit

By **George Woolston**

Law360 (May 8, 2026, 4:23 PM EDT) -- Catalent Inc. agreed on Thursday to pay $78 million to settle a securities class action from a group of investors who alleged the vaccine manufacturer engaged in accounting and channel stuffing schemes and cut corners on safety to pad its revenues.

The Public Employees Retirement System of Mississippi and SEB Funds AB said in their **motion** for final settlement approval that the $78 million deal, which they called the "culmination of three years of vigorous litigation" against Catalent, represents more than four times the median federal securities class action settlement in 2025 and almost double the average settlement value.

The deal will resolve the investors' claims that Catalent and executives John Chiminski, Alessandro Maselli and Thomas Castellano violated the Exchange Act by artificially inflating the company's average quarterly revenue by prematurely recognizing revenue in violation of U.S. generally accepted accounting principles and falsely representing the demand for its products.

The investors said that at the time the deal was reached, Catalent had challenged their request for class certification, and that the settlement removes the risk of prosecuting their claims.

Without the deal, the company would "continue to test lead plaintiffs' ability to prove liability as to the sustained quality control and GAAP compliance misstatements as well as loss causation and damages for the corrective disclosures related to those misstatements and omissions," the brief said. "In the face of these risks, lead plaintiffs determined that a certain, near-term $78 million recovery was in the best interests of the settlement class."

U.S. District Judge Zahid N. Quraishi gave preliminary approval to the settlement in December, according to the brief.

The court should award final approval, the investors said, because the lead plaintiffs and co-lead counsel adequately represented the settlement class, the parties negotiated at arm's length with the help of a mediator, and it provides adequate relief considering the costs and risks of continuing the litigation, among other factors.

The settlement class includes all persons and entities who or which, between Aug. 30, 2021, and May 7, 2023, acquired the publicly traded common stock or exchange-traded call options or sold the exchange-traded put options of Catalent.

Authorized claimants will recover a proportional amount of the net settlement fund based on their calculated loss, the brief said, and there have been no objections to the proposed deal.

"It is respectfully submitted that the plan will result in a fair and equitable distribution of the settlement proceeds among settlement class members who suffered losses as a result of defendants' alleged conduct. The notice fully disclosed the plan and, to date, no objections to the plan have been received. Therefore, the plan should be approved," the brief said.

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

The investors are represented by Joseph N. Cotilletta, Christine M. Fox, Adam M. Federer and Emily N. Gault of Labaton Keller Sucharow LLP, Joshua E. D'Ancona, Matthew L. Mustokoff, Jamie M. McCall and David A. Bocian of Kessler Topaz Meltzer & Check LLP, James E. Cecchi, Michael A. Innes and Kevin G. Cooper of Carella Byrne Cecchi Brody & Agnello PC and John L. Davidson of Davidson Bowie

PLLC.

The defendants are represented by Hope Delaney Skibitsky and Jaclyn Marie Palmerson of Quinn Emaunel Urquhart & Sullivan LLP and Kevin H. Marino and John D. Tortorella of Marino Tortorella & Boyle PC.

The case is City of Warwick Retirement System et al. v. Catalent Inc. et al., case number 3:23-cv-01108, in the U.S. District Court for the District of New Jersey.

--Editing by Adam LoBelia.

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Phone: +1 646 783 7100 | Fax: +1 646 783 7161 | customerservice@law360.com

Boeing Can Appeal Class Cert. In 737 Max Investor Suit

By **Hailey Konnath**

Law360 (May 8, 2026, 10:28 PM EDT) -- The Seventh Circuit is permitting Boeing to immediately challenge an Illinois federal judge's certification of a class of investors accusing it of misrepresenting the 737 Max 8 jets' safety after a pair of deadly crashes, according to an order filed Thursday.

A three-judge panel, without elaborating on its rationale, granted Boeing's petition for permission to appeal. Boeing did not immediately respond to a request for comment late Friday. Counsel for the investors declined to comment.

U.S. District Judge Franklin U. Valderrama **certified the investor class in March**, finding that their securities expert, David Tabak, proposed a methodology that "is capable of measuring class-wide damages and is consistent with plaintiffs' theory of liability."

Later that month, Boeing filed its petition with the Seventh Circuit, arguing that an interlocutory appeal is needed "given the extreme nature of plaintiffs' claims."

"Plaintiffs seek to convert two tragic accidents involving the 737 Max aircraft into securities-fraud claims predicated on dozens of purported misstatements spread over a year," it said at the time. "Plaintiffs claim more than $15 billion in damages, which may make settlement to avoid 'the risk of a catastrophic judgment' all but 'inevitable.'"

The 737 Max 8 series of airplanes was grounded around the world for 20 months after being involved in the October 2018 crash of Lion Air Flight 610 in the Java Sea that killed 189 people and the March 2019 crash of Ethiopian Airlines Flight 302 that killed 157 people.

The investors say Boeing and then-CEO Dennis A. Muilenburg made "audaciously misleading" public statements about the integrity of the certification process for the 737 Max 8, as well as pilots' ability to safely fly the 737 Max 8, by concealing the true nature of an automated flight-control software feature known as the Maneuvering Characteristics Augmentation System.

Specifically, Boeing has challenged the investors' ability to meet the predominance requirement for class certification. It also argued that option traders should not be included in the class. And it said that the investors failed to prove Boeing options traded in an efficient market and that they did not present a method capable of measuring damages for options on a classwide basis consistent with their liability theory.

Last month, a group of law professors and former U.S. Securities and Exchange Commission officials **threw their support behind Boeing**, arguing in an amicus curiae brief that the plaintiffs' bare-bones and cursory classwide damages theory doesn't even come close to clearing the evidentiary standard set by the U.S. Supreme Court.

The investor plaintiffs are represented by Salvatore J. Graziano, Katie M. Sinderson and Avi Josefson of Bernstein Litowitz Berger & Grossmann LLP, John L. Davidson of Davidson Bowie PLLC, and Andrew L. Zivitz and Joshua A. Materese of Kessler Topaz Meltzer & Check LLP.

Boeing and Muilenburg are represented by John F. Hartmann, Craig S. Primis and Katherine R. Katz of Kirkland & Ellis LLP and David N. Whalen, Richard C. Pepperman II and Benjamin R. Walker of Sullivan & Cromwell LLP.

The appeal is Boeing Co. et al. v. Public Employees' Retirement System of Mississippi et al., case number 26-8007, in the U.S. Court of Appeals for the Seventh Circuit.

The district court case is In re: The Boeing Co. Aircraft Securities Litigation, case number 1:19-cv-02394, in the U.S. District Court for the Northern District of Illinois.

--Additional reporting by Linda Chiem and Rae Ann Varona. Editing by Nick Siwek.

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Block Sets Aside $240M Amid Talks To Settle DOJ Probe

By **Jon Hill**

Law360 (May 8, 2026, 7:55 PM EDT) -- Jack Dorsey's Block Inc. has reserved $240 million as it works to settle a U.S. Department of Justice investigation tied to short-seller allegations that it turned a blind eye to fraud on Cash App, its mobile payment platform, according to an investor filing late Thursday.

In its latest quarterly report, Block said it has traded proposals with the DOJ for resolving the previously disclosed investigation but signaled that significant differences remain, warning it cannot guarantee negotiations will be successful in averting legal action by the government.

"The company disputes the basis and methodology underlying the DOJ's assessment of the matter, and it does not reflect the company's view of the merits or its view of an appropriate measure of loss, harm or the company's potential financial liability," Block said.

The fintech giant, which former Twitter chief Jack Dorsey co-founded and leads, said that it has accrued a $240 million estimated loss in connection with the investigation and that "discussions are ongoing." The DOJ presented its proposed terms in March and Block countered in April, according to the filing.

But Block also cautioned that it "cannot predict the final outcome" and that the investigation could wind up costing it much more to resolve, saying it is "reasonably possible" that it will face "losses in excess of the amount accrued and such losses could be material."

"The company cannot provide any assurance that the ultimate resolution will not have a material adverse effect on the company," Block said.

Spokespeople for Block and the DOJ did not immediately return requests for comment on Friday.

The DOJ investigation followed a 2023 report from Hindenburg Research, a now-shuttered activist short-seller firm, that accused Block of reporting inflated Cash App user metrics and facilitating illicit activity on the payment platform with lax anti-fraud controls.

The claims prompted a forceful denial from Block, which dismissed them as "factually inaccurate and misleading" and maintained that it was "confident" in its controls, compliance and reporting. The fintech also threatened to sue Hindenburg.

In the report's aftermath, the DOJ and U.S. Securities and Exchange Commission both began making investigative inquiries of Block. The report also touched off shareholder litigation against the company that **remains ongoing**.

While the DOJ continues to press ahead, Block disclosed in Thursday's investor filing that the SEC has concluded its probe and doesn't plan to pursue enforcement. SEC staff notified it of the decision in March, according to the filing.

Block also disclosed Thursday that it is close to resolving an older multistate investigation into its customer complaint-handling practices, which state attorneys general have been probing since at least 2022. The fintech said it reached a settlement "agreement in principle" last month but did not detail the terms, noting only they "are not expected to be material."

Ranked behind Zelle and Venmo in total user numbers, Block's Cash App is one of the largest mobile payment services. Although such peer-to-peer platforms have gained popularity for the speed and convenience they offer, user complaints about fraud and scams have fueled scrutiny of their security safeguards and complaint-handling policies.

At the end of the Biden administration, for example, Block agreed to pay **up to $175 million** to resolve Consumer Financial Protection Bureau claims that Cash App had left users exposed to fraud with weak security and inadequate customer service. Around the same time, it settled with state regulators for **$80 million** over alleged anti-money laundering failures on the app.

Although President Donald Trump has ushered in a dramatic shift in enforcement priorities across the federal government since then, the DOJ's still-pending investigation of Block marks a rare point of continuity across administrations.

It comes as Trump has called broadly for his administration to wage a "war on fraud," including by launching a federal anti-scam **task force** and elevating **fraud enforcement** within the DOJ. While this effort has been framed largely as a crackdown on government benefits fraud, federal officials have also singled out consumer fraud and cyber scams as areas of heightened focus.

--Editing by Emily Kokoll.

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Social Media Harm To Teens Can Be Pinpointed, Judge Told

By **Cara Salvatore**

Law360 (May 8, 2026, 9:54 PM EDT) -- Social media's degree of blame for New Mexico teens' mental health challenges can be statistically isolated and quantified, a health computational scientist testified Friday in the state's $3.7 billion bench trial against Meta.

Zachary Ward, a specialist in health decision science at Harvard University's public health school, took the stand in a Santa Fe courtroom Friday as part of New Mexico Attorney General Raúl Torrez's phase-two bench trial arguing that Meta should be subject to broad injunctive relief and a $3.7 billion public nuisance abatement plan over claims that its platforms cause harm to minor users. A jury heard about those claims extensively before penalizing Meta $375 million in March for misrepresenting the state of its knowledge to the public.

Ward uses models that statistically control for variables like age, sex, ethnicity, food insecurity and where the child usually sleeps, then looks at the predicted prevalence of a given mental health condition if social media use is removed from the equation.

"[Twenty-four]% of the girls who have depression in middle school would not have had it but for social media," Ward said. In high school, "the attributable fraction of depression for high school girls is 20%, and 42% for males. So that would be: 20% of high school girls with symptoms of depression would not have had that but for social media use."

Judge Bryan Biedscheid then stepped in to ask a question directly of Ward about gender differences.

"In terms of absolute numbers," he asked, the numbers show "that females have significantly higher rates … but that the reduction among males would be greater" without social media use?

"Correct," Ward said. "Females are at higher risk," but with "males you can move the needle more by removing social media, even though they're at lower risk to begin with."

Ward also said that 15% of sleep deprivation is attributable solely to social media, 22% of anxiety is attributable to social media and fully 40% of disordered eating by middle schoolers is attributable to social media.

Overall, he said in a slide, "1 in 10 youths in New Mexico have a mental health concern that is attributable to social media."

On cross, Ward was asked about some studies he relied on while crafting his expert report that Meta believes reach conclusions that counter Ward. For example, a study called Beyens et al. from 2020 found that it's still unknown whether social media's effects "are unique for each individual adolescent" and that 46% of adolescents felt better after "passive social media use," 44% felt the same, and only 10% felt worse.

"I don't think this is an experimental study; there's no randomization going on. So I would not give this study as much weight as the experimental studies," Ward said.

The bench trial kicked off Monday after a jury found in March that the parent company of Instagram, Facebook and WhatsApp hid the full scope of sexual predation and bullying on the apps and painted a rosier picture for the public than it discussed internally.

The 15-year, $3.712 billion abatement plan proposed by New Mexico's attorney general would be separate from the $375 million awarded by the jury in civil penalties.

Meta's counsel said in opening arguments that there is no legal basis whatsoever for an abatement plan that does not attempt to cut off a supposed harm at its source. Instead of talking about a shared common resource that is being sullied in some way, the case is about individual injuries that are being aggregated, which is not what public nuisance law is for, defense counsel said.

Additionally, the company has cited Section 230 of the Communications Decency Act, which says social media sites are not liable for the content published on them and which observers expect to be grounds for appeal alongside the First Amendment.

New Mexico is represented by Raúl Torrez of the New Mexico Office of the Attorney General, and by Donald Migliori, Linda Singer, Michael Pendell and David Ackerman of Motley Rice LLC.

Meta is represented by Kevin Huff, Alex Parkinson and Cassie Redlingshafer of Kellogg Hansen Todd Figel & Frederick PLLC.

The case is New Mexico v. Meta Platforms Inc. et al., case number D-101-CV-2023-02838, in the First Judicial District Court of New Mexico.

--Editing by Leah Bennett.

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Social Media Litigation Gains Reveal Potential Regulatory Path

By **Allison Grande**

Law360 (May 8, 2026, 10:18 PM EDT) -- Recent suits by a social media user and two state attorneys general in their bids to hold Meta and other tech giants accountable for the allegedly addictive nature of their platforms have brought to the forefront a potentially lucrative strategy for more broadly regulating online harms, as the First Amendment and other roadblocks continue to stymie legislative efforts.

Within two days in late March, juries in California and New Mexico found against the tech companies. A California state jury found Meta Platforms Inc. and Google LLC **liable for harming** the mental health of a woman who claimed her addiction to their social media platforms began in her childhood, and the jury awarded her a combined $6 million in damages. A New Mexico state jury separately concluded Meta must pay **$375 million** over the state's claims that the company hid the full scope of mental health harm its apps were causing to children using them.

The verdicts, combined with separate rulings within the past month preserving the Massachusetts attorney general's **addiction claims** aimed at TikTok Inc. and Meta's Instagram, have delivered significant blows to the tech industry at a time when major trade groups such as NetChoice have gained traction in their constitutional fights against state laws that seek to limit kids' social media use and require platforms to curb allegedly addictive design features.

"These results mark a major turn of events," said Allison Fitzpatrick, a partner at Davis+Gilbert LLP who specializes in digital media. "With these verdicts and decisions, the plaintiff and state attorneys general have figured out how to win in court and not be beaten down by the First Amendment."

States across the country have responded to mounting concerns over the influence that online platforms are having on children and teens' physical and mental health by enacting laws to restrict their access to social media or mandate companies to curtail certain design features and data practices.

The ways these laws achieve their objectives include requiring websites or app stores to verify the ages of their users, making social media platforms post warnings for minors and establish enhanced controls for parents, and barring online platforms from deploying certain design features, such as using algorithms to deliver feeds to children.

However, tech industry groups — most prominently NetChoice, which counts Meta, Google, TikTok and Amazon.com Inc. among its members — have quickly moved to challenge these laws, arguing they violate the First Amendment by censoring online speech under the guise of protecting underage users and restricting kids' ability to access and share lawful content.

These challengers have **secured favorable rulings** in recent months, with judges finding they were likely to succeed in Virginia, Louisiana, Texas, Arkansas, Mississippi, Ohio, Colorado, Florida, Georgia, Maryland and California, and agreeing to at least temporarily block enforcement of these measures.

"For years, social media companies have fought regulations left and right," said Collin Walke, leader of Hall Estill's cybersecurity practice and a former Oklahoma state legislator.

However, the latest verdicts out of California and New Mexico — which **both Meta and Google are fighting** — are likely to shift the expectations for how social media companies interact with children and other users who are spending significant amounts of time on Facebook, Instagram, YouTube and similar platforms, experts say.

"Most U.S. privacy laws currently allow organizations to provide notice to individuals of their privacy practices, and if the individual provides their consent, the organization can proceed with the practices they disclosed," said Casey Waughn, senior associate in the technology group at Armstrong Teasdale LLP. "[These verdicts] may signal that people expect platforms to do more than simply inform users of how their data is used, and instead, signal that people expect platforms to design privacy-protective and safety affirming features into the platform itself, especially when it comes to youth."

Aside from the state laws that aim to codify these design obligations, Congress has also repeatedly pushed to enshrine additional online safety protections in the law.

The most recent attempt came in March, when the Republican chair of the House Committee on Energy and Commerce floated H.R. 7757, the Kids Internet and Digital Safety Act. The proposal would impose a duty on social media, video game and messaging platforms to take "reasonable care" to mitigate or prevent harms that stem from their design features and require them to take steps such as implementing robust default safety settings, instituting age verification and providing parents with enhanced control tools.

The measure — which the Energy and Commerce Committee has advanced to the full House — incorporates key elements from the Senate-driven Kids Online Safety Act, or KOSA, a longstanding bipartisan proposal that would similarly require online platforms to implement stronger privacy and parental control settings but has drawn **objections from consumer advocates** that it would violate the First Amendment rights of children and adults to access content and communicate anonymously.

"Typically, laws and regulations lag behind public perception, but this is a rare example of where the two are relatively in sync," Waughn said. "[The latest litigation developments] could further signal to lawmakers that there is public support for oversight and safety measures when it comes to youth online, and spur further legislative activity in the space."

However, in addition to First Amendment concerns, enacting such legislation could also prove challenging due to the "multitude of stakeholders in the space" and ongoing "tensions between ensuring innovation and technological advances are not inhibited ... but also ensuring adequate protections and rights for consumers," she said.

"There are significant practical considerations in implementing protections for children online, including how much responsibility companies should have to verify users' ages and ensure safety, versus how much oversight parents should be required to exercise over their children when they use the internet, and other factors that make legislating in this space challenging even though there is bipartisan support for legislation," Waughn said.

The recent California and New Mexico verdicts appear to have fueled this backing, as several consumer advocates seized on the results to encourage policymakers to take action.

"Courts and juries across America are now doing what Congress has failed to do: forcing facts into public view and creating consequences when powerful companies refuse to act responsibly," J.B. Branch, AI governance and technology policy counsel at Public Citizen, said in a March statement.

"Now more than ever, it's time for Congress and federal regulators to establish enforceable safeguards for youth online while preserving the right of states to adopt stronger standards, including stronger product safety requirements, transparency obligations, limits on manipulative design practices, and accountability mechanisms for platforms whose business models depend on prolonged youth engagement," Branch said.

Fairplay, a nonprofit that aims to protect children from digital harms, also used the occasion to press Congress to pass the Senate's version of the Kids Online Safety Act to create a legal duty for social media companies to design their platforms in a way that won't addict users.

"It's good to see the plaintiff in [the Los Angeles case] receive financial damages for the harm she suffered," Fairplay Executive Director Josh Golin said after that verdict. "But to proactively keep children safe on social media, we need to force these companies to change how they design their products. That's where KOSA comes in."

"The courts have ruled. Now it's time for Congress to act," Golin added.

Congress has also taken notice. The Senate Committee on the Judiciary said Thursday it will hold a hearing this Wednesday on the topic; the committee has not released more details or a potential witness list.

As evidenced by the First Amendment challenges that have been raised by both industry groups and consumer advocates to such legislative efforts, codifying such protections is unlikely to be accomplished without clearing significant obstacles.

However, the latest gains by the California plaintiff and New Mexico and Massachusetts attorneys general — which required them to overcome arguments that the social media platforms were protected from potential liability by both the First Amendment and Section 230 of the Communications Decency Act — lay out a potential path forward for policymakers, experts say.

For one, these legal disputes illustrate that new regulation isn't necessarily needed to achieve the objective of shielding kids from online harms, Hall Estill's Walke said.

"There are laws already on the books that can provide an avenue for relief," Walke said, referring to the 20-year-old California plaintiff known as Kaley G.M. pressing a claim for "traditional common law negligence" and the New Mexico attorney general using the state's consumer protection act to accuse Meta of engaging in unfair and unconscionable business practices.

With such obstacles making it increasingly hard for legislatures to regulate in this area, "for many of these type of claims, we have to fall back to existing statutory and common law rights," Walke said.

However, state and federal lawmakers are likely to continue to face pressure to craft new laws specifically targeted at how social media providers collect data and design features — like their algorithms, notifications, autoplay, intermittent variable rewards and infinite scroll — to hook users and keep them coming back.

"This has been a hot topic for years and is only expected to continue to grow, especially with the introduction of [artificial intelligence]," said Beau Braswell, a data privacy and cybersecurity attorney at Taft Stettinius & Hollister LLP.

The recent courtroom wins for those challengers will likely begin leaving their impression on legislative efforts at the state level quickly, Braswell said.

At the federal level, Congress has had trouble with issues such as whether legislation should preempt state laws or impose a duty of care requirement on platform operators, so action there seems unlikely. But the companies involved in the social media addiction cases — most notably, Meta and Google — are "large enough to potentially shake up federal privacy discussions," Braswell said.

In their lawsuits, the California plaintiff and the states have primarily been able to get around First Amendment concerns and the safe harbor of Section 230 by focusing on how the tech giants have designed their platforms rather than on what they show users, experts say.

This strategy mirrors the playbook employed in litigation from years ago over tobacco, where plaintiffs "focused more on the addictive elements of tobacco, and that became a winning strategy in those lawsuits," said Davis+Gilbert's Fitzpatrick.

"It seems like those behind these social media addiction cases are finding a similar formula to avoid First Amendment challenges in the courts, so seeing how that can be adopted when it comes to legislation will be interesting," Fitzpatrick said.

While many state laws aimed at social media platforms have been halted by the courts, especially those that ban children from or restrict their access to certain services without parental consent, those that focus more narrowly on preventing harms to minors stemming from specific design practices target a wide range of online services rather than just social media platforms, or put the emphasis on requiring companies to be more transparent in their public-facing disclosures, have found better survival odds.

"Those laws seem to have a path forward because they're more narrowly tailored to focus on design features that could cause harm to children rather than imposing a duty of care or an outright ban on accounts for children and teens, which have significant implication for protected speech," Fitzpatrick said.

This approach has similarly found success on the litigation front, where cases that are more focused on platforms' design and not content have conquered attempts by tech giants to invoke the Section 230 liability shield, she said.

As court rulings on the constitutionality of these states' laws continue to pile up, and with even more insight expected from appeals that have yet to be resolved, states have taken steps that appear to be designed to avoid such legal challenges.

Following South Carolina's passage of its Age-Appropriate Design Code Act this year, advocacy groups praised the measure for focusing on mitigating harm from platform design rather than requiring parental consent or forcing all users to verify their ages.

Vermont similarly drew similar feedback to the Age-Appropriate Design Code Act it enacted last year. The Future of Privacy Forum's senior director, Keir Lamont, **said the law appeared** "to have taken care to avoid some of the First Amendment challenges that prior AADCs in California and Maryland have faced" by not explicitly requiring companies to confirm ages and replacing contested risk assessments with "novel public disclosures" that provide detailed information about their data practices.

Even so, NetChoice has already sued to block the South Carolina measure and has expressed concerns during the legislative process about the constitutionality of the Vermont law, leaving the future for these and similar measures far from certain.

Moving forward, attorneys say, it will be vital to keep an eye on how the growing number of constitutional challenges play out, but also the trajectory of the thousands of other claims being pressed by parents, schools and states in both federal and state courts.

The **first federal bellwether** is set to go to trial this summer in a case pitting a rural Kentucky school district against Meta, YouTube's owner Google, TikTok's owner ByteDance Ltd. and Snapchat's owner Snap Inc.

States and the Federal Trade Commission are expected to continue to be active, using existing authorities such as prohibitions on unfair and deceptive trade practices and the Children's Online Privacy Protection Act.

Several attorneys general **recently announced** separate multimillion-dollar settlements with Roblox Corp. that requires the game platform to implement stronger safeguards to resolve claims the company failed to adequately protect its youngest users, and the FTC's Republican leadership has stressed it **intends to continue** to aggressively enforce the agency's COPPA rule.

The commission recently moved to **strengthen this regulation**, which has been on the books since 2000 but has avoided major First Amendment challenges primarily by regulating the collection of data rather than the content of speech and narrowly covering only pre-teens.

The updates, which took effect April 22, include the establishment of stronger requirements for online sites and services to obtain verifiable parental consent before disclosing personal information from children under 13 to third parties for targeted advertising and to stop the indefinite retention of this data.

"This is an area where enforcement authorities seem to be speaking with one voice," Taft's Braswell said. "Protecting children online has long been a high priority area for regulators, and it's unlikely that enforcement risks for companies that process data from children and interact with them online will go down anytime soon."

The California case is Social Media Cases, case number JCCP5255 and lead case number 22STCV21355, in the Superior Court of the State of California, County of Los Angeles.

The New Mexico case is New Mexico v. Meta Platforms Inc. et al., case number D-101-CV-2023-02838, in the First Judicial District Court of New Mexico.

The Massachusetts cases are Commonwealth v. Meta Platforms Inc. et al., case number SJC-13747, in the Supreme Judicial Court of Massachusetts, and Massachusetts v. TikTok Inc. et al., case number 2484CV02638, in the Suffolk County Superior Court of Massachusetts.

--Editing by Brian Baresch and Lakshna Mehta.