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Tech Exec Charged with AI Washing-Related Securities Fraud

By Kevin LaCroix on April 13, 2025

In parallel actions last week, the U.S. Attorney for the Southern District of New York and the SEC charged a tech exec with securities fraud in connection with fundraising for his company based on misrepresentations about the company's AI capabilities. The exec, Albert Saniger, allegedly raised over $42 million by misrepresenting to investors that his company's app used AI technology to complete online shopping purchases, when in fact the purchases were completed manually by contract workers located in the Philippines and elsewhere. As discussed below, there are several interesting features to these AI-related allegations.

The Office of the U.S. Attorney for the Southern District of New York's April 9, 2025, press release about the criminal action against Saniger can be found **here**. The grand jury indictment against Saniger can be found **here**. The SEC's April 11, 2025, press release about its separate civil action against Saniger can be found **here**. The SEC's April 9, 2025, complaint against Saniger can be found **here**.

Background

In 2018, Saniger founded Nate, Inc., an e-commerce company that launched the Nate app. Saniger marketed the app as a universal shopping cart app that simplified online shopping by enabling users to "skip the checkout" on retail websites by reducing the checkout to a "single tap."

The subsequent indictment and SEC lawsuits allege that between spring 2019 and December 2022, Sangier raised funds for Nate through multiple rounds of fund-raising, raising over $42 million in total during the period.

The government alleges that the Saniger represented to investors that the Nate app used automated technology that relied in artificial intelligence (AI) to complete purchases made through the app, without human involvement. The indictment alleges that Saniger repeatedly represented that the Nate app was fully automated based on AI.

In reality, the indictment alleges, Nate's AI never achieved the ability to consistently complete e-commerce purchases. The indictment alleges that, as Saniger knew, at the time Saniger was claiming that that the Nate app used AI to automate online purchases, the app's actual automation rate was effectively zero percent.

The indictment alleges that rather than using AI as Saniger told investors, the Nate app relied heavily on teams of human workers, primarily located overseas, to manually process transactions in secret, mimicking what users believed was being done by automation. Saniger allegedly used hundreds of contractors in a call center located in the Philippines to manually complete purchases occurring over the Nate app. The SEC alleges that, among other things, in connection with investor presentations, Nate engineers and others worked behind the scenes to manually process orders to make it appear that the app was automatically completing purchases.

The indictment alleges that Saniger raised over $40 million from multiple investors based in part on his representations to investors about Nate's development and deployment of AI. In its complaint, the SEC alleges that Saniger personally profited from his fraud, including by selling approximately $3 million of his own Nate shares during a June 2021 fundraising round.

In June 2022, an online news report cast doubts about Nate's claimed use of AI. Nate was unable to complete its then-pending funding round. Nate ceased business operations in January 2023. In January 2023, Saniger dissolved Nate through a State of California Assignment for the Benefit of Creditors. Nate did not return funds to shareholders during its dissolution, leaving investors with tens of millions of dollars of losses.

The Indictment and the SEC Action

As the U.S. Attorney's Office disclosed in its April 9, 2025, press release, the grand jury indictment raises criminal securities fraud charges against Saniger. The indictment contains two counts, the first alleging securities fraud under Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder. The second count alleges wire fraud under 18 U.S.C. Sections 1342 and 1343. The indictment seeks both forfeiture and Saniger's criminal conviction.

The SEC's civil complaint, which it filed in the Southern District of New York on April 9, 2025, alleges also alleges violations of Section 10(b) of the Securities Exchange Act of 1934 and separately alleges violations of Section 17(a) of the Securities Act of 1933. The SEC's complaint seeks, among other things, an officer bar, disgorgement, and civil money penalties.

Discussion

The allegations in the indictment and the SEC's civil complaint present a classic case of **AI Washing**. The U.S. Attorney's Office's press release quotes the acting U.S. Attorney as saying that Saniger "misled investors by exploiting the promise and allure of AI technology to build a false narrative about innovation that never existed." The press release also quotes an FBI official as saying that Saniger defrauded investors "with fabrications of his company's purported artificial intelligence capabilities while covertly employing personnel to satisfy the illusion of technological automation." Saniger used these falsehoods, the FBI official said, to "perpetuate a scheme filled with smoke and mirrors."

The indictment and the SEC's civil complaint are interesting to me because they come at a time when many observers are trying to gauge what the Trump administration's approach is going to be in a number of issues, including with respect to AI.

The U.S. Attorney's Office's press release does suggest, to a certain extent at least, that the criminal authorities as well as the SEC are focused on investor deceptions relating to AI, apparently as a matter of policy. Indeed, the Acting U.S. Attorney is quoted in the press release as having said that "This type of deception not only victimizes innocent investors, it diverts capital from legitimate startups, makes investors skeptical of real breakthroughs, and ultimately impedes the progress of AI development. This office and our partners at the FBI will continue to pursue those who seek to harm investors by touting false innovation."

It may well be that the prosecutors and the regulatory agencies are particularly concerned about AI-related fraud, as a threat to the development and advancement to legitimate AI-related ventures and initiatives. It is certainly the case that what makes this particular situation interesting is its AI-related aspect (as well as the rather absurd reality that the company's app deployed human manpower rather than new technology, as represented).

But while I have no hesitation in characterizing the government's parallel actions as AI-related, at another level this situation is basically just a garden-variety fraud. Saniger allegedly sought to deceive investors with what is basically a hoax. The kind of investor deception alleged here was always going to attract the attention of prosecutors and regulators, regardless of whether or not the deception happened to involve AI-related misrepresentations. For that reason, I am wary of interpreting these actions as indicative of the Trump administration's approach to AI.

It also seems pretty clear that the government's investigation of and actions against Saniger were well underway long before the advent of the new administration in January. The indictment and the civil lawsuit may simply represent the final stages of processes underway well before the outset of the current Trump administration. In other words, we may need to wait for further developments in order to better understand the current administration's approach to AI.

There is one aspect of this case that is worth noting, and that is the fact that Nate was a private company. Saniger engaged in fund raising from investors, but what he sought was investment in his private company.

I emphasize this because it illustrates a point I think deserves to be highlighted from time to time, and that is that there is nothing about the federal securities laws that limits their application to companies whose shares trade on public stock exchanges. As this case demonstrates, private company executives can also be the target of securities fraud allegations under the federal securities laws. This feature of potential private company executive liability is often overlooked or misunderstood, but it should not be disregarded.

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