

The Original Sin: How the Receiver Destroyed a Profitable Business While Billing \$2.15 Million in 60 Days

Welcome back. We have already dissected the massive spending and overreach in the 3rd and 4th Receiver Billing and Fee Applications in the Par Funding case. But to truly understand how the receivership estate has been treated as a limitless ATM, we must look at the very beginning. Today, we are breaking down the first fee application (**DE-438**), covering the opening two months from July 27, 2020, to September 30, 2020. In that short window, Receiver Ryan Stumphauzer and his retained professionals racked up a staggering 5,519.90 hours, demanding \$2,155,018.64 in total compensation and expenses. That is over \$1 million a month drained from the estate right out of the gate.

The only reason they were able to execute this immediate, massive cash grab is because Par Funding had \$28 million in liquid cash sitting in the bank on day one. Instead of preserving those funds to protect the business, that \$28 million became a limitless buffet for the Receiver and his team to feast on.

The sheer size of the bill is only half the outrage. It is what they were—and were not—doing during those billable hours that exposes the true agenda.

While the Receiver and his team were billing the estate millions, they were systematically dismantling a highly profitable going concern. In this exact 60-day timeframe, the Receiver fired all 70 of Par Funding's employees. They fired all of Par Funding's lawyers and replaced them with themselves. Most devastatingly, they completely stopped running the ACH system that pulled payments from clients.

Prior to the receivership, the company was collecting millions of dollars a day. The Receiver halted those collections entirely, destroying the company's income for good. They made their first couple of million in three months without collecting a single cent from the merchants who owed the company money. They effectively shut the business down completely and initiated their own highly lucrative liquidation process before the defendants even received a single piece of paper allowing them to defend their business in court. They destroyed the going concern for their own greed.

When court-appointed professionals submit bills of this magnitude, they are governed by a strict framework of ethical rules and federal standards designed to protect estates from being bilked. Here is the rulebook they are supposed to follow, and exactly how they ignored it while burning the business to the ground:

ABA Model Rule 1.5: The foundational rule of "Reasonableness." Lawyers cannot charge unreasonable fees and must justify their rates based on the actual time, labor, and skill required.

ABA Formal Opinion 93-379: The ultimate billing ethics guideline. It strictly prohibits "double billing" (phantom hours), forbids marking up third-party expenses for profit, and mandates that general administrative work and overhead cannot be billed to the client.

The Federal "Lodestar" Method: The standard federal judges use to approve fees. It requires courts to slash hours if billing records are vague, "block-billed" (lumping multiple tasks into one massive entry), or show unnecessary duplication of effort.

A close review of this \$2.15 million introductory bill reveals a masterclass in violating these very principles:

1. Rampant Duplication of Effort (Violating the Lodestar Standard & Rule 1.5)

Federal guidelines and the Lodestar method dictate that courts should slash fees when firms send an army of lawyers to the same event. In this bill, high-priced partners double-dipped on the estate's dime.

-On August 18, 2020, attorney Tim Kolaya billed 6.8 hours (\$2,686) to attend the preliminary injunction hearing.

-The Receiver, Ryan Stumphauzer, billed the exact same 6.8 hours (\$2,686) for attending the very same hearing.

2. Clerical Work Disguised as Premium Legal Time (Violating ABA Formal Opinion 93-379)

ABA rules are clear: purely administrative tasks are part of a law firm's overhead. You do not bill an estate for basic filing and downloading. This bill ignores that entirely.

-On July 31, 2020, paralegals Gia Baldwin and Raissa Pinheiro billed a combined 9.2 hours—costing the estate \$920—simply to download docket entries from PACER, upload them to Dropbox, and rename the files.

-Attorney Jackie DerOvanesian billed 2.9 hours (\$725) on July 29 simply to prepare boilerplate pro hac vice motions (basic out-of-state admission paperwork) for the Pietragallo firm.

3. Vague Entries and "Getting Ideas" (Violating the Lodestar Standard)

Attorneys must provide sufficient detail so the Court can actually evaluate the legal work. Instead, the estate was billed for entries that stretch the imagination:

-On July 29, 2020, attorney Jeff Sloman billed 3 hours (\$1,185) simply to review another completely separate SEC case's docket (1 Global) "to get ideas for 'to do list'". Charging the

estate over a thousand dollars to brainstorm by scrolling through an unrelated case is the definition of an unreasonable fee.

The bill is also plagued by block-billing, which hides how much time was actually spent on specific tasks.

For example, Stumphauzer lumped together a massive 3.9-hour entry (\$1,540.50) on August 17 for a laundry list of tasks including hearing prep, reviewing financial statements, and reviewing declarations, completely masking the time spent on each item.

The Bottom Line

From day one, the playbook was clear: halt the millions in daily revenue, fire the staff, insert themselves as the sole beneficiaries of the estate's remaining \$28 million cash reserves, and overbill for every conceivable administrative task. The federal rules and ABA guidelines exist to prevent exactly this kind of financial drain. Instead, a highly profitable going concern was sacrificed so that the court-appointed professionals could secure their payday.