

Par Funding Archives: LaForte Team Alleges Receiver Abandoned Neutral Role And Advanced SEC Case

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By Milton Allimadi

Former Par Funding CEO Joseph LaForte (shown below) and his attorneys contend that the court-appointed receiver departed from the neutral role traditionally required of federal equity receiverships and instead functioned, at times, as an extension of the government's enforcement team.

They argue that as a result, receivership assets—which ordinarily exist to preserve value for investors, creditors, and other stakeholders—were used to perform work that should have been undertaken and financed by the [Securities and Exchange Commission](#) and federal prosecutors.

The allegation goes to one of the central principles underlying a federal receivership. A receiver is appointed as an independent officer of the court whose primary responsibility is to preserve, protect, and maximize the value of the receivership estate while acting as a fiduciary for all stakeholders—not as an advocate for either side in the litigation.

Federal receiverships are extraordinary equitable remedies typically imposed when a court determines that an independent fiduciary is needed to take control of assets or a business while litigation proceeds. Legal authorities generally describe a receiver's core responsibilities as safeguarding assets, managing the estate, remaining independent of the litigants, and maximizing recoveries for creditors and investors.

Some legal observers note that receivers routinely communicate with regulators and law enforcement agencies. Such communications, standing

alone, do not establish improper conduct and may be necessary to carry out a receiver's court-appointed duties.

LaForte's attorneys, however, argue that billing records filed with the court reflect far more than routine coordination. They contend the records show extensive communications with SEC attorneys and federal prosecutors that raise questions about whether receivership funds were used to assist the government's litigation strategy rather than solely to administer and preserve the receivership estate.

Black Star News asked both the SEC and court-appointed receiver Ryan Stumphauzer about the relations between the SEC and the receivership.

An SEC spokesperson declined to comment on questions regarding the agency's guidelines governing its relationship with court-appointed receivers. Stumphauzer did not respond to an email requesting comment.

Black Star News has been reviewing court filings and billing records. This article is the first in a series examining the approximately \$30 million in receivership fees and expenses and the defense's contention that portions of those billings exceeded the receiver's fiduciary role.

The dispute comes against the backdrop of longstanding criticism by LaForte and his attorneys regarding the size of the receivership's fees. They argue that every dollar billed to the estate ultimately reduces funds that otherwise could be available to investors, creditors, and other stakeholders.

According to the defense, a receiver's duties become compromised when receivership personnel devote substantial time to assisting the SEC or federal prosecutors in building their enforcement case.

"The receiver cannot serve two masters," the defense argues in substance. "Its loyalty is to the receivership estate and the court—not to the SEC or federal prosecutors."

The SEC has consistently maintained that the receivership was necessary to preserve assets and protect investors after filing its civil enforcement action against Par Funding and affiliated defendants.

The agency alleged that Par Funding engaged in a fraudulent scheme involving merchant cash advances and unregistered securities offerings that raised hundreds of millions of dollars from investors. It also alleged significant underwriting deficiencies and misrepresentations concerning the company's operations. LaForte and the other defendants have vigorously denied many of those allegations.

The issue raised by the defense is therefore not whether the receiver communicated with government attorneys, but whether the nature and extent of those communications—as reflected in billing records charged to the receivership estate—crossed the line from estate administration into assisting the government's prosecution.

Among the billing entries cited by the defense is one dated July 28, 2020, in which receiver Ryan Stumphauzer billed 4.6 hours for multiple telephone conferences involving SEC attorney Amie Berlin, attorneys from Fox Rothschild, Doug Rosenbloom, and others while receivership offices were being secured. Timothy Kolaya, an attorney at Stumphauzer's firm who also participated in some of the discussions with Berlin, separately billed the estate for additional time.

Two days later, on July 30, 2020, billing records reflect three separate conferences involving Berlin. One entry describes a call with Berlin and an FBI special agent concerning document collection, preservation efforts, forensic imaging of electronic data, and related issues. Other entries refer to discussions regarding document collection, SEC contractors, claims, and evidence.

Additional August 2020 billing records reflect conferences with Berlin concerning upcoming hearings, defendants' legal arguments, briefing strategy, and motions relating to the expansion of the receivership.

LaForte's attorneys argue that these descriptions demonstrate that the receiver was participating in matters that advanced the SEC's litigation rather than simply preserving receivership assets. They further contend that if such work was performed, the associated costs should have been borne by the SEC through its taxpayer-funded budget rather than charged against the private receivership estate.

That issue is significant considering the [receivership's approximately \\$30 million](#) in fees and expenses.

The defense also argues that federal courts have an obligation to scrutinize fee applications to ensure that billed work is actual, reasonable, necessary, and within the receiver's court-authorized responsibilities.

The broader legal question raised by the dispute is where the line should be drawn between legitimate coordination with government agencies—which is common in complex enforcement actions—and conduct that effectively makes a receiver part of the prosecution team.