

Par Funding: A Fabulous Fraud Founded in Philly

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Abstract. This case describes a recent iteration of the Ponzi scheme originated in 1920 by Charles Ponzi: creating a plausible investment, attracting investors, using the money from more recent investors to pay off earlier investors, and earning a substantial profit, estimated to be \$15 million (worth \$220 million today).¹ While not as big as Bernie Madoff's Ponzi scheme, as a result of which he was sentenced to 150 years in prison and ordered to pay restitution of \$170 billion to his victims,² the Federal district court in Miami was asked to order Par Funding's cofounders, Joseph W. LaForte and his wife, Lisa McElhone, to pay \$337 million to Par Funding investors and to declare they engaged in a Ponzi scheme in defrauding those investors.³ Ultimately the Federal district court in Miami ordered Par cofounders to pay "\$219 million in 'ill-gotten gains,' fines and interest so the funds can be used to help reimburse 1,200 investors who were duped into buying the risky, unregistered securities used to finance the high-fee loan company."⁴ How LaForte and McElhone executed their scheme is an intriguing story which provides helpful insight into ethical and U.S. securities law principles.

Keywords: financial pitchman, merchant cash advances, outside receiver, ponzi scheme, promissory notes, Securities Exchange Commission, state securities regulators, unregistered securities offerings, views of corporate social responsibility: narrow, moderate, and broad.

1. Introduction

Complete Business Solutions Group, Inc. d/b/a Par Funding (hereinafter "Par Funding") had a very simple business model: hire highly successful sales

1. Jim Probasco, *Who Was Charles Ponzi? What Did He Create?*, INVESTOPEdia, February 28, 2023, accessed on May 13, 2023, at <https://www.investopedia.com/who-is-charles-ponzi-5216783#:~:text=Charles%20Ponzi%20is%20the%20namesake,new%20investors%20can%20be%20attracted>
2. Sean P. Melvin and F.E. Guerra-Pujol, *THE LEGAL ENVIRONMENT OF BUSINESS: A MANAGERIAL APPROACH*, at 563 (2021)
3. Craig R. McCoy, *SEC seeks \$630M in fraud lawsuit*, THE PHILADELPHIA INQUIRER, April 19, 2022, p. A1, accessed on April 20, 2022, at <https://edition.inquirer.com/html5/reader/production/default.aspx?pubname=&edid=90b24b63-1770-469a-ab2d-dab05ad98885>
4. Joseph N. DiStefano, *Par Funding founders ordered to pay \$219M*, THE PHILADELPHIA INQUIRER, October 27, 2022, p. A18, accessed on October 29, 2022, at https://edition.inquirer.com/infinity/article_popover_share.aspx?guid=1eb275ff-504e-45b7-a481-0691cb555357

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personnel to convince investors to purchase almost \$500 million in Par Funding promissory notes, lend that money to merchants in the form of merchant cash advances (MCA) at interest rates averaging 50% with some as high as 400%, and pay the promissory notes back at interest rates of 10% or more.⁵ Unfortunately, both for themselves and their investors, Joseph W. LaForte and his wife, Lisa McElhone, Par Funding's cofounders, abandoned the MCA business plan and embarked on their own, enormous Ponzi scheme.

In a civil lawsuit filed in July 2020, the Securities and Exchange Commission (SEC) accused McElhone and LaForte of fraud by (1) failing to warn investors how risky the MCA investments were, (2) failing to collect the balances owed on the MCA because those loans had constantly escalating balances the borrowers could never pay off, (3) permitting the ten largest MCA borrowers to account for half of Par Funding's business, and (4) paying themselves "millions" before ending payments on Par Funding's promissory notes in April 2020.⁶

Notably, Par Funding's finances were audited by the accounting firm Friedman LLP, which in its initial review, determined Par Funding lost \$6.7 million in 2017 after taking into account its credit losses.⁷ LaForte insisted Friedman LLP prepare a second audit showing a \$1.2 million profit, and Friedman LLP attached an "adverse opinion" to the audit saying that Par Funding had "not accounted for its provision for credit losses, in accordance with accounting principles generally accepted in the United States of America" and that the second report's results "do not present fairly" Par's financial position.⁸ SEC senior trial counsel, Amie Riggle Berlin, commented that the swapping out of the audit report was emblematic of an operation shot through with deception.⁹

5. SEC vs. Complete Business Solutions Group Inc. d/b/a/ Par Funding et al., No. 9:20-Cv-81205 (S.D.FI Filed Jul 31, 2020), Litigation Release no. 24860 / July 31, 2020. Joseph N. DiStefano and Erin Arvedlund, *From nail salon to near billionaire: How Par Funding owner amassed a fortune* THE PHILADELPHIA INQUIRER, October 8, 2020, accessed on December 21, 2020, at <https://www.inquirer.com/business/par-funding-sec-lisa-mcelhone-porsche-dean-vagnozzi-forte-prison-fraud-20201008.html>. Erin Arvedlund, *How Philly investors were drawn into what SEC alleges is \$500 million fraud*, THE PHILADELPHIA INQUIRER, August 12, 2020, accessed on December 21, 2020, at <https://www.inquirer.com/business/par-funding-a-better-financial-plan-dean-vagnozzi-joseph-laforte-lisa-mcelhone-lacquer-lounge-sec-complaint-20200812.html>. SEC Complaint filed in *SEC v. Complete Business Solutions Group, Inc. d/b/a Par Funding* ¶¶ 1-3.

6. DiStefano and Arvedlund *supra* note 5.

7. Joseph N. DiStefano, *SEC lays out its fraud case against Philly-based firm, calling it a 'sham' with 'no respect for the law,'* THE PHILADELPHIA INQUIRER, August 18, 2020, accessed on October 9, 2020, at <https://www.inquirer.com/business/law/sec-fraud-philadelphia-par-funding-vagnozzi-retirement--20200818.html>

8. *Id.*

9. *Id.*