SEC Retreat Raises New Questions About Par Funding Receivership And Its $60.5 Million Cost

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The six-year receivership of Philadelphia-based merchant cash advance company Par Funding is facing renewed scrutiny as developments in the Securities and Exchange Commission's own case appear to be shifting the legal landscape surrounding the company and its founder, Joseph LaForte.

Most significantly, the SEC recently told Black Star News that it would "take exception" if the publication characterized the agency as having referred to Par Funding as a "Ponzi scheme." That response is striking because the Ponzi characterization became central to the government's case and to the receivership's justification for continuing to liquidate the company's assets. Earlier court filings had expressly used that characterization.

The SEC has now gone further. On Aug. 12, SEC senior trial counsel Brian Lechich filed a notice in federal court stating that the agency was voluntarily dismissing its remaining claims against Complete Business Solutions Group (CBSG), Par Funding's parent company, and related corporate entities, while also forgoing disgorgement and civil penalties against those entities. The court entered an order approving that action on Aug. 14.

Taken together, those developments are prompting LaForte and Par Funding supporters to argue that the once largely one-sided public narrative surrounding the company is beginning to change—and that the receivership itself deserves much closer examination.

The SEC originally alleged that Par Funding raised hundreds of millions of dollars from investors through unregistered securities offerings and used the money to fund merchant cash advances. The agency alleged that the company and its principals operated a fraudulent scheme and sought extensive financial remedies. A federal court subsequently imposed judgments against several defendants.

LaForte's supporters, however, contend that the government's characterization of Par Funding as a Ponzi scheme was introduced later and that financial evidence paints a different picture. They point to a forensic accounting analysis by Joel Glick, a forensic accountant and litigation-support professional with Berkowitz Pollack Brant Advisors, which they say concluded that Par Funding was profitable and did not need to be liquidated. They also point to the company's substantial accounts receivable and cash holdings before the receivership.

The latest criticism is focused particularly on the cost of the receivership. What had previously been discussed as roughly $30 million in direct receivership fees has now, according to an analysis of categories contained in the receiver's latest reports, been placed at approximately $60.5 million when additional operating, property and liquidation expenses are included.

That would amount to roughly 29 percent of the $209 million reportedly distributed to investors.

The $30 million figure primarily covered direct professional fees, including compensation to court-appointed Receiver Ryan K. Stumphauzer, his law firm, co-counsel and Development Specialists Inc. (DSI), the consulting firm selected to manage the receivership's operations. The additional expenses include $8.4 million categorized as "Total Business Asset Expenses," including payroll, benefits and other operating expenses.

One LaForte supporter questioned why the estate would incur more than $8 million in general operating expenses when DSI has already billed approximately $15 million to manage the receivership's day-to-day operations.

The criticism also extends to the liquidation of Par Funding's real estate. According to the receiver's latest quarterly reporting, the properties generated approximately $57.6 million in sales, while $4.98 million was charged specifically as “liquidation expenses,” in addition to approximately $2.7 million in property expenses for holding and maintaining the properties.

“The estate effectively paid 6 percent to the realtor for selling the properties and an additional 8.5 percent to the receiver for his liquidation cost,” a LaForte supporter said. “The properties were class A buildings and most of them were new construction so the maintenance fee is a joke.”

The supporter also alleges that properties were sold at discounts ranging from 30% to 50%.

The estate additionally paid approximately $6.8 million in outside attorney fees. Critics question why the receiver needed both his own law firm and another firm as co-counsel and then incurred further outside legal expenses.

Other categories have also drawn scrutiny, including approximately $7.8 million in premiums for life-settlement policies and more than $1 million in IT expenses. Critics say the receiver’s reports often aggregate millions of dollars into broad categories without providing sufficient itemization to show precisely who was paid and for what.

“When 700-page bills are rubber-stamped, the true costs remain buried,” one supporter said, calling for detailed receipts for the IT expenses, real-estate liquidation fees and overlapping operational costs.

Stumphauzer has not responded to roughly a dozen email inquiries from Black Star News over the past several months seeking comment on the receivership fees, the expense categories or other allegations raised by LaForte and Par Funding supporters.

Those supporters also challenge the underlying decision to place Par Funding into receivership in the first place. They argue that the company had approximately $340 million in investor obligations, but also approximately $420 million in accounts receivable and $28 million in cash before the receivership. They contend that the company could have continued operating and generating revenue rather than being liquidated.

“The $340 million owed to investors were seven year notes and Par Funding had $1.5 million a day coming in the door, according to Glick,” a Par Funding supporter explained. “The money due to investors was over seven years and easily repayable. The interest to the note holders was only $32 million a year and the company was making $178 million a year, according to Glick.”

The supporters further allege that the Ponzi narrative was necessary to justify the liquidation and the receivership’s prolonged existence, including the ability to pursue so-called “clawbacks” against investors deemed to have been net winners.

The SEC’s recent retreat from the Ponzi characterization, followed by its decision to abandon further civil litigation against CBSG and related entities, is therefore significant, the supporters argue. They believe it could open the door to renewed challenges concerning the receivership and the tens of millions of dollars in fees it has generated.

They also continue to allege that the SEC’s original case was heavily influenced by attorney Shane Heskin, who represented numerous merchants that had received cash advances from Par Funding. According to the supporters, Heskin encouraged clients to submit declarations claiming that Par Funding had failed to conduct required visits to their businesses, allegations the supporters say were then used by the SEC without an adequate independent investigation.

The SEC obtained an emergency Temporary Restraining Order (TRO) in July 2020 after alleging that Par Funding had misrepresented its underwriting practices to investors, including claims that it conducted rigorous due diligence and personal on-site inspections before approving advances to small businesses.

LaForte and his attorneys, however, argued that the allegations were undermined by merchant declarations submitted by Heskin and his clients. They claimed the declarations—based on questionnaires prepared by Heskin—falsely stated that CBSG had not conducted on-site inspections, even though the inspections had occurred and CBSG had photographs documenting visits to the merchants’ locations.

LaForte's lawyers therefore accused Heskin and his clients of submitting "perjurious" declarations to support the SEC's case.

They further allege that Heskin's clients had tens of millions of dollars in debt written off and that Heskin and associated lawyers received approximately $490,000 from the receivership. Heskin declined to comment to Black Star News, called the publication "propagandist" for LaForte and requested that he not be contacted again. Stumphauzer has likewise not responded to questions about the payment.

The government, meanwhile, has alleged that LaForte and others orchestrated a scheme that defrauded investors, and LaForte is serving a 15½-year federal sentence after pleading guilty to federal charges arising from Par Funding.

The SEC's decision to abandon further civil litigation does not necessarily resolve or alter the separate federal criminal proceedings involving Par Funding and related parties. That issue requires separate examination.

The criminal case—and allegations by Par Funding and LaForte supporters concerning potential conflicts of interest involving participants in the receivership and litigation—will be examined in a subsequent Black Star News investigation.

However, if the SEC is no longer pursuing its remaining civil claims against Par Funding's corporate entities and is distancing itself from the characterization of Par Funding as a Ponzi scheme, what becomes of the justification for a six-year receivership that has now cost the estate an estimated $60.5 million and continues?