EXPOSING THE RECEIVERSHIP CASH MACHINE: How Out-of-Scope Churning and "De Facto Prosecution" Built a Multi-Million-Dollar Fee Engine

By The Freedom Fighters

The court-appointed receiver in the SEC v. Complete Business Solutions Group, Inc. (Par Funding) litigation filed his Sixth Application for Allowance and Payment of Professionals' Fees and Reimbursement of Expenses (Docket Entry 1153), requesting $1,528,064.31 for a single 90-day quarter ($1,427,525.50 in professional fees and $100,538.81 in expenses).

Across the full life of this receivership, this apparatus has extracted $60 million plus from the estate.

The 634-page filing reveals systematic fee churning, heavy use of 0.10-hour "button-hitting" minimum increments, impossible "waking hours" day-stacking across active law practices, extensive multi-firm duplication, out-of-scope prosecutorial trial work, and improper expense dumping.

Note to Readers: The entries cited below represent only a representative sample extracted from the 634 pages of itemized time and expense records. Documenting every single instance would require listing thousands of entries across years of billing logs.

I. Violation of Rules Prohibiting Unreasonable Fees & Fractional Churning
The Governing Law:
ABA Model Rule 1.5(a) & State Bar Rules: Prohibit lawyers from charging or collecting unreasonable fees or expenses. Fee churning—the practice of inflating hours through granular, repetitive, or non-substantive entries—violates basic fiduciary obligations.

SEC Billing Instructions for Receivers in Civil Actions: Receivers and retained professionals must not bill for non-legal administrative overhead or routinely bill minimum increments for passive, instantaneous tasks that provide no direct economic benefit to the estate.

Evidence from the Billing Records (Exhibit 4(a) – Stumphauzer Firm):

-10/01/2021 (ECF 1153-8, p. 3): Jessica Albert (JA) bills 0.10 hr ($25.00) for "E-mail to Mitch Jacobs and Rob Christie, requesting update re: Investquest."

-10/01/2021 (ECF 1153-8, p. 4): Ryan K. Stumphauzer (RKS) bills 0.10 hr ($39.50) for "Cursory review of HT Settlement agreement from Menendez; drafted email to instruct that such agreements to be reviewed by Alfano for consistency."

-10/01/2021 (ECF 1153-8, p. 4): RKS bills 0.10 hr ($39.50) for "Review notice from D. Kansas bankruptcy court re: Woody's Bar... drafted email to forward same to Parks."

-10/02/2021 (ECF 1153-8, p. 5): RKS bills 0.10 hr ($39.50) for “Review of status update emails from Alfano, including as to B&T Benderson report.”

-10/03/2021 (ECF 1153-8, p. 7): RKS bills 0.10 hr ($39.50) for “Review Meehan correspondence re: property insurance refund and processing of same.”

-10/04/2021 (ECF 1153-8, p. 8): Ian Ross (IR) bills 0.10 hr ($39.50) for “Correspondence w/ auditor counsel regarding interview.” (Followed by separate 0.10 hr entries on 10/18/2021, p. 40, and 10/19/2021, p. 43).

-10/04/2021 (ECF 1153-8, p. 8): Nestor Menendez (NM) bills 0.10 hr ($25.00) for “Review email containing next step in dealing with non-performing merchants...”

-10/04/2021 (ECF 1153-8, p. 8): JA bills 0.10 hr ($25.00) for “Call to Daniel Scaramellino's attorney RM, re: accepting service... Discussed response time for Complaint.”

-10/06/2021 (ECF 1153-8, p. 15): RKS bills 0.10 hr ($39.50) for “Review Bogen correspondence to Mannes re: 3rd tranche accounts...”

-10/06/2021 (ECF 1153-8, p. 15): RKS bills 0.10 hr ($39.50) for “Review Rosenblum email summary of hearing before Judge Reinhart; drafted responsive emails re: same.”

-10/11/2021 (ECF 1153-8, p. 30): RKS bills 0.10 hr ($39.50) for “Review email update regarding status of Zingarelli / Millenium settlement payments.”

-10/13/2021 (ECF 1153-8, p. 34): Timothy A. Kolaya (TAK) bills 0.10 hr ($39.50) for “Review of email from Coventry re Death Claim Package for Rieck life settlement and follow up re same.”

-10/14/2021 (ECF 1153-8, p. 36): JA bills 0.10 hr ($25.00) for “E-mail to YB of DSI re: request to speak to Jim Klenk...”

-10/14/2021 (ECF 1153-8, p. 37): TAK bills 0.10 hr ($39.50) for “Review of defendants' motion for extension of time to respond to motion for summary judgment.”

-10/18/2021 (ECF 1153-8, p. 40): NM bills four separate 0.10 hr increments ($25.00 each) in a single day for short email exchanges.

II. Violation of the "Waking Hours" Theory & Heavy Single-Day Billing Spikes
The Governing Law:
The "Waking Hours" Billing Theory: When private attorneys maintain full law practices, other major corporate clients, firm administrative duties, and personal lives, court scrutiny applies to single-day fee applications reflecting 10 to 16+ billable hours on a single case file. Lodestar auditing principles recognize that true billable execution requires substantial unbillable time (breaks, transit, non-billable communication); billing virtually all available waking hours to a

single receivership estate strongly indicates time inflation, reconstructed block estimates, or billing for passive standby time.

Eleventh Circuit Fee Scrutiny (Norman, 836 F.2d at 1301): Demands contemporaneous precision and the exclusion of inflated, unrealistic daily accumulations that exceed normal professional output.

Evidence from the Billing Records (Single-Day Time Stacking):

-10/05/2021 (ECF 1153-8, p. 13–15):
Timothy A. Kolaya (TAK) bills 10.60 hours on this single file—including a 5.50-hour continuous block reviewing merchant accounts, a 1.50-hour three-way partner call, an 0.80-hour hearing, plus multiple separate conferences and emails.
Ryan K. Stumphauzer (RKS) bills 7.00 hours on the exact same day on this file (including the same 5.50-hour meeting and 1.50-hour call).

-10/19/2021 (ECF 1153-8, p. 44–45):
RKS bills 8.30 hours for an on-site operational review at Par offices.
TAK bills 8.90 hours on the same day across five separate meetings and document reviews (3.50 hrs, 1.50 hrs, 1.00 hr, 0.60 hr, and shorter tasks).

-10/20/2021 (ECF 1153-8, p. 46–48):
RKS bills 12.60 total hours in a single day (6.10 hrs for on-site meetings, 1.80 hrs reviewing marketing brochures, 1.40 hrs reviewing text messages, 0.60 hr partner strategy call, and 2.40 hrs discounted flight travel back to Miami).

-12/07/2021 to 12/13/2021 (ECF 1153-8, p. 132–139):
TAK repeatedly bills 8.00 to 8.50 continuous hours per day simply sitting in the courtroom gallery monitoring the SEC's civil trial of Michael Furman, while continuing to bill for additional separate evening and morning case tasks.

III. Violation of Rules Prohibiting Duplicative Billing & Excessive Inter-Firm Conferencing
The Governing Law:
Eleventh Circuit Lodestar Standard (Norman, 836 F.2d at 1292): Mandates that courts exclude hours that are "excessive, redundant, or otherwise unnecessary." Multiple attorneys billing to attend the same intra-office meetings, telephone calls, or conferences represents improper fee stacking.

SEC Billing Guidelines (Staffing & Duplication Standards): Explicitly direct that matters should not be overstaffed and prohibit billing for multiple senior professionals conferring with one another on routine matters without a demonstrable need.

Evidence from the Billing Records (Alfano, Stumphauzer, and Co-Counsel):

-10/01/2021 (ECF 1153-8, p. 4): TAK bills 0.30 hr ($118.50) for a "Call with G. Alfano to discuss operational issues, collection strategy, subpoenas to banks..."

-10/02/2021 (ECF 1153-8, p. 5): TAK bills 0.20 hr ($79.00) for a "Call with G. Alfano to discuss message from S. Heskins..."

-10/03/2021 (ECF 1153-8, p. 6): RKS bills 0.50 hr ($197.50) for a "Phone call with Kolaya and Alfano re: weekly priority items for collections..."

-10/05/2021 (ECF 1153-8, p. 13–14): TAK bills 0.50 hr to talk to G. Alfano regarding the B&T report, while RKS and TAK both bill 1.50 hrs each ($592.50 each) for a 3-way conference call between RKS, TAK, and G. Alfano.

-10/06/2021 (ECF 1153-8, p. 15): RKS bills 0.70 hr ($276.50) for a "Phone call with Alfano, following joint call with Kolaya / Alfano, to obtain update regarding ESC/ HBC merchants..."

-10/08/2021 (ECF 1153-8, p. 21, 22): TAK bills 1.00 hr ($395.00) and RKS bills 1.00 hr ($395.00) for a joint Zoom meeting with G. Alfano to review reporting deadlines and operational items.

-10/19/2021 (ECF 1153-8, p. 45): TAK bills 3.50 hrs ($1,382.50) for on-site meetings at Par Funding with B. Sharp, RKS, and G. Alfano; TAK separately bills 1.00 hr ($395.00) on the same day for an internal call with RKS, G. Alfano, B. Sharpe, S. Wecowicz, and R. Parks; and TAK bills another 1.50 hrs ($592.50) for a meeting with Mannes, Young, B. Sharp, RKS, and G. Alfano.

-10/27/2021 (ECF 1153-8, p. 63, 64): TAK bills 1.60 hrs ($632.00) and RKS bills 1.60 hrs ($632.00) for an internal Zoom call with G. Alfano to discuss pending motions, trial issues, and Fox Rothschild conferrals.

-11/01/2021 (ECF 1153-8, p. 70, 71): RKS bills 1.60 hrs ($632.00) and TAK bills 1.60 hrs ($632.00) for an internal conference call with G. Alfano to discuss pending motions, DSI reporting, and litigation injunctions.

-11/08/2021 (ECF 1153-8, p. 82, 83): RKS and TAK bill 1.00 hr each ($395.00 each) for an operational Zoom call with G. Alfano, followed immediately by another 0.90 hr (RKS) and 1.20 hrs (TAK) post-call conferral between RKS, TAK, and G. Alfano.

IV. Egregious Expense Dumping & Non-Mandate Overhead Shifting
The Governing Law:
SEC Guidelines on Reimbursable Expenses & Eleventh Circuit Precedent (SEC v. Kirkland, 2007 WL 470417): Expenses must be "actual and necessary costs of preserving the estate." General firm overhead, routine operational operating costs, local transit, luxury travel

accommodation, and excessive data hosting fees generated solely for third-party government productions cannot be passed off as reimbursable estate expenses.

Evidence from the Expense Ledger (ECF 1153-2, p. 2; ECF 1153-8):

Massive Quarterly Expense Invoicing ($100,538.81): For a single 90-day period, the estate was billed $58,296.57 by Pietragallo, $32,133.73 by DSI, and $10,108.51 by SFSRK in out-of-pocket expenses.

-E-Discovery Data Inflation for Parallel Investigations (ECF 1153-8, p. 18, 29): The receiver notes an explosive 10 Terabyte surge in database hosting and e-discovery processing fees driven directly by third-party requests from the SEC and Department of Justice. Instead of requiring the investigating government bodies to bear their own operational discovery costs, these high monthly data-hosting bills were charged directly to the receivership estate.

-Inter-State Travel Stacking for Multi-Firm Delegations (ECF 1153-8, p. 41, 47): Repeatedly billing the estate for flights, hotels, ground transportation, and 50% travel time to fly multiple Miami-based attorneys up to Philadelphia for internal meetings that could have been handled via video conference or by the local Philadelphia law firm already on the payroll (Pietragallo).

V. Violation of Equity Scope: The "De Facto Prosecutor" Syndrome
The Governing Law:
Federal Equity Precedent (Booth v. Clark, 58 U.S. 322; Stuart v. Boulware, 133 U.S. 78): An equity receiver is an impartial officer of the court appointed to marshal, protect, and liquidate assets for distributions to victims and creditors. A receiver has no legal authority to act as a criminal investigative auxiliary or prosecutorial assistant.

Eleventh Circuit Impartiality Standards (SEC v. Elliott, 953 F.2d 1560): The receiver is bound to maintain an impartial fiduciary status and cannot expend estate funds to build criminal or civil enforcement cases on behalf of the government.

Evidence from the Billing Records (Prosecutorial & Trial Support Tasks):

-10/03/2021 (ECF 1153-8, p. 7): RKS bills 0.60 hr ($237.00) to prep for a call with the DOJ, followed by 0.50 hr ($197.50) for a call with "AUSA Jonathan Ortiz and Gaetan Alfano," followed by 0.90 hr ($355.50) for a post-call conferral with G. Alfano and TAK.

-10/04/2021 (ECF 1153-8, p. 9–10): TAK bills 0.50 hr ($197.50) prepping for a call with the U.S. Attorney's Office with RKS and G. Alfano, bills 0.60 hr ($237.00) for the call with the USAO, and bills 0.90 hr ($355.50) for the post-call debrief. RKS duplicate-bills 0.50 hr, 0.60 hr, and 0.90 hr on the same pages.

-10/04/2021 (ECF 1153-8, p. 9): TAK bills 3.50 hrs ($1,382.50) for "Review of images, videos, and other media contained within backup of J. LaForte cell phone image."

-10/05/2021 (ECF 1153-8, p. 14): TAK bills 0.40 hr ($158.00) to "Finalize declaration authenticating documents from receivership entities as business records and send to A. Berlin [SEC Trial Attorney] for filing in connection with motion for summary judgment."

-10/14/2021 (ECF 1153-8, p. 37): TAK bills 0.50 hr ($197.50) for "Call with US Attorneys' Office and M. Russo regarding questions about information available in Par Funding's records."

-10/21/2021 (ECF 1153-8, p. 50): TAK bills 1.30 hrs ($513.50) to "Identify documents for production to SEC in connection with related investigation... and call with L. Schmidt [SEC] re same."

-11/08/2021 (ECF 1153-8, p. 83): TAK bills 1.00 hr ($395.00) for "Zoom call with A. Berlin [SEC], R. Stumphauzer, and G. Alfano to discuss pending motions and other recent filings, trial preparation, and other related issues."

-12/01/2021 (ECF 1153-8, p. 122): TAK bills 0.90 hr ($355.50) attending a prep session with the SEC, G. Alfano, and Jim Klenk for upcoming trial testimony, and 1.70 hrs ($671.50) prepping B. Sharp with the SEC and G. Alfano.

-12/07/2021 – 12/13/2021 (ECF 1153-8, p. 132–139): Multiple receiver attorneys billed entire full days to sit through the SEC's trial of Michael Furman:
-12/07/2021: TAK bills 8.00 hrs ($3,160.00) and RKS bills 4.60 hrs ($1,817.00) to attend Day 1 of trial.
-12/08/2021: TAK bills 8.00 hrs ($3,160.00) to attend Day 2 of trial.
-12/09/2021: TAK bills 8.50 hrs ($3,357.50) to attend Day 3 of trial.
-12/10/2021: TAK bills 8.00 hrs ($3,160.00) to attend Day 4 of trial.
-12/13/2021: TAK bills 8.00 hrs ($3,160.00) to attend Day 5 of trial.

When an equity receivership is transformed into an ongoing prosecutorial auxiliary and fee-generating vehicle, estate resources intended for restitution are systematically depleted. The Freedom Fighters will continue to audit these filings and demand financial accountability from the professionals managing court-supervised estates.