

# DOJ Signals AI Prosecution Priorities with Charges Against AI Technology Company Executives

April 20, 2026

On April 17, 2026, the U.S. Attorney’s Office for the Eastern District of New York unsealed a 10-count indictment against Harish Chidambaran and Farhan Naqvi, the respective former CEO and CFO of iLearningEngines, Inc. (“iLearning”), which marketed itself as an artificial intelligence (“AI”)-driven digital education company using “an out-of-the-box AI platform” designed to help customers “productize” institutional knowledge and generate insights in the flow of work.<sup>1</sup> The indictment alleges that the defendants engaged in a multi-year scheme to defraud investors and lenders through materially false and misleading statements about iLearning’s financial condition.<sup>2</sup>

The case is noteworthy because it reflects the intersection of the Trump Administration’s multiple AI policy priorities. The Administration has positioned AI innovation as a national priority over the past year by issuing an AI Executive Order, an AI action plan, and national legislative and policy frameworks promoting AI growth and development.<sup>3</sup> But the Administration’s Department of Justice (“DOJ”) has also stated that, while “merely writing code, without ill-intent, is not a crime,” when “bad actors exploit new technologies, it undermines public trust in those technologies and stifles innovation.”<sup>4</sup> The iLearning matter reflects this policy intent to prosecute crimes that jeopardize investor trust in AI (and by extension, this Administration’s AI innovation agenda). Although the underlying facts in the indictment allege a conventional accounting and securities fraud, the [press release](#) announcing the charges framed the

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<sup>1</sup> U.S. Dep’t of Justice Press Release, “Former Chief Executive Officer and Chief Financial Officer of Nasdaq-Listed Company Charged With Operating a Continuing Financial Crimes Enterprise in Multi-Year Scheme to Defraud Investors and Lenders” (Apr. 17, 2026), <https://www.justice.gov/usao-edny/pr/former-chief-executive-officer-and-chief-financial-officer-nasdaq-listed-company> (“Press Release”).

<sup>2</sup> Indictment ¶ 1, *U.S. v. Chidambaran et al.*, No. 1:26-cr-00097 (E.D.N.Y. Apr. 15, 2026) (“Indictment”).

<sup>3</sup> See Executive Order 14179, [Removing Barriers to American Leadership in Artificial Intelligence](#) (Jan. 23, 2025); The White House, [White House Unveils America’s AI Action Plan](#) (July 23, 2025); The White House, [Fact Sheet: President Donald J. Trump Ensures a National Policy Framework for Artificial Intelligence](#) (Dec. 11, 2025); The White House, [President Donald J. Trump Unveils National AI Legislative Framework](#) (Mar. 20, 2026).

<sup>4</sup> See U.S. Dep’t of Justice, [Acting Assistant Attorney General Matthew R. Galeotti Delivers Remarks at the American Innovation Project Summit in Jackson](#), Wyoming (Aug. 21, 2025).

case around AI, stating that “the defendants exploited investor excitement over the AI boom” and “pitched iLearning as a way to revolutionize training and education through AI,” when “the truly artificial part of the defendants’ story was iLearning’s customers and revenues.”<sup>5</sup>

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## The Conduct

[DOJ’s indictment](#) describes iLearning, a Bethesda, Maryland-based technology company founded in 2010, as offering cloud-based computing and AI-driven business automation solutions.<sup>6</sup> In April 2024, iLearning became a publicly traded company on Nasdaq under the ticker symbol “AILE”—which notably contained an express reference to AI.<sup>7</sup>

The indictment alleges that, between approximately January 2019 and April 2025, Chidambaran and Naqvi, together with several unnamed co-conspirators, operated iLearning through “systemic fraud,” including by “dramatically inflating the company’s revenues—at times by hundreds of millions of dollars a year, representing more than 90% of annual revenues.”<sup>8</sup> To support those purported revenues, iLearning entered into a series of fake contractual arrangements with purported customers, many of which were shell entities owned or controlled by iLearning employees, associates, friends, and family members, or other entities controlled by persons willing to participate in sham transactions.<sup>9</sup> Chidambaran, Naqvi, and others sought to make these arrangements appear legitimate by creating false indicia of real customer activity and by conducting repeated “round-trip” transfers of investor and lender funds from iLearning to purported customers and back to iLearning.<sup>10</sup>

According to the indictment, throughout the period in which iLearning was actively seeking to go public through a Special Purpose Acquisition Company (“SPAC”) transaction, it made numerous materially false and misleading representations about its revenue and customers in financial statements and other documents provided to current and prospective investors and lenders, and its auditors.<sup>11</sup> Soon after the company’s April 2024 listing on Nasdaq, Chidambaran, Naqvi, and others allegedly caused iLearning to file false and materially misleading financial statements as part of a Form 8-K filed with the U.S. Securities and Exchange Commission (“SEC”). The financial statements falsely stated that iLearning had generated approximately \$421 million in revenue in 2023, had

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<sup>5</sup> Press Release, *supra* note 1.

<sup>6</sup> Indictment, *supra* note 2, ¶ 1.

<sup>7</sup> *Id.* ¶ 2.

<sup>8</sup> *Id.* ¶ 1.

<sup>9</sup> *Id.* ¶¶ 1, 24.

<sup>10</sup> *Id.* ¶ 1.

<sup>11</sup> *Id.* ¶¶ 24, 36, 42.

more than 1,000 enterprise end customers, and had approximately 4.4 million licensed users, when those figures “were each materially inflated by sham contracts and fake customers. For example, at least 90% of iLearning’s reported revenue was fabricated through sham customers and contracts.”<sup>12</sup>

DOJ also alleges that Chidambaran, Naqvi, and others made other materially false representations to investors, lenders, and iLearning’s auditor, including that iLearning did not have access to a purported customer’s financial statements—even though they directed and controlled this entity, which was a sham customer—in an effort to conceal the round-trip payment scheme.<sup>13</sup> When an investment research firm issued a report in August 2024 accusing iLearning of fabricating customers and revenues and misleading investors, iLearning’s stock price fell more than 50%.<sup>14</sup> In response, the defendants allegedly took numerous steps to conceal the scheme, including by providing false information in calls and meetings with lenders about the nature of iLearning’s revenues and customer relationships, transmitting a false contract confirmation to a lender, and facilitating additional round-trip fund transfers.<sup>15</sup>

iLearning ultimately filed for Chapter 11 bankruptcy protection in December 2024, and the case later converted to a Chapter 7 liquidation proceeding, signaling the company’s collapse and leaving hundreds of reported unpaid creditors and more than \$50 million in unpaid liabilities.<sup>16</sup>

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## The Charges

The indictment charged the defendants with operating a continuing financial crimes enterprise, securities and wire fraud, and conspiracy to commit securities and wire fraud.

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## Takeaways

While DOJ’s public statements about the indictment squarely positioned the misconduct as an AI-enabled fraud, the underlying charged conduct did not itself concern AI, but instead involved more conventional methods of accounting and securities fraud such as sham round-trip transactions and falsified disclosures about revenue, customers, contracts, and operations. The case underscores that prosecuting

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<sup>12</sup> *Id.* ¶ 38.

<sup>13</sup> *Id.* ¶¶ 39–40.

<sup>14</sup> *Id.* ¶¶ 3, 43.

<sup>15</sup> *Id.* ¶¶ 44–46.

<sup>16</sup> *Id.* ¶¶ 4, 49.

AI-related fraud—even where the fraudulent misstatements and omissions themselves do not squarely relate to AI—remains a priority under the current DOJ.

For that reason, we expect that companies will face even greater scrutiny by prosecutors and regulators for AI washing—misstatements and omissions relating to AI-related capabilities, tool adoption, and business impact. AI washing risk can arise in any context in which a company makes statements about AI, including to counterparties such as lenders, service providers such as auditors, and investors. As we have discussed [here](#), the rapid advancement of agentic AI exposes companies to the additional vector of agentic AI washing risk.

Accordingly, as we have discussed [here](#) and [here](#), companies need to define “AI” and “agentic AI” precisely and share those definitions across engineering, product, legal, compliance, communications, investor relations, and marketing. Companies must also ensure that their representations concerning AI and agentic AI—including any representations about impact on automation, customer acquisition and retention, revenues, and third-party relationships—are accurate and substantiated. Companies must also disclose material limitations and uncertainty regarding the impact of AI and agentic AI on business outcomes and future prospects, and ensure that any external statements about operationalizing AI align with internal controls.

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