

AI Enforcement Actions and Litigation

Researched by Hey Lefty

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TL;DR

Federal enforcement has escalated to aggressively dismantling fraudulent business schemes that promise automated passive income through fabricated AI technologies Click Profit Settlement. Simultaneously, regulators are enforcing strict empirical standards on AI utility software, penalizing companies that misrepresent the accuracy of their content detection tools Workado Settlement.

Eradicating Deceptive "AI-Powered" Business Schemes

Regulators are moving past warnings to impose catastrophic financial bans and multi-million dollar judgments on companies using AI as a fraudulent marketing hook for passive income schemes.

"The operators of an e-commerce business opportunity scheme and their companies will be permanently banned from the industry as part of a settlement resolving Federal Trade Commission allegations that the defendants deceived consumers into paying millions for empty promises to create and operate lucrative online stores for consumers." — Click Profit Settlement

In August 2025, the Federal Trade Commission secured a massive settlement against the operators of Click Profit, LLC, who falsely claimed their "proprietary advanced AI technology" would optimize digital storefronts on platforms like Amazon Click Profit Settlement. Instead of generating passive income, the scheme resulted in a permanent industry ban for its operators and a staggering \$20.9 million in monetary judgments (see FTC Press Release). This enforcement action signals that the government will aggressively target the individuals behind deceptive AI claims, stripping them of personal assets to compensate victims.

What to watch: Whether the FTC's ongoing "Operation AI Comply" initiative continues to prioritize e-commerce automation scams that exploit consumer enthusiasm for passive income (as discussed in Benesch Law Insight).

Strict Evidentiary Standards for AI Utility Tools

Federal oversight is expanding from generative AI outputs to the tools designed to detect them, establishing that unsubstantiated efficacy claims will be prosecuted as deceptive trade practices.

"The order settles allegations that Workado promoted its AI Content Detector as "98 percent" accurate in detecting whether text was written by AI or human. But independent testing showed the accuracy rate on general-purpose content was just 53 percent..." — Workado Settlement

The final consent order approved against Workado, LLC establishes that software developers cannot rely on narrow, academic training datasets to advertise broad capabilities to general consumers Workado Settlement. The FTC's investigation revealed that the tool was highly ineffective for general-purpose text, making its marketing claims deceptive under Section five of the FTC Act Workado Settlement. This action draws a clear

line in the sand for the AI utility industry: software capabilities must be validated by competent and reliable evidence before they are advertised to the public.

What to watch: Whether future violations of these strict marketing and evidence-retention mandates will trigger civil penalties of up to \$53,088 per violation under the FTC Act (see FTC Press Release).

What surprised us

- **The "Coin Toss" AI Detector:** Workado advertised its content detector as nearly perfect, yet independent testing revealed its accuracy on general-purpose text was only 53 percent—essentially no better than flipping a coin—because it had been trained primarily on academic papers Workado Settlement.
- **Intimidation as a Business Strategy:** To keep their fraudulent scheme afloat, Click Profit's operators did not just lie about having advanced artificial intelligence; they actively suppressed negative reviews through illegal contract clauses and intimidation tactics Click Profit Settlement.
- **Banned for Life:** Instead of a simple financial penalty that could be written off as a cost of doing business, the FTC secured permanent industry bans for Click Profit's operators, entirely shutting down their ability to run e-commerce business opportunities in the future Click Profit Settlement.

Appendix: Findings

FTC Settles Deceptive AI Earnings Claims Against Click Profit for Over \$20 Million

In August 2025, the Federal Trade Commission (FTC) secured proposed stipulated final orders in the U.S. District Court for the Southern District of Florida against the operators of Click Profit, LLC, resolving allegations of a multi-million dollar e-commerce business opportunity scheme that used false "AI-washing" and passive income claims to deceive consumers. The settlements resulted in a permanent ban from the industry for the operators and monetary judgments totaling over \$20.9 million.

The AI System and Deceptive Practices at Issue

Click Profit and its operators marketed an e-commerce business opportunity, promising to build, manage, and run highly profitable digital storefronts on third-party platforms like Amazon. To entice consumers, they falsely claimed to utilize a "proprietary advanced AI technology" and "advanced artificial intelligence" to optimize the stores and generate hundreds of thousands of dollars in guaranteed "passive income." They also fabricated exclusive brand partnerships with major suppliers like Nike and Disney.

In reality, the promised AI-driven returns failed to materialize. According to the FTC's complaint, a fifth of Click Profit's customers earned absolutely no money after deducting fees, and another third made less than \$2,500. Furthermore, the operators used illegal contract clauses and intimidation tactics to suppress negative consumer reviews.

Legal Basis and Regulatory Charges

The FTC charged Click Profit and its operators under Section 5 of the FTC Act, which prohibits unfair or deceptive acts or practices. The complaint alleged that the defendants' claims regarding potential earnings, brand affiliations, and the use of advanced AI technology were false, misleading, and entirely unsubstantiated.

Outcome and Penalties

Under the proposed settlements approved by the court on August 26, 2025, the defendants are permanently banned from the business opportunity industry and are prohibited from making deceptive earnings claims, false business affiliation claims, or misrepresentations about their use of AI.

The orders impose substantial financial judgments totaling over \$20.9 million:

- A **\$13.6 million** monetary judgment against individual operators Craig Emslie, Patrick McGeoghean, William Holton, and their affiliated corporate entities (SA Automation Enterprise LLC, M23 Holdings, LLC, M7 Investments LLC, and Express Ecom LLC).
- A **\$7.3 million** monetary judgment against individual operator Jason Masri and his affiliated entities (Automation Industries LLC and Click Profit Distribution, LLC).

The judgments require the defendants to turn over cash, real estate, and personal property to the FTC for consumer redress, with the remainder of the judgments suspended due to the defendants' financial status. If the defendants are found to have misrepresented their assets to the FTC, the full judgments will become immediately due.

Sources

- FTC Press Release: FTC Case Against E-Commerce Business Opportunity Scheme and its Operators Results in Permanent Ban from Industry
- Benesch Law Insight: One Year In, FTC's "Operation AI Comply" Continues Under New Administration, Signaling Enduring Enforcement Focus

FTC Penalizes Workado for Misrepresenting AI Content Detection Accuracy

In August 2025, the Federal Trade Commission (FTC) gave final approval to a consent order against Workado, LLC (formerly known as Content at Scale AI), resolving allegations that the company made false and unsubstantiated claims regarding the accuracy and training of its artificial intelligence (AI) content detection product.

The AI System and Deceptive Claims at Issue

Workado marketed its "AI Content Detector" tool to consumers, writers, and businesses seeking to distinguish between generative AI-created text (such as text from ChatGPT) and human-written content. To promote the product, Workado claimed that the detector was "98 percent" accurate. The company also asserted that the tool had been developed and trained using a wide range of general materials, including blog posts and Wikipedia entries, to ensure high accuracy for average users.

However, the FTC's investigation and administrative complaint revealed that the AI model powering Workado's detector was primarily trained or fine-tuned to classify academic content, making it highly ineffective for general-purpose text. Independent testing of the tool on general-purpose content revealed an actual accuracy rate of just 53 percent—which the FTC's Bureau of Consumer Protection characterized as "no better than a coin toss."

Legal Basis and Charges

The FTC charged Workado under Section 5 of the FTC Act, alleging that the company's "98 percent" accuracy representation and claims about the tool's training data were false, misleading, and non-substantiated.

Outcome and Compliance Requirements

Following a public comment period, the Commission voted 3-0 on August 28, 2025, to approve the final consent order. While the settlement did not include a direct monetary fine, it imposes strict compliance obligations:

- **Accuracy and Efficacy Restrictions:** Workado is prohibited from making any representations regarding the effectiveness or accuracy of any AI content detection product unless the claim is non-misleading and backed by "competent and reliable evidence" at the time it is made.
- **Evidence Retention:** Workado must retain all evidence used to support any future product performance claims.
- **Consumer Notification:** Workado is required to email eligible consumers who purchased or used the tool, notifying them of the FTC's consent order and settlement.
- **Compliance Monitoring:** Workado must submit compliance reports to the FTC one year after the order's issuance and annually for the subsequent three years.

Under the FTC Act, any future violations of the final order may result in civil penalties of up to \$53,088 per violation.

Sources

- [FTC Press Release: FTC Approves Final Order against Workado, LLC, Which Misrepresented the Accuracy of its Artificial Intelligence Content Detection Product](#)
- [FTC Press Release: FTC Order Requires Workado to Back Up Artificial Intelligence Detection Claims](#)