

The Ultimate Irony: How the SEC Destroyed a Company to "Protect" It

The Securities and Exchange Commission (SEC) operates under an extremely specific, explicitly stated, three-part mission: "to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation." But what happens when the agency charged with protecting investors becomes the very catalyst for their financial distress?

In the case of Complete Business Solutions Group (CBSG/Par Funding), the irony is deafening. A review of the defense's August 7, 2020, filing (only 3 days after the defense's motion on 8/4/2020 pleading with the court not to fire Par's staff of professionals) reveals a frantic, documented plea to the court to save a thriving business from an entirely manufactured crisis. The defense was not fighting to hide assets; they were begging the court to let them protect the investors from the destruction they knew the SEC and the Receiver were about to unleash.

Ignored Warnings and Manufactured Crises

On Page 1 of their motion, the defense spoke plainly, stating: *"For an agency charged with protecting investors, the SEC has done the opposite."* Prior to the SEC's ex-parte temporary restraining order (TRO), the company had been paying investors regularly since 2012. By freezing accounts and locking the doors, the SEC's impetuous actions directly caused a complete shutdown of investor returns.

The Receiver's justification for shutting down the business was built on blatantly incorrect financial information. The Receiver falsely claimed to the court that the company had \$500 million in "non-performing" or defaulted agreements. They based this assessment on an interview with Accounting Manager Aida Lau. They falsified their testimony to the judge. (*See Aida Lau Declaration*) Only a small percentage were in collections.

EXHIBIT DE 103-1- DECLARATION OF AIDA LAU 8/7/2020 PG. 2 OF 3:

8. I have reviewed the Motion filed by the Receiver Ryan K. Stumphauzer submitted on August 6, 2020 (the "Motion"). As set forth in the attached exhibits, the information relayed to this Court in paragraph 10 of the Motion is incorrect. Specifically, I told Mr. Stumphauzer the following:

- a. Par Funding had approximately \$500,000,000 in outstanding MCA Agreements that are currently "Active." Out of those \$500,000,000 in outstanding balances, there was a limited percentage of reduced payments, up to 10%, based on the COVID crisis and resulting payment modifications for the benefit of merchants.
- b. I never said anything about \$500,000,000 in non-performing MCA Agreements. To the contrary, what I said was that, within the roughly \$500,000,000 of outstanding MCA Agreements that are currently "Active", a percentage are in collections. However, I further noted that, without the actual reports in front of me, I could not answer with any precision regarding the exact percentage of MCA Agreements in default.

Worse, the SEC falsely represented to the court that the company only had \$2.5 million left—not enough to pay investors.

The actual truth, backed by daily accounting records, was that CBSG had between \$24 and \$25 million sitting across multiple bank and ACH accounts, which was more than enough to cover investor obligations. The stunning part of the entire Receivership was that the assets were held by merchants who were making daily payments between \$1.5-\$2 million PER DAY. There was no chance that the defendants could have misappropriated funds nor the employees because the assets were in the hands of over 5000 merchants. There was ZERO chance of dissipating assets. A less draconian measure would have been to install a monitor to oversee the operations and leave the skilled employees in their posts. This would have given the defendants a chance to thoroughly explain to the court, allow them due process by receiving their discovery before pulling the plug and destroying the underlying assets.

The reason why the SEC pushed so hard to install a Receiver is because they knew that the documents they presented to the court were false. They knew that if defendants had access to their full arsenal of servers, lawyers, accountants and employees the case would have easily

been defeated. They had to install a Receiver as a de-facto prosecutor to build a case off the flawed documents and illegal TRO.

Replacing 70 Experts with Liquidators

The Receiver's refusal to utilize the company's existing workforce was so he could continue the false narrative created by the SEC. Not a single Par Funding employee besides LaForte, McElhone, and CFO Joseph Cole Barleta were implicated in the SEC indictment. CBSG employed 70 highly skilled accountants, bookkeepers, underwriters, and ACH processors. These were the people who understood the extraordinarily complex systems required to fund merchants and pay investors.

Instead of letting these experts do their jobs, the SEC and Receiver locked them out and pushed to hire an outside firm—referred to in the filing as DBI (and known in the industry as DSI) to run the company. As the defense pointed out on Page 2, flying in an outside company and its employees to try and learn a complex business they knew nothing about made absolutely "*no prudent business sense*".

This is a clear violation of the Business Judgement Rule. What business on earth would:

1. Pay such exorbitant fees.
2. Fire skilled labor to fly around unskilled labor to Par offices from all over the country.
3. Pay a total of \$30 million in legals fees while producing zero income.

Their 2-pronged approach by firing the employees was to create more work and create more billing for themselves and secondly control the narrative by poisoning the court and weaponizing the press to secure the SEC, AUSA, and their own billing bonanza. Furthermore, the outside firm was best known for one thing: liquidation.

***The Receiver fired the entire staff of professionals and attorneys at Par Funding and hired DSI (A LIQUIDATION COMPANY) who never ran an MCA company to operate Par Funding! The Freedom Fighters of America looked up Bradley Sharp, the owner of DSI. Bradley Sharp is a fellow of the American College of Bankruptcy, and on the board of the American Bankruptcy Institute. His first instinct is Bankruptcy and Liquidation – Not how to run and manage a business.**

****DSI flew their staff to and from the Par Funding offices in Philadelphia from Florida, Illinois, and Ohio for the first 60 days and billed \$44,000 in travel, and a total of \$880,067.05 in fees to the Par Funding estate!!!!!!!!!!!!!!**

Exhibit: DE 438- RECEIVER, RYAN K. STUMPHAUZER'S FIRST APPLICATION FOR ALLOWANCE AND PAYMENT OF PROFESSIONALS' FEES AND REIMBURSEMENT OF EXPENSES FOR JULY 27, 2020 – SEPTEMBER 30, 2020. (Summary of DSI Professionals Fees.)

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Summary of DSI Professionals
August and September 2020

Professional	Initials	Position	Experience	Rate	Total Hours	Total Fees	
Bradley D. Sharp	BDS	President & CEO	35	\$720.00	137.2	98,784.00	
Bradley D. Sharp - Travel	BDS	President & CEO	35	\$360.00	12.0	4,320.00	
Thomas P. Jeremiassen	TPJ	Sr. Managing Director	24	\$595.00	15.6	9,282.00	
Yale S. Bogen	YSB	Managing Director	34	\$535.00	288.4	154,294.00	
Yale S. Bogen - Travel	YSB	Managing Director	34	\$267.50	50.0	13,375.00	
Nicholas R. Troszak	NRT	Managing Director	15	\$510.00	211.3	107,763.00	
Daniel J. Stermer	DJS	Managing Director	20	\$485.00	220.0	106,700.00	
Daniel J. Stermer - Travel	DJS	Managing Director	20	\$242.50	55.0	13,337.50	
Yi Zhu	YZ	Director	16	\$475.00	132.3	62,842.50	
George E. Shoup, III	GES	Managing Director	26	\$445.00	290.9	129,450.50	
George E. Shoup, III - Travel	GES	Managing Director	26	\$222.50	39.0	8,677.50	
James O. Armstrong	JOA	Director	14	\$390.00	45.2	17,628.00	
Spencer G. Ferrero	SGF	Director	13	\$375.00	179.9	67,462.50	
Shelly L. Cuff	SLC	Director	11	\$375.00	5.8	2,175.00	
Thomas J. Frey	TJF	Sr. Associate	10	\$350.00	151.3	52,955.00	
Thomas J. Frey - Travel	TJF	Sr. Associate	10	\$175.00	24.0	4,200.00	
Rowen C. Dizon	RCD	Associate	20	\$245.00	67.8	16,611.00	
Richard B. Twaits	RBT	Associate	4	\$230.00	24.0	5,520.00	
					1,949.7	\$ 875,377.50	
					Total non-travel	1,769.7	831,467.5
					Total travel	180.0	43,910.0
					Total	1,949.7	875,377.5

08/16/2020	YSB	Travel from Ft. Lauderdale, FL to Philadelphia, PA.	5.00
	GES	Travel from Columbus, OH, to Philadelphia, PA.	3.00
	BDS	Travel from Orange County, CA, to Philadelphia, PA.	6.00
08/21/2020	YSB	Travel from Philadelphia, PA, to Ft. Lauderdale, FL.	5.00
	GES	Travel from Philadelphia, PA, to Columbus, OH.	3.00
	BDS	Travel from Philadelphia, PA, after meetings at the offices.	6.00
08/23/2020	GES	Travel from Columbus, OH, to Philadelphia, PA.	3.00
	TJF	Travel from Chicago, IL, to Philadelphia, PA.	4.00
	YSB	Travel from West Palm Beach, FL, to Philadelphia,	

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			HOURS	
		PA:	5.00	
	DJS	Travel to Fort Lauderdale-Hollywood International Airport, fly to Philadelphia, PA, and Uber from the airport to the hotel.	5.00	
08/28/2020	YSB	Travel from Philadelphia, PA, to West Palm Beach, FL:	5.00	
	GES	Travel from Philadelphia, PA, to Columbus, OH.	3.00	
	TJF	Travel from Philadelphia, PA, to Chicago, IL.	4.00	
	DJS	Travel to Philadelphia, PA, airport from Par Funding's offices and travel from Philadelphia, PA, to Fort Lauderdale, FL.	5.00	
08/30/2020	YSB	Travel from Ft. Lauderdale, FL, to Philadelphia, PA.	5.00	
	TJF	Travel from Chicago, IL, to Philadelphia, PA.	4.00	
	GES	Travel from Columbus, OH, to Philadelphia, PA.	3.00	
08/31/2020	DJS	Travel from Fort Lauderdale, FL, to Philadelphia, PA, and travel to Par's offices.	5.00	
		Travel at 1/2	79.00	20,082.50

The Real Agenda: Prosecution over Preservation

The defense pleaded with the court to unfreeze the accounts, rehire the 70 employees, and resume operations so the business would not fall into bankruptcy or liquidation. They warned that if the SEC did not reverse course, investor funds would dissipate.

No one listened.

To show our readers how destructive and self-serving the Receivership is, see comparison of Key Data for Par Funding vs. the Receivership:

PAR FUNDING		RECEIVERSHIP	
Interest paid to Noteholders 2019:	\$56,085,746	Interest paid to Noteholders 2020:	\$0
Operations Expense per quarter	\$585,000	Operations Expense per quarter	\$880,067.05
Legal Fees per quarter	\$300,000	Legal Fees per quarter	\$1,274,951.59
Gross Income 2019	\$179,620,996	Gross Income 2020-2026- (6 years)	\$0

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Total Compensation and Expenses Requested

Professional Firm	Category	Hours	Fees	Expenses	Total Billed
Stumphauzer Foslid Sloman Ross & Kolaya, PLLC	Attorneys	1,657.20	\$ 553,568.00	\$ 2,952.43	\$ 556,520.43
Pietragallo Gordon Alfano Bosick & Raspanti, LLP	Attorneys	1,663.75	\$ 549,904.25	\$ 36,644.84	\$ 586,549.09
Development Specialists, Inc.	Operations Consultant	1,769.70	\$ 840,277.31	\$ 39,789.74	\$ 880,067.05
Lawgical Insight, LLC	eDiscovery Specialist	335.75	\$ 109,118.75	\$ 2,515.32	\$ 111,634.07
HD Investigative Group, LLC	Investigations Firm	93.50	\$ 20,248.00	\$ -	\$ 20,248.00
		5,519.90	\$2,073,116.31	\$81,902.33	\$2,155,018.64

Looking back, the underlying business of Par Funding was so strong that all the investors were paid back. Yet the company was still destroyed. The timeline makes it clear that the receivership functioned less as a rescue mission for investors and more as a prosecutorial weapon. The Receiver's actions paved the way for the AUSA to build a criminal case against owners Joseph LaForte and Lisa McElhone based on lies, misrepresentations, mis directions, and fraudulent accounting.

They were not acting as neutral preservers of an estate; they were acting as prosecutors. The only real winners in this scenario were the SEC, the AUSA, and the outside liquidators who billed the estate while a highly profitable company was ground into the dirt.

The end result of this motion- of course **DENIED** by Judge Rodolfo Ruiz!