

\$38M Law Firm Settlement Highlights 'Unworthy Client' Perils

By **Douglas Richmond** and **Andrew Ricke** (May 16, 2025, 11:22 AM EDT)

Clients who engage in or seek to perpetrate fraud or other misconduct and exploit their lawyers in doing so — sometimes referred to as "unworthy clients" — pose potentially catastrophic liability threats to law firms.

By our count, there have been at least 83 publicly reported settlements by, or verdicts against, U.S. law firms exceeding \$20 million. Of those 83 cases, 39 were solely attributable to the firm's representation of an unworthy client, with at least 16 more partially attributable, totaling 55 of 83, or 66%.

In most of these cases, the principal allegation was that the lawyers involved in the representation aided and abetted the client's wrongdoing. Depending on the facts, lawyers who find themselves entangled with unworthy clients also may be sued for fraud, negligent misrepresentation and conspiracy. In a few cases, lawyers who became ensnared in their clients' fraudulent schemes have been convicted of crimes.[1]

A recent case underscores the continuing threat unworthy client claims present to even the very best law firms, and the critical importance of preemptive measures to avoid them.

Law Firm Settles for \$38 Million For Allegedly Aiding and Abetting a Ponzi Scheme

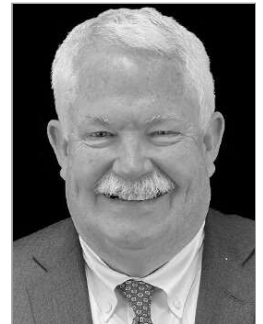
On Feb. 28, U.S. District Judge Rodolfo A. Ruiz II **approved** a \$38 million settlement of a class action against the law firm of Eckert Seamans Cherin & Mellott LLC.[2] The plaintiffs were investors claiming to be victimized by a Ponzi scheme perpetrated by Eckert Seamans' client, Par Funding, a merchant cash-advance company.

Par Funding allegedly took money from investors — touting high returns of 10% to 14% — then lent that money at exorbitant interest rates to small merchants that could not get bank loans. Par Funding allegedly used that model to defraud 1,200 investors of over \$500 million.[3]

At the center of the alleged scheme was Par Funding's founder, Joseph LaForte. LaForte formed Par Funding just months after he was released from prison for convictions for money laundering and grand larceny (for his role in a Ponzi-esque mortgage scam), and for heading an illegal gambling operation.[4]

LaForte reportedly concealed his role with Par Funding and hid his past from investors by adopting fake names and by paying to hide his convictions in online search engine results.[5] He allegedly used Par Funding investors' money to fund a lavish lifestyle. LaForte pled guilty to federal criminal charges stemming from the fraud and was sentenced to 15.5 years in prison.[6]

As to Eckert Seamans, the plaintiffs alleged that the firm aided and abetted Par Funding's scheme by "creating and advising agent funds used to solicit investors in Par Funding merchant cash advances, preparing false and misleading offering documents distributed to investors, and serving as de facto underwriters of the merchant cash advance investments." [7]



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The suit, and related U.S. Securities and Exchange Commission charges, alleged that former Eckert Seamans partner John Pauciulo actively participated in the scheme. Pauciulo purportedly: approved and participated in commercials and presentations pitching the unregistered investments; made material misrepresentations and omissions in private placement memoranda, as well as in meetings and presentations to prospective and existing investors; and failed to reveal that Par Funding's undisclosed control person (LaForte) had a criminal history.[8]

While denying any wrongdoing, Eckert Seamans settled all claims against it after four years of litigation. The \$38 million settlement represented the balance of Eckert Seamans' \$50 million professional liability policy limits, after erosion of defense fees and costs.[9]

In hindsight, this controversy may have been avoidable even assuming Pauciulo — who has denied any misconduct — was an unwitting pawn in any mischief by his client. LaForte had a public criminal history. Plus, Par Funding's promises to investors of unusually high returns arguably should have caused someone to kick the company's tires, metaphorically speaking.

Furthermore, if the plaintiffs' allegations are true, Pauciulo helped open the door to aiding and abetting claims by vouching for Par Funding's business plan and being involved in pitches to investors — tasks that went beyond providing routine legal services.[10] Lawyers should resist vouching for or becoming intertwined in clients' businesses; anything more than routine lawyering only increases the risk that the client's misconduct will infect the lawyer and firm.

Ethics Rules and Unworthy Client Risk

Lawyers and law firms must conduct due diligence at intake and stay alert for signs of client wrongdoing during an engagement. In fact, lawyers have a duty to do so.

Model Rule 1.2(d) of the ABA Model Rules of Professional Conduct prohibits a lawyer from counseling a client to engage in or assisting a client with conduct the lawyer knows is criminal or fraudulent.[11] If the lawyer's reasonable, risk-based inquiry leaves the lawyer with knowledge of facts that "indicate a high probability that a client seeks to use the lawyer's services for criminal or fraudulent activity," failure to inquire further is willful blindness punishable under the actual knowledge standard of that rule.[12]

In addition, Model Rule 1.16 now explicitly provides that lawyers must "inquire into and assess the facts and circumstances of each representation to determine whether the lawyer may accept or continue the representation." [13]

With those considerations in mind, what practical steps should lawyers and law firms implement to identify potential client misconduct?

Client and Business Intake

The first line of defense against high-risk clients obviously is a robust business intake process. It is also critically important for firms to vet lateral lawyers' clients as thoroughly as they scrutinize potential clients coming to the firm through existing lawyers. Firms cannot let unworthy clients who would never get in through the front door slip in through a side door, so to speak.

Warning Signs

Unfortunately for law firms, unworthy clients can be as good at deceiving their lawyers as they are at deceiving the intended targets of their schemes. Lawyers and firms must therefore be sensitive to "pink flags" — warning signs of potential misconduct that are not so certain or obvious as to qualify as red flags — both when accepting new clients and over the life of representations. Below is a nonexclusive list of pink flags that may indicate potential problems warranting further investigation of a client or prospect:

- Unstable financial condition (e.g., prior bankruptcies, debt collection actions);

- Litigation by client against his former lawyers or other professional advisers, e.g., accountants, auditors, bankers, etc.;
- Suits, charges, enforcement actions, or investigations targeting the client involving crime, fraud, bribery, corruption, whistleblower complaints, etc.;
- Nonpayment or slow payment of legal fees;
- Recent or frequent changes in lawyers or other professional advisers;
- Lack of information about the client or those in control;
- Declining to provide information necessary for the representation;
- Requests for informational barriers, e.g., with other lawyers in the firm, with jointly represented clients, or with professional advisers;
- Continual insistence on taking frivolous or unnecessarily adversarial positions;
- Failure or refusal to follow firm advice on compliance or remedial issues;
- Repeated stalling tactics;
- Significant changes in lines of work or business strategy;
- Unfeasible or unusual business plans — especially those that do not match the client's experience or expertise;
- Unusually rapid revenue growth and/or acquisitions;
- Proposed transactions with no apparent business purpose, e.g., transfers of funds between related entities;
- Request to the firm to work on small pieces of a transaction with no understanding of the larger picture;
- Client raising or managing third-party funds;
- Transactions promoting unusual investments or promising unusually high returns;
- Recent changes or departures in senior management, accounting staff or outside auditors;
- Extravagance by the entity or its controlling constituents;
- Avoidance of financial obligations to third parties; and
- Requests that the firm vouch for the client's financial situation, business plan, etc.

Of course, whether, and to what extent, further inquiry is warranted will vary on a client-by-client and case-by-case basis. Lawyers should react promptly to any warning signs, particularly including by consulting with their firm's general counsel.

Conclusion

The Eckert Seamans case is a sharp reminder of the severe threat unworthy clients pose to top-flight law firms, especially firms with significant transactional practices — although litigation practices are not immune. Firms cannot rely on their reputations to repel unworthy clients. Indeed, unworthy clients may seek representation by excellent law firms precisely because they hope to benefit from the related reputational transfer.

For law firms of all sizes and geographies, no matter how lauded, diligence at new business intake and alertness to warning signs of potential client misconduct during representations are essential aspects of practice and risk management.

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[1] See, e.g., *United States v. Greebel*, 782 F. App'x 72 (2d Cir. 2019) (affirming a lawyer's convictions for conspiracy to commit wire fraud and conspiracy to commit securities fraud); *United States v. Collins*, 581 F. App'x 59 (2d Cir. 2014) (affirming a lawyer's sentence to one year and one day of imprisonment after a jury convicted him of conspiracy, securities fraud, false SEC filings, and wire fraud).

[2] Final Order Approving Settlement, *SEC v. Complete Bus. Sols. Grp., Inc.*, No. 9:20-cv-81205 (S.D. Fla. Feb. 28, 2025), ECF No. 2119.

[3] Craig R. McCoy, *Inside Par Funding: The Wild \$550 Million Financial Scandal That Rocked Philly and the Main Line*, *Phila. Mag.* (Feb. 24, 2024), <https://www.phillymag.com>.

[4] See *id.*

[5] *Id.*

[6] Chris Palmer, *Par Funding Founder Joseph LaForte Sentenced to More than 15 Years in Prison*, *Lancaster Online* (Mar. 26, 2025), <https://lancasteronline.com/business>.

[7] Renewed Motion for Approval of Settlement at 6, No. 9:20-cv-81205, ECF No. 2081.

[8] Bruce Kelly, *Lawyer for Alleged Philly Fraud Settles with the SEC*, *Investment News* (July 11, 2022), <https://www.investmentnews.com>.

[9] Amanda O'Brien, *With Malpractice Funds Shrinking, Eckert Seamans Brokers New Settlement in Par Funding Case*, *Legal Intelligencer* (Oct. 21, 2024), <https://www.law.com/thelegalintelligencer>.

[10] See Kelly, *supra* note 8 (discussing allegations against Pauciulo in the SEC order); McCoy, *supra* note 3 (discussing allegations against Pauciulo in a related lawsuit filed by LaForte's financial advisor, Dean Vagnozzi).

[11] Model Rules of Pro. Conduct r. 1.16(a) (Am. Bar Ass'n 2024).

[12] ABA Comm. on Ethics & Pro. Resp., Formal Op. 491, at 3 (2020); see also ABA Comm. on Ethics & Pro. Resp., Formal Op. 513, at 6–7 (2024).

[13] Model Rules of Pro. Conduct r. 1.16(a) (Am. Bar Ass'n 2024).