

SUPREME COURT OF NEW YORK
NEW YORK COUNTY

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PURSUIT CREDIT SPECIAL OPPORTUNITY :
FUND, L.P., :

Index No. 651070/2022

Plaintiff, :

**VERIFIED SECOND AMENDED
COMPLAINT**

- against - :

KRUNCHCASH, LLC, KC PCRD FUND, LLC, :
KC CA FUND, LLC, JEFFREY HACKMAN and :
SEAN MCGHIE PLC¹ :

Defendants. :

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By its undersigned counsel Slarskey LLC, Pursuit Credit Special Opportunity Fund, LP (“**Pursuit**”) alleges for its Second Amended Complaint² against KrunchCash LLC (“**KrunchCash**”), KC PCRD Fund, LLC (“**KC PCRD**”), Jeffrey Hackman (“**Hackman**”) (collectively “**KrunchCash Parties**”), and KC CA Fund, LLC (“**KC CA**”) (together with the KrunchCash Parties, “**Defendants**”), as follows:

SUMMARY OF THE DISPUTE

1. Since 2015, Pursuit invested more than \$10 million into KrunchCash and KC PCRD, two specialty finance entities owned and managed by defendant Hackman. Pursuant to a series of contractual agreements, Pursuit was a passive investor, supplying investment capital to KrunchCash and KC PCRD, which in turn entitled Pursuit to participate in proceeds

¹ Defendant Sean McGhie PLC was dismissed without prejudice pursuant to the Court’s Decision and Order, dated April 20, 2023 (Doc. [275](#)). Plaintiff filed a Notice to County Clerk – Amendment to Caption to remove McGhie from the caption on June 6, 2023.

² Pursuant to the Court’s Order (Doc. [275](#)), this Second Amended Complaint provides a more concise statement of the facts upon which Pursuit’s claims are based. By doing so, however, Pursuit does not intend to abandon or retract prior allegations.

generated by certain, specified “**Advances**,” *i.e.*, non-recourse funding or factoring agreements made to third-parties (“**Advance Recipients**”) using Pursuit’s capital.

2. KrunchCash is a specialty finance company that originates and services alternative assets, such as legal funding (plaintiff funding and law firm advances) and medical receivables. Hackman is the sole owner, manager and chief officer and/or principal of KrunchCash and the manager of KC PCRD and KC CA, both of which are wholly-owned by KrunchCash and/or Hackman.

3. Between 2015 and early 2019, Pursuit invested and reinvested funds with KrunchCash and KC PCRD predicated on Hackman’s representations that the underlying assets were consistently performing.

4. By early 2019, Pursuit had outstanding principal of approximately \$10 million including: (i) \$3.455 million in a series of advances to a Maryland-based personal-injury law firm and its affiliates (the “**Maryland**” or “**Resnick Advances**”); (ii) \$6.16 million to a Texas-based pharmaceutical business advanced against adjudicated receivables (the “**LB Pharma Advance**”); (iii) \$365,700 in principal and proceeds owed to Pursuit from a series of receivables in cases being handled by a Connecticut-based law firm (the “**Connecticut Advances**”); and, (iv) a portfolio of miscellaneous advances to attorneys and/or plaintiffs secured against personal injury litigations (the “**Miscellaneous Advances**”).

5. In 2019, realizations from Pursuit’s two largest investments screeched to a halt and Pursuit looked to Hackman for explanation and assurance that the lagging repayments would be resolved. Hackman stalled Pursuit with excuses and explanations that turned out to be false. Unbeknownst to Pursuit, KrunchCash and Hackman became embroiled in contentious disputes with the end-recipients of these Advances (the “**Default Actions**”).

6. When Hackman could no longer conceal his disputes with the Advance Recipients, he pivoted and began demanding that Pursuit fund the Default Actions, claiming inconsistently that Pursuit was required to fund under its investment agreements and, at the same time, that Pursuit did not have a right to proceeds because those agreements expired.

7. Pursuit initially complied, advancing several hundred thousand dollars in support of recovery efforts to protect its investments. When Pursuit sought transparency and accountability, however, Hackman grew secretive and erratic. Hackman threatened to scuttle the investments if Pursuit did not accede to his demands. Pursuit's relationship with Hackman deteriorated until, in mid-2021, Pursuit learned that the KrunchCash Parties had irrationally racked up millions of dollars in legal costs pursuing vindictive, self-serving litigation against the Advance Recipients, and that KrunchCash had been intercepting and failing to disburse proceeds from other, unimpaired Advances to fund KrunchCash's own servicing obligations.

8. Pursuit filed suit in June 2021³ seeking, initially, to assert its right to proceeds from the Default Actions, and to recover principal and proceeds from KrunchCash and KC PCRD that had not been distributed after the investments began to fail. (Doc. [14](#) (Am. Compl.)) Pursuit has since discovered it was the victim of a fraudulent investment scheme perpetrated by Hackman using KrunchCash, KC PCRD, KC CA and other KrunchCash-affiliated entities to swindle investors and siphon cash for Hackman's own personal benefit.

9. Specifically, Pursuit learned that the KrunchCash Parties had been deceiving Pursuit since at least 2018, to induce Pursuit to invest additional funds with KrunchCash and its affiliates.

³ Pursuit commenced arbitration in June 2021 and, following a series of jurisdictional disputes in New York and Florida, filed this action in New York on March 7, 2022.

10. To induce Pursuit to invest more capital with KrunchCash and KC PCRD, Hackman falsified his accounting of Pursuit's investments to make the investments appear more profitable and reliable than they really were. Based on this false accounting, Hackman asserted that KrunchCash had a right to more than \$3.5 million in profit participations.

11. Hackman, KrunchCash, and KC PCRD also misrepresented the nature, volume, and quality of the proposed investments. Unbeknownst to Plaintiff, and as described below, the Defendants: (i) encumbered and pledged to other parties certain of the claims that purportedly served as collateral for Plaintiff's investment; (ii) invested Plaintiff's funds in claims other than those agreed upon with Pursuit; (iii) misappropriated Plaintiff's funds to finance litigation against the Advance Recipients; (iv) used Plaintiff's money to fund Defendants' own investments; and, (v) used Plaintiff's funds to pay for Hackman's personal expenses and to benefit the KrunchCash Parties' interests.

12. Defendants also withheld proceeds owed to Plaintiff, and diverted those proceeds away from KrunchCash and KC PCRD to put them out of the reach of Pursuit to avoid any potential judgment in this action. Using KrunchCash, KC PCRD, and KC CA to obscure his activities and shield monies owed to Pursuit, Hackman misappropriated Pursuit's funds, including siphoning millions of dollars from KrunchCash's and KC PCRD's bank accounts into KC CA, engaging in blatant self-dealing at Pursuit's expense.

13. In early 2018, without Pursuit's knowledge, Hackman solicited another investor, Signal Funding, LLC ("Signal Funding") to invest in the Maryland law firm receivables alongside Pursuit. The Maryland law firm's case volumes were not large enough to support the level of investment Hackman had promised to Pursuit and Signal Funding. To manufacture volume that did not exist, the Maryland Advance investment in law firm receivables quickly

devolved into a ponzi scheme, with Hackman using the second investor's funds to prop up the appearance of profitability, double-pledging collateral, churning claims between the two investors to create false profits, and commingling and diverting investor funding for his own personal benefit.

14. When repayments could not keep up with Hackman's fraudulent returns, Hackman declared the Advance Recipients in default, and waged a wasteful litigation campaign against the Maryland and LB Pharma Advance Recipients, *i.e.*, the Default Actions, presenting falsified and inflated accounting to federal and state courts to cover up Defendants fraudulent investment scheme.

15. Pursuit seeks equitable and monetary relief from this Court to rescind its investments and recover its investment capital, disgorge Defendants' ill-gotten gains from its fraudulent scheme, pay Pursuit its share of proceeds, impose punitive damages, and reimburse Pursuit for its costs and attorneys' fees.

PARTIES

16. Pursuit is a Delaware limited partnership with a principal place of business in New York. Pursuit has invested more than ten million dollars in principal in KrunchCash and its affiliates since 2015.

17. KrunchCash is a Florida limited liability company with a principal place located at 500 S. Ocean Blvd., Apt. 401N, Boca Raton, Florida 33432. KrunchCash's sole member is Defendant Jeffrey Hackman, who is a citizen of the State of Florida.

18. KC PCRD is a Florida limited liability company with a principal place located at 500 S. Ocean Blvd., Apt. 401N, Boca Raton, Florida 33432. KrunchCash is the

“parent” of KC PCRD, and upon information and belief the sole member of KC PCRD.

Hackman is listed as the manager of KC PCRD. KC PCRD is a citizen of Florida.

19. KC CA is a Florida limited liability company with a principal place located at 500 S. Ocean Blvd., Apt. 401N, Boca Raton, Florida 33432. KrunchCash is the “parent” of KC CA, and upon information and belief the sole member of KC CA. Hackman is listed as the manager of KC CA. KC CA is a citizen of Florida.

20. Hackman is an individual residing in Florida. He is the manager, Chief Executive Officer and Chief Operating Officer of KrunchCash, and the manager of both KC PCRD and KC CA.

JURISDICTION

21. This Court has jurisdiction over KrunchCash, KC PCRD, and Hackman pursuant to CPLR § 303 because they twice previously commenced legal action over the same subject matter as this dispute in this jurisdiction and venue.⁴

22. The Court has jurisdiction over KrunchCash, KC PCRD, KC CA and Hackman pursuant to CPLR 302(a)(1) because each Defendant transacts business in the State of New York from which the causes of action asserted herein arose; pursuant to CPLR 302(a)(2) because the Defendants committed tortious acts in New York; and, pursuant to CPLR 302(a)(3) because each of the Defendants committed tortious acts outside of New York from which the causes of action asserted herein arose, those acts caused injury to Pursuit within New York, and each regularly solicits business or derives revenue from New York and/or should reasonably

⁴ *KrunchCash LLC, KC PCRD LLC, Jeffrey Hackman, and Sean McGhie PLC v. Pursuit Credit Special Opportunity Fund, L.P.*, Index No. 655473/2021 (Sup. Ct. N.Y. Cty.) (Article 75 Proceeding); *KrunchCash LLC, KC PCRD LLC, Jeffrey Hackman, and Sean McGhie PLC v. Pursuit Credit Special Opportunity Fund, L.P. et. al.*, Index No. 656688/2021 (Sup. Ct. N.Y. Cty.).

expect its actions to have consequences in New York and derives substantial revenue from interstate commerce.

23. Venue is proper pursuant to CPLR § 503(a) and 503(c) because Pursuit maintains an office in New York, New York, and because a substantial part of the events or omissions giving rise to Plaintiff's claims occurred in New York, New York.

DETAILED ALLEGATIONS

A. Background on the Pursuit-KrunchCash Relationship

24. Pursuit is an investment vehicle focused on opportunities in alternative commercial credit.

25. In 2015, Pursuit began investing into KrunchCash, an entity owned and controlled by Hackman. KrunchCash is a Florida-based specialty finance company that originates and services investments in legal funding (*i.e.*, third-party litigation finance, plaintiff advances, and attorney funding) and medical receivables.

26. Between 2015 and 2019, Pursuit invested over \$10 million in original capital, and tens of millions after reinvestment, with KrunchCash and KrunchCash's wholly-owned subsidiary KC PCRD.

27. Pursuit and KrunchCash documented the commercial relationship, a revenue-share arrangement, in certain "funding agreements" and "purchase agreements" between the parties (discussed below): (i) Pursuit invests funds into KrunchCash (or KrunchCash's affiliate) to support a particular asset; (ii) KrunchCash contemporaneously advances monies to a third-party entity (*e.g.*, a law firm, plaintiff, or medical provider requesting funds from KrunchCash) through an Advance; and, (iii) upon the resolution of the Advance, proceeds and

profits (if any) are split between Pursuit and KrunchCash pursuant to an agreed-upon “waterfall,” discussed further *infra*.

28. From 2015 through mid-2018, Pursuit and KrunchCash operated under two agreements: an Investor Funding Agreement (the “**Original IFA**”) dated April 2015 (and as amended) (Exhibit 1), and a separate Purchase Agreement (the “**Purchase Agreement**”) dated September 29, 2017 (as amended) (Exhibit 2).

29. In April 2018, Pursuit, KC PCR D, and KrunchCash entered into a new agreement, the Amended and Restated Funding Agreement (the “**Amended IFA**”) (Exhibit 3), to include KrunchCash’s newly formed and wholly-owned subsidiary, KC PCR D.

30. Hackman negotiated the Amended IFA with Pursuit. Hackman created KC PCR D for the purpose of acting as a counterparty to the Amended IFA. KrunchCash and Hackman represented to Pursuit that the KC PCR D entity was necessary and appropriate as a corporate formality to partition one investment from another (*i.e.*, to prevent commingling), effectively creating a “managed account” through which Pursuit’s investment would flow.

31. Prior to execution of the Original IFA, and repeated over the course of the business relationship, Hackman represented, and the parties agreed, that investment capital would only be used for investments authorized by Pursuit.

32. The Amended IFA superseded the Original IFA but did not modify the Purchase Agreement.

33. The Amended IFA confirmed that as of April 10, 2018, Pursuit had provided \$2.8 million in funding under the Original IFA.

34. The Purchase Agreement, as amended, confirmed that Pursuit had \$1.4 million in Advances outstanding as of February 21, 2018.

35. As is documented in all three of the written agreements, Pursuit and Defendants KrunchCash and KC PCRD agreed to a “0 and 50” compensation structure. More specifically, the parties agreed that Pursuit would not pay Defendants any upfront “management” fee (or “Servicing Fee” as defined in the Amended IFA⁵) in connection with Defendants’ management of the assets. Rather, when and if any given Advance successfully paid out, KrunchCash or KC PCRD would be compensated on an incentive basis through a distribution of half (50%) of the profits, *i.e.*, repayment amounts in excess of the principal Pursuit invested.⁶ This structure is known as a “0 and 50” structure, *i.e.*, 0% management fee, 50% performance fee or profit-participation.

36. Pursuit relied upon the alignment between the parties, *i.e.*, that KrunchCash and KC PCRD were incentivized to originate and service sound investment opportunities, because they would only be compensated out of profits from Advances. Indeed, between 2015 and summer 2019, KrunchCash claimed \$3.7 million in 50% performance fees on the back of funds invested by Pursuit—although Pursuit still had many millions more in principal outstanding.

⁵ The Amended IFA provides that “Company [KC PCRD] will receive a servicing fee in the amount of zero percent (0%) of each Advance provided with the Investor Funding (“Servicing Fee”).”

⁶ This compensation structure differs, commercially, from more conservative asset management structures which invert the incentives. Whereas under a more traditional asset management compensation model, the manager may be compensated with *lesser* performance compensation in exchange for *greater* upfront compensation (*e.g.*, the traditional “2 and 20” model, where an asset manager receive a 2% upfront management fee and a 20% performance fee), here, the parties structured compensation to heavily incentivize Defendants to ensure performance of the underlying Advances.

37. Pursuant to the Amended IFA, KrunchCash was to “transfer the remaining proceeds that [Pursuit] previously provided to KrunchCash” to a designated KC PCRDR bank account. In addition, the Amended IFA required KrunchCash and KC PCRDR to assign “all of KrunchCash’s right, title and interest” in “any and all future proceeds received from any Advances provided by KrunchCash with any Investor funding under [the Original IFA]” to KC PCRDR for proper accounting and distribution to Pursuit.

38. The Amended IFA contemplated that KC PCRDR would enter into funding agreements with Advance Recipients.

39. The Amended IFA also contemplated a designated KC PCRDR bank account would be maintained to deposit investor funding, to provide Advances to the Advance Recipients, to receive repayments, and from which proceeds would be allocated pursuant to the waterfall in the Amended IFA.

40. Notwithstanding the terms of the Amended IFA, the Pursuit-KrunchCash relationship remained substantially unchanged: KrunchCash (not KC PCRDR) continued to assume the role (and corresponding obligations) as the contracting party on Advances with Advance Recipients, KrunchCash continued to reflect Pursuit as the owner of Advances which KrunchCash originated in the accounting maintained by Hackman, and KrunchCash and Hackman made all day-to-day decisions (using its personnel and otherwise) concerning the Advances.

41. KrunchCash also assumed the obligations under the Amended IFA relating to the bank account. When Pursuit invested additional monies to existing and new Advances (or the Default Actions, discussed *infra*), at Hackman’s direction, Pursuit funded

monies to KrunchCash's bank account, not KC PCRD's. Proceeds were remitted back to KrunchCash, not KC PCRD.

42. KC PCRD's only apparent function after the Amended IFA was executed was to maintain a bank account in which Hackman would record transactions in and out purportedly representing an allocation of principal repayment and profit to Pursuit from proceeds that Hackman and KrunchCash reported they had received from Advance Recipients. Those funds were then withdrawn back into the KrunchCash account, supposedly to be reinvested in new Advances.

43. The Maryland, LB Pharma, and Connecticut Advances were all made pursuant to, and are governed by, the Amended IFA.

B. The Maryland Law Firm Advances

44. The Maryland Advance was actually a series of Advances to a Maryland-based personal injury law firm, The Law Offices of Jonathan S. Resnick LLC, owned by Jonathan S. Resnick (the "JSR Law Firm"), a long-time friend and former business partner of Hackman's.

45. Between 2015 and early 2018, Pursuit had approximately \$2,150,000 in principal funding deployed through KrunchCash primarily to the JSR Law Firm. Later, in mid-2018, Hackman expanded the scope of the Maryland Advance to include the legal practice of Jonathan Resnick's son, Perry A. Resnick (the "PAR Law Firm", and together with the JSR Law Firm, the "Resnick Law Firms"), and a medical provider called American Wellness which provided covered care to the personal injury plaintiffs represented by the Resnick law firms.

46. KrunchCash originated, structured, and serviced each Advance, even after the Amended IFA was executed. Pursuit relied on Hackman, KrunchCash, and KC PCRD to

evaluate and perform due diligence on proposed investments, and to manage, and properly account for, the funds that Pursuit invested in the Advances. Hackman worked directly with the Resnick Law Firm's bookkeeper and instructed her on repayment amounts to issue to KrunchCash.

47. The investments were supposed to be factoring arrangements. For pre-settlement claims, KrunchCash, KC PCRD and Hackman represented that the investments would be used by KrunchCash to provide advance funds to a third-party law firm in exchange for a right to receive a return from the law firm's contingency fee interest.

48. For post-settlement claims, KrunchCash, KC PCRD and Hackman represented that each Advance was secured against the law firm's corresponding receivable, which would be owned outright by KrunchCash.

49. KrunchCash, KC PCRD, and Hackman made several material representations to Pursuit, both before and after April 10, 2018. These representations were made orally, in conversations with Pursuit's principals, in text messages, and in other writings.

50. KrunchCash, KC PCRD and Hackman represented that they had performed thorough due diligence on the Advance Recipients and the collateral prior to recommending the investment.

51. KrunchCash, KC PCRD and Hackman represented to Pursuit that the Maryland Advances were backed by collateral that was unencumbered and that no other investor had a claim to, or lien on, the claims.

52. KrunchCash, KC PCRD and Hackman represented that the collateral backing each new Advance represented new claims originated by the Resnick Law Firms.

53. KrunchCash, KC PCR D and Hackman represented to Pursuit that the claims were collateralized 2-to-1, meaning that for every claim against which there was an Advance there was another claim in the law firm’s portfolio that was unencumbered.

54. KrunchCash, KC PCR D and Hackman represented that the Advances correlated to a direct cash payment to the Resnick Law Firms (or its affiliates).

55. KrunchCash, KC PCR D and Hackman provided periodic statements or “Ledgers” to Plaintiff, constantly updated and documenting thousands of individual claims against which funds were advanced, with columns purporting to show the date the underlying claim was originated, the amounts advanced and repayments owed, and the date and amounts collected on each one, and calculations of the 50/50 profit split between KrunchCash and Pursuit (the “**KrunchCash-PCSO F Ledger**”).

56. And excerpt from the KrunchCash-PCSO F Ledger is below:

KC PCR D			FUNDED			COLLECTED		
ID #	Date	Recipient	DR (-)	DR (-)	DR (-)	DATE	CR (+)	CR (+)
			GROSS	FEE	NET		MIN	EXT
			\$3,678,336.00	\$711,936.00	\$2,966,400.00		\$3,678,336.00	\$154,336.00
20160301-8075	05.30.17	JONES, REYNARD	\$992.00	\$192.00	\$800.00	06.01.18	\$992.00	\$192.00
20160301-8076	05.30.17	GONCALVES, ADEOLA	\$992.00	\$192.00	\$800.00	06.01.18	\$992.00	\$192.00
20160301-8078	05.30.17	BIVENS, TAJUANA	\$992.00	\$192.00	\$800.00	06.01.18	\$992.00	\$192.00
20160301-8079	05.30.17	MILES, PAULA	\$992.00	\$192.00	\$800.00	06.01.18	\$992.00	\$192.00
20160301-8082	05.30.17	JONES, KIMBERLY	\$992.00	\$192.00	\$800.00	06.01.18	\$992.00	\$192.00
20160301-8083	05.30.17	JONES, SHATEARIA	\$992.00	\$192.00	\$800.00	06.01.18	\$992.00	\$192.00
20160301-8084	05.30.17	TEEL, TANISHA	\$992.00	\$192.00	\$800.00	06.01.18	\$992.00	\$192.00

57. The KrunchCash-PCSO F Ledger was maintained and shared with Pursuit in a Dropbox folder created by Hackman, until Hackman removed Pursuit’s access to that folder in June 2021 in response to Pursuit initiating legal action. Pursuit relied on the KrunchCash-PCSO F Ledger to inform it as to the status of its investments and each claim against which its capital had been advanced.

58. The advances were intended to be relatively short in duration (*i.e.* approximately 120-180 days). Through the KrunchCash-PCSOF Ledger, KrunchCash, KC PCR D and Hackman represented healthy and consistent returns to Pursuit.

59. These various oral and written representations to Pursuit were materially false.

60. KrunchCash, KC PCR D and Hackman made these representations to induce Pursuit to commit additional capital to the Maryland Advances, and to induce Pursuit to maintain its capital at KrunchCash and KC PCR D and reinvest proceeds in the Maryland Advances.

61. Pursuit did, in fact, increase the amount of capital allocated to the Maryland Advances in reliance on these misrepresentations.

62. In 2022, Pursuit engaged a forensic accountant to analyze and compare the Ledgers that the KrunchCash Parties provided to Pursuit and Signal Funding, as well as certain tables purportedly accounting for the Advances that KrunchCash and Hackman submitted to various courts in connection their litigation against the Maryland Advance and LB Pharma Advance Recipients.

63. This analysis showed that the profits reported in the KrunchCash-PCSOF Ledger from the Maryland Advances were misrepresented, and that a material amount of the supposed profits represented “paper” profits, which were generated by representing Advances as repaid when they were not, in fact, repaid, and by churning claims between Pursuit and the investments made by KrunchCash’s other investor, Signal Funding.

64. The forensic accountant identified thousands of instances in which the KrunchCash Parties had engaged in “churning” of assets among Pursuit and Signal Funding: (i)

KrunchCash sold or pledged collateral related to certain “claims” to Pursuit, reflecting the transaction on the KrunchCash-PCSOF Ledger with a representation of when the claim was originated, the amount of “principal” advanced, and the “use fee” charged for the Advance; (ii) the KrunchCash Parties would then represent in the KrunchCash-PCSOF Ledger that the Advance had been repaid, record a profit, and allocate the purported profit among Pursuit and KrunchCash; (iii) at the same time, KrunchCash would sell the same collateral to the next investor, Signal Funding— artificially inflating the “principal” and corresponding “use fee” in Signal Funding’s Ledger to cover the proceeds allocated to Pursuit, and collecting a second cut of purported profits from Signal Funding; and, (iv) at some time afterward, the KrunchCash Parties would inflate the pricing to the Advance recipient (i.e. the principal amount and fee charged for the Advance)—without any apparent documentation or additional cash out to the Advance recipient.

65. Looking at just one example, an advance on a claim corresponding to plaintiff Adeola G. appears to have been made on May 30, 2017 for \$800, and repaid by the JSR Law Firm only once (to the tune of \$1,900) on July 12, 2018. This claim appears to have been churned multiple times between Pursuit and Signal Funding.

66. The KrunchCash-PCSOF Ledger, excerpted below, shows an \$800 advance on Adeola G.’s claim originated on May 30, 2017, and \$992 in proceeds (\$800 advance + \$192 fee) “collected” on June 1, 2018.

KC PCRD			FUNDED			COLLECTED		
ID #	Date	Recipient	DR (-)	DR (-)	DR (-)	DATE	CR (+)	CR (+)
			GROSS	FEE	NET		MIN	EXT
			\$3,678,336.00	\$711,936.00	\$2,966,400.00		\$3,678,336.00	\$154,336.00
20160301-8076	05.30.17	GONCALVES, ADEOLA	\$992.00	\$192.00	\$800.00	06.01.18	\$992.00	\$192.00

67. The Signal Funding Ledger, excerpted below, shows a \$1,000 advance corresponding to that same claim for Adeola G., originated May 30, 2017, a sale of that advance

to Signal Funding for \$1,360, and \$1,520 in proceeds “collected” on June 11, 2018.

Portfolio 2			FUNDED		COLLECTED		
Date	ID #	Recipient	KC	SF	DATE	MIN	### ID #
				\$1,057,400		\$376,480	253
05.30.17	777.P2-01618	GONCALVES, ADEOLA	\$1,000	\$1,360	06.11.18	\$1,520	1

68. On the same date that Adeola G.’s claim is recorded as “collected” on Signal Funding’s Ledger, June 11, 2018, Adeola G. appears *again* on the KrunchCash-PCSOF Ledger, *this time* showing an advance of \$1,748, and \$1,900 in proceeds “collected” on July 12, 2018—the date corresponding to the *only* actual repayment from the Resnick Law Firms for Adeola G.’s claim. This entry from the KrunchCash-PCSOF Ledger is excerpted below:

KC PCRD		FUNDED			COLLECTED	
ID #	Date	Recipient	DR (-) GROSS	DR (-) FEE	DR (-) NET	CR (+) DATE MIN
			\$11,401,938.18	\$921,973.00	\$10,479,965.18	\$11,231,738.24
20160301-12350	06.11.18	GONCALVES, ADEOLA	\$1,900.00	\$152.00	\$1,748.00	07.12.18 \$1,900.00

69. Moreover, The KrunchCash-PCSOF Ledger also showed other advances against Adeola G.’s claim including a \$250 “Expense” advance (originated March 26, 2018) and \$200 “Medical” advance (originated May 11, 2018). These advances were recorded as repaid on June 11, 2018—the same day the same client’s claims were shown as collected in Signal Funding’s Ledger.

70. This type of pattern—moving the claims among investor ledgers, slicing the claim up into multiple advances, presenting false representations that the claim had been repaid, and crediting KrunchCash and Hackman with a right to collect 50% of “profits” on each paper transaction—was repeated thousands of times on the KrunchCash-PCSOF and Signal Funding Ledgers. Moreover, in asserting amounts “due” to KrunchCash from the Maryland Advances through the Default Actions, Hackman included *each instance* of the claim, such that

he was double or triple counting the principal advanced and repayment amounts due in pursuing judgment against the Maryland counterparties.

71. Because the “claims” at issue were on average less than \$10,000 (and the law firm’s corresponding contingency receivable a fraction of that amount), there is no feasible way to divide collateral so small without facing irreconcilable intercreditor issues. Also, the collateral—even when aggregated—was insufficient to support the supposed investments across three different investors.

72. Comparison of the accounting presented to investors and the volume of claims KrunchCash and Hackman represented to courts in connection with the Default Actions also suggest that the KrunchCash Parties had advanced funds against all of the Resnick Law Firm’s claims, such that the collateral profile of the entire investment had also been misrepresented to Pursuit.

73. Pursuit did not know, and the KrunchCash Parties never disclosed, that the collateral was being churned among investors, nor that the collateral was pledged to more than one investor at a time. Undisclosed, double-pledging of collateral is illegal and was the focus of a recent successful SEC and DOJ prosecution of another litigation funder.⁷

74. The sums that the KrunchCash Parties reported to courts in various related litigations against Advance Recipients do not align with the KrunchCash Parties’ representations made to the investors. Indeed, the forensic review of underlying financial records confirmed that:

⁷ SEC Litigation Release No. 25232 (September 28, 2021) *available at* <https://www.sec.gov/litigation/litreleases/2021/lr25232.htm>; Dept. of Justice, S.D.N.Y., Press Release, “Founder of New York Litigation Finance Firm Pleads Guilty to Multimillion-Dollar Securities Fraud Scheme” (Sept. 28, 2021) *available at* <https://www.justice.gov/usao-sdny/pr/founder-new-york-litigation-finance-firm-pleads-guilty-multimillion-dollar-securities>.

- a. The amounts repaid by the Resnick Law Firms (even without amounts collected through the Default Actions against them) materially exceed amounts advanced.
- b. The amount and timing of advances and repayment is misrepresented in the ledgers provided to Pursuit and Signal Funding.
- c. KrunchCash collected substantial recoveries on the Maryland Advances and LB Pharma Advances that have not been distributed to Pursuit or Signal Funding.
- d. Defendants diverted millions of dollars of investor funds and proceeds to a bank account held in the name of KC CA.

75. Between March 2018 and February 2019, Pursuit and Signal Funding invested approximately \$3.37 million and \$7.88 million, respectively, in the Maryland Advances.

76. During that same time frame, between March 2018 and February 2019, KrunchCash, KC PCRD, and Hackman represented to Pursuit and Signal Funding that \$16.2 million (\$8.4 million on behalf of Pursuit, and \$7.8 million on behalf of Signal Funding) had been advanced, including reinvested proceeds, through the Maryland Advance.

77. In fact, documents show that only a third of that, or approximately \$5.7 million, was actually advanced to the Maryland law firms and American Wellness (i.e., the Maryland Advance Recipients) during that time frame. Even if one were to aggregate all of the actual funds advanced to the Maryland Advance Recipients since the beginning of Pursuit's business relationship with KrunchCash, one would not come near the amount of funding that

KrunchCash, KC PCRD, and Hackman represented to investors had been advanced in that one-year time frame.

78. Simply put, the *actual* amounts advanced under the umbrella of the Maryland Advances are a fraction of what KrunchCash, KC PCRD, and Hackman claimed to investors and to courts had been advanced.

79. In October 2022, Hackman admitted, under oath in the Default Actions, that the amounts represented to Maryland and Florida courts as representing amounts advanced to the Maryland law firms was not accurate.

80. On information and belief, KrunchCash, KC PCRD, and Hackman used investor funds for purposes other than what had been authorized by investors. Pursuit's funds were used to prop up other failing investments for the benefit of KrunchCash and Hackman, diverted to a bank account in the name of KC CA, and used to fund Hackman's personal expenses, including personal travel, luxury cars and payments to his wife.

81. Despite significant repayments collected by KrunchCash on the Maryland Advances, the Defendants have not repaid Pursuit its principal balance.

C. The LB Pharma Advances

82. Following execution of the Amended IFA, Pursuit invested in two new investment opportunities presented by Hackman, and KrunchCash originated new Advances using Pursuit's funds. The largest of those was the LB Pharma Advance.

83. Between July 2018 and April 2019, KrunchCash solicited, and Pursuit invested, approximately \$6.16 million that was designated for an Advance to a Texas-based pharmaceutical business, LB Pharma.

84. KrunchCash presented this investment as an opportunity to advance funds to pharmacies that held portfolios of adjudicated pharmaceutical insurance claims. The advances were supposed to be collateralized by those receivables, and the expected repayment would be between 30-45 days or 45-60 days.

85. As with the other Advances, KrunchCash was the counterparty facing the pharmacies, and Hackman maintained KrunchCash's and KC PCRD's "accounting" of the LB Pharma Advances in the KrunchCash-PCSOF Ledger. The Ledger purported to show a breakdown of each Pursuit-funded Advance by "tranche" to each LB Pharma-owned pharmacy, and within each tranche a further break-down on a claim-by-claim basis (i.e., by patient).

86. As with the Maryland Advances, defendant Hackman had unique access to information and knew the status of every LB Pharma Advance repayment because he had direct access to the claims processing portals and bank accounts used by LB Pharma to track and collect receivables.

87. The KrunchCash-PCSOF Ledger falsely reported that the LB Pharma Advances were being repaid on a timely basis. More specifically, defendant Hackman routinely updated the Ledger, reflecting that each "tranche" of capital to LB Pharma and, within each tranche, each "claim," was repaid profitably. Based on this rosy reporting, Pursuit believed that the early LB Pharma Advances were performing even better than one would expect of adjudicated claims, with repayment windows averaging less than 30 to 45.

88. Hackman allocated profits to KrunchCash based on the performance represented in the Ledgers.

89. Pursuit's initial investment in LB Pharma, in July 2018, was approximately \$1.5 million. Beginning in August 2018, Hackman began pressuring Pursuit to

invest additional funds with LB Pharma, falsely claiming that if Pursuit were unable to invest in the opportunity, KrunchCash might need to seek other investors to invest ahead of Pursuit.

90. Specifically, Hackman pushed Pursuit to get a “large commitment from [a major investor] so PCRD [(i.e., Pursuit)] can stay in the game - thanks.” Ahead of an anticipated meeting in New York with that large investor, and to inflate the perceived size and performance of the investment opportunity, Hackman falsely recorded a transaction in the KrunchCash-PCSOFF Ledger that made it appear that as of October 12, 2018, all outstanding LB Pharma receivables had been repaid.

91. On October 18, 2018, Hackman traveled to New York to meet with Pursuit to solicit additional investment based on KrunchCash’s purported track record with respect to LB Pharma Advances.

92. After this meeting, and relying on Hackman’s representations regarding collateral performance, Pursuit entrusted KrunchCash with another \$3.8 million in new capital to invest in LB Pharma receivables. Pursuit believed that the initial tranches funded were performing better than expected, generating regular returns, repaying on average after “26 days,” and that “[a]ll advances from 7/3/18 - 8/21/18 have been repaid.”

93. These representations were materially false.

94. In fact, as of the time that Hackman was in New York touting the LB Pharma Advance’s performance, LB Pharma actually owed \$2.2 million on prior Advances, with unpaid balances extending back to the very first tranche.

95. Indeed, Hackman and KrunchCash ultimately sued LB Pharma for non-payment. In connection with that litigation, Hackman admitted under oath that LB Pharma did

not timely or fully repay the initial “tranches” advanced, and that there were material “shortfalls” from the very start.

96. Hackman resolved prior tranches by “rolling forward” prior, unsuccessful tranches (as a result of LB Pharma’s non-payment) by reflecting them as “collected” in the KrunchCash-PCSOFF Ledger, and folding the unpaid balances into new tranches, representing the balances as new investments.

97. The below excerpt from LB Pharma’s expert report shows, highlighted, the balances from each LB Pharma tranche that was “rolled forward” in this manner:

KrunchCash, LLC v. LB Pharma Services LLC et al.
Schedule 2
 Schedule of Funding and Repayments From New Tranche

Date Funded ¹	Tranche Funded Amount ^{1,2,7}	Repurchase Amount ^{3,7}	Amount Repaid Via New Tranche ^{2,4,5}	Wire Amount Funded ⁶
07/03/18	\$ 1,387,152.29	\$ 1,509,382.29	\$ (72,960.90)	\$ 1,387,152.29
07/10/18	380,469.89	405,223.89	(53,082.58)	380,469.89
07/18/18	453,497.65	467,523.35	-	453,497.65
07/25/18	629,304.58	648,767.61	-	629,304.58
08/01/18	756,941.46	780,352.02	(495,027.53)	756,941.46
08/07/18	689,314.48	710,633.48	-	689,314.48
08/15/18	520,140.53	536,227.35	(428,295.93)	520,140.53
08/22/18	986,798.04	1,017,317.57	-	986,798.04
08/30/18	1,122,529.25	1,175,423.30	-	501,458.24
09/11/18	789,875.96	827,095.25	-	789,875.96
09/14/18	925,682.93	969,301.50	-	497,387.00
09/17/18	590,501.88	608,764.82	(608,764.82)	590,501.88
09/21/18	540,039.78	556,742.04	(556,742.04)	540,039.78
10/12/18	3,292,751.98	3,447,907.83	-	2,127,245.12
10/19/18	951,104.95	995,921.41	-	951,104.95
11/01/18	759,923.74	795,731.67	-	759,923.74
11/09/18	2,912,040.16	3,049,256.71	(3,049,256.71)	2,912,040.16
11/26/18	1,601,351.45	1,676,807.80	(1,676,807.80)	1,601,351.45
11/30/18	1,563,741.20	1,637,425.55	(1,637,425.55)	1,563,741.20
12/17/18	3,586,233.64	3,755,218.31	(3,755,218.31)	536,976.93
01/10/19	3,047,456.02	3,191,054.42	-	-
01/31/19	3,853,415.14	4,034,989.80	-	98,196.83
02/11/19	722,220.20	756,251.27	-	722,220.20
05/10/19	2,258,441.95	2,258,441.95	(2,258,441.95)	-
Totals	\$ 34,320,929.15	\$ 35,811,761.19	\$ (14,592,024.12)	\$ 19,995,682.36

98. Thus, KrunchCash was repaying LB Pharma’s Advances by refinancing the unpaid balances with Pursuit’s own money, and Hackman admitted, under oath, that he did not secure new pharmaceutical receivables to support these “rolled forward” advances.

99. These later representations to courts in the LB Pharma Default Action are contrasted to what Pursuit was told, in 2018 and early 2019, about the status of the LB Pharma Advances. In the KrunchCash-PCSOFF Ledger, as of January 31, 2019, Hackman’s accounting to Pursuit showed the column corresponding to amounts owed was blank, and the column representing amounts “collected” indicated full repayment. The two January 2019 Advances were represented as new, without disclosing that they were almost entirely comprised of “rolled forward” balances past due.

TRANCHE	FUNDED			DATE	OWE			DAY	COLLECTED	
	DR (-) GROSS	DR (-) FEE	DR (-) NET		OWE	#	DUE		CR (+) MIN	#
	\$ 32,797,070.10	\$ 1,456,801.48	\$ 31,340,268.62		\$ 7,226,044.22	2		\$ 25,571,025.88	20	
RX.07.03.18	\$ 1,509,382.29	\$ 122,230.00	\$ 1,387,152.29				0	\$ 1,509,382.29	1	
RX.07.10.18	\$ 405,223.89	\$ 24,754.00	\$ 380,469.89				0	\$ 405,223.89	1	
RX.07.18.18	\$ 467,523.35	\$ 14,025.70	\$ 453,497.65				0	\$ 467,523.35	1	
RX.07.25.18	\$ 648,767.61	\$ 19,463.03	\$ 629,304.58				0	\$ 648,767.61	1	
RX.08.01.18	\$ 780,352.02	\$ 23,410.56	\$ 756,941.46				0	\$ 780,352.02	1	
RX.08.07.18	\$ 710,633.48	\$ 21,319.00	\$ 689,314.48				0	\$ 710,633.48	1	
RX.08.15.18	\$ 536,227.35	\$ 16,086.82	\$ 520,140.53				0	\$ 536,227.35	1	
RX.08.22.18	\$ 1,017,317.57	\$ 30,519.53	\$ 986,798.04				0	\$ 1,017,317.57	1	
RX.08.30.18	\$ 1,175,423.30	\$ 52,894.05	\$ 1,122,529.25				0	\$ 1,175,423.30	1	
RX.09.11.18	\$ 827,095.25	\$ 37,219.29	\$ 789,875.96				0	\$ 827,095.25	1	
RX.09.14.18	\$ 969,301.50	\$ 43,618.57	\$ 925,682.93				0	\$ 969,301.50	1	
RX.09.17.18	\$ 608,764.82	\$ 18,262.94	\$ 590,501.88				0	\$ 608,764.82	1	
RX.09.21.18	\$ 556,742.04	\$ 16,702.26	\$ 540,039.78				0	\$ 556,742.04	1	
RX.10.12.18	\$ 3,447,907.83	\$ 155,155.85	\$ 3,292,751.98				0	\$ 3,447,907.83	1	
RX.10.19.18	\$ 995,921.41	\$ 44,816.46	\$ 951,104.95				0	\$ 995,921.41	1	
RX.11.01.18	\$ 795,731.67	\$ 35,807.93	\$ 759,923.74				0	\$ 795,731.67	1	
RX.11.09.18	\$ 3,049,258.84	\$ 137,217.05	\$ 2,912,041.79				0	\$ 3,049,258.84	1	
RX.11.26.18	\$ 1,676,807.80	\$ 75,456.35	\$ 1,601,351.45				0	\$ 1,676,807.80	1	
RX.11.30.18	\$ 1,637,425.55	\$ 73,684.35	\$ 1,563,741.20				0	\$ 1,637,425.55	1	
RX.12.17.18	\$ 3,755,218.31	\$ 168,984.67	\$ 3,586,233.64				0	\$ 3,755,218.31	1	
RX.01.10.19	\$ 3,191,054.42	\$ 143,598.41	\$ 3,047,456.01	01.10.19	\$ 3,191,054.42	1	02.24.19	21		
RX.01.31.19	\$ 4,034,989.80	\$ 181,574.66	\$ 3,853,415.14	01.31.19	\$ 4,034,989.80	1	03.17.19	0		

100. Contrary to Pursuit’s belief at the time, the Pharma Advances were never performing at a level that would warrant reinvestment. Pharma fell behind on repayment with the very first tranche, and those shortfalls were material and indicative of underlying problems with the LB Pharma Advances. Had Pursuit been aware of the shortfalls from the beginning, it would not have allocated additional investment funds to LB Pharma, and would not have reinvested capital in the LB Pharma Advance.

101. Not only were the LB Pharma returns represented false, but KrunchCash dealt itself a \$1.29 million split of the false profits between July 2018 and January 2019.

102. Bank records show that despite initially catching up in November 2018, after Pursuit had invested additional funding in reliance on the KrunchCash Parties' misrepresentations, LB Pharma fell behind again on repayment almost immediately.

103. By mid-December 2018, the entire investment was in distress, but Pursuit was unaware of this fact because Defendants' false reports and material misstatements concealed the shortfalls. Pursuit believed that KrunchCash was investing in new receivables, but instead, the LB Pharma Advances issued on December 17, 2018, January 10, 2019, and January 31, 2019 represented paper transactions, comprised almost entirely of rolled forward balances.

104. Over the entire life of the investment, Hackman represented to Pursuit that more than \$31 million had been advanced to LB Pharma, and that LB Pharma had repaid some \$25.5 million on \$32.7 million owed. In fact, bank records attached to LB Pharma's publicly filed expert report in its action against KrunchCash show that only \$19.9 million had actually been advanced to LB Pharma, and that LB Pharma repaid \$16.6 million. This means that more than \$XXXXXXXXXX (\$14 million according to LB Pharma's calculations) represented credit that KrunchCash extended to LB Pharma, without Pursuit's knowledge or permission.

105. LB Pharma had fallen far behind in repayment, and Hackman's ability to keep up appearances faltered as repayments slowed. The schedules prepared by KrunchCash for the LB Pharma action and wire confirmation receipts show that by January 31, 2019, LB Pharma had fallen behind on at least \$6.7 million in outstanding advance repayment, swallowing Pursuit's entire investment in that Advance.

D. Pursuit's Other KrunchCash Investments

106. The second new investment opportunity was the Connecticut Advance. Pursuit invested \$872,000 into the Connecticut Advances, representing a series of receivables connected with cases being handled by a Connecticut-based law firm.

107. Pursuit also funded a portfolio of Miscellaneous Advances to attorneys and/or plaintiffs secured against personal injury litigations. KrunchCash retained control of these assets as a servicer. The Amended IFA did not alter the parties' agreement concerning the Miscellaneous Advances, which fall under the Purchase Agreement.

108. The Miscellaneous Advances were valued at several hundred thousand dollars in early-2018 and provided smaller but steadier income to Pursuit. In June 2019, KrunchCash confirmed in writing that, as a result of incoming proceeds generated by this asset, KrunchCash owed Pursuit \$239,366. Pursuit's position and right to proceeds from the Miscellaneous Advances falls under the Purchase Agreement.

E. Defendants' Conceal the Impairment of the Maryland and LB Pharma Advances

109. In January 2019, KrunchCash had more than \$6.7 million invested in the LB Pharma Advance.

110. Beginning in late February 2019, defendant Hackman began priming Pursuit for a loss, telling Pursuit that there would be delays in payment on the LB Pharma Advance. This was the first time that Pursuit was aware of any repayment delays on the LB Pharma Advances.

111. Hackman falsely assured Pursuit that the delayed repayments were due to routine audits being performed by insurers on prescriptions filled by LB Pharma's pharmacies. Pursuit does not know why the LB Pharma counterparty struggled to repay advances, but

Pursuit's subsequent investigation has revealed that a pharmacy owned by LB Pharma in California, Omega Care Pharmacy, and LB Pharma's principal, Ken Luna, were under investigation by the California Attorney General's office for suspicious prescription refill practices, including automatically refilling prescriptions without patient knowledge and filling prescriptions for pharmacy orders for LB Pharma's other, out-of-state pharmacies in Texas and Florida. The California Board of Pharmacy Complaint indicates that the Omega Care Pharmacy was told to correct its practice of leaving prescription labels blank on November 29, 2018, suggesting the investigation commenced earlier than this date.

112. Hackman represented that he had performed thorough due diligence on LB Pharma and the pharmacies prior to advancing funds, but any diligence was haphazard at best. Hackman simply took LB Pharma's principal at his word when he claimed new pharmacies (and receivables) were acquired, and only verified pharmacy licenses after the Advances were failing.

113. On information and belief, Hackman knew by at least December 2018 that the California Board of Pharmacy was investigating LB Pharma, and that repayment delays were not due to a routine prescription insurer audit.

114. In March 2019, Hackman told Pursuit that he had negotiated repayment extensions with LB Pharma to give the supposed audit time to resolve. Hackman presented Pursuit with an unsigned notice of default to LB Pharma and a draft "Purchase Addendum" purporting to set forth the terms upon which LB Pharma would make a "partial repayment" on tranches issued in January 2019 in exchange for more time to pay down that tranche (until May 10, 2019).

115. Beginning in March 2019, Hackman began collecting repayments from LB Pharma that he described as a “USE FEE.” The letter agreement with LB Pharma stated these “USE FEES” represented “partial repayment” on the LB Pharma Advance. LB Pharma repaid millions of dollars in “USE FEES” after falling behind, but KrunchCash did not pay these funds back to investors in accordance with its various agreements. Instead, Hackman retained the “USE FEES” to cover his operating expenses, and to pay himself a fee, contrary to the terms of the Amended IFA, for servicing the LB Pharma Advance.

116. On information and belief, around the same time, both of the Resnick Law Firms—to which defendants KrunchCash and Hackman had used Plaintiff’s funds to extend Advances—started asking questions and expressing concern that they had been repaying amounts in excess of what they actually owed under their agreements with KrunchCash.

117. In response, KrunchCash declared the Resnick Law Firms in default, and filed legal actions against the Resnick Law Firms in Maryland and Florida. Defendant Hackman turned these litigations into protracted, costly, personal vendettas against the Resnick Law Firms’ principals, and has thereby dissipated and wasted KrunchCash’s capital reserves, and materially impaired Plaintiff’s investment.

118. Hackman concealed KrunchCash’s dispute with the Maryland Advance Recipients from Pursuit until he could not do so any longer, and finally disclosed in August 2019, in response to questions from Pursuit, that he had initiated litigation against the Resnick Law Firms for defaults under the Maryland Advances.

119. Hackman’s bizarre explanations for the Maryland Advance defaults varied. At times, Hackman represented that Jonathan Resnick told him he was indebted to “two loan sharks” who “had threatened [the principal] and his family with bodily harm.” This made no

sense because, at the same time, Hackman told Pursuit that KrunchCash “*provided the [Maryland law firm] \$160,000 to pay off the loan sharks and merchant cash advances*” and “continu[ed] to fund the [Maryland] law firms.” KrunchCash’s decision to fund the Maryland law firm in spite of such obvious red flags belies any standard of investment sensibility and was completely undisclosed to Pursuit.

120. Several months later, in January 2020, Pursuit learned that the LB Pharma borrower had initiated litigation against KrunchCash and Hackman (personally), alleging KrunchCash’s Advances to LB Pharma were usurious and Hackman had engaged in improper funding practices.

121. Pursuit only later discovered, approximately one year after LB Pharma initiated its litigation against KrunchCash, that KrunchCash and Hackman had not accurately disclosed the status of the KrunchCash-LB Pharma relationship leading up to the LB Pharma-KrunchCash litigation.

122. Pursuit became justifiably concerned. In the span of months, over \$10 million of invested capital (and the supposed profits that had been “reinvested” in those Advances) had become at risk of complete loss and was buried in litigation controlled by KrunchCash and Hackman, whom Pursuit had entrusted to wisely manage its investments.

123. KrunchCash’s and Hackman’s participation in litigation against multiple borrowers has been wasteful, erratic, and mostly focused on diverting attention from defendant Hackman’s fraud and theft.

124. On information and belief, Hackman used the Default Actions to attempt to cover up the fraud he had perpetrated on Pursuit and Signal Funding. Hackman inflated the

balances he claimed each borrower owed to obscure the investment fraud and the fact that Defendants had misappropriated investor funds.

125. Rather than dealing with the supposed defaults on the Advances as a prudent fiduciary seeking to maximize returns for investors, Hackman and KrunchCash steered the litigation against their borrowers in a self-serving and reckless fashion, and below any standard appropriate for a specialty finance company managing tens of millions of dollars.

126. Hackman endorsed millions of legal fees to be spent on personal vendettas, opting for questionable and overly-aggressive litigation tactics, wasteful procedural and jurisdictional disputes, and personal attacks on the LB Pharma and Maryland counterparties without regard to return on investment. He also used investor funds to fund the defense of claims asserted personally against him, prioritizing his personal defense over the interests of KrunchCash's investors.

F. Hackman and KrunchCash Threaten Pursuit's Investments

127. What's more, Hackman repeatedly called upon Pursuit to help finance the Default Actions, threatening to scuttle those cases (and thereby destroy KrunchCash investors' chances of recovering capital) if Pursuit failed to provide the funds.

128. Hackman demanded that Pursuit fund a pro-rata share of the legal expenses based on Pursuit's relative share of the Advances.⁸ Hackman's demands for legal funding from Pursuit, however, were aggressive, misleading, and sought to rewrite the compensation structure to which Defendants and Pursuit had agreed.

⁸ KrunchCash has inconsistently argued that Pursuit invested capital for the Default Actions under the Amended IFA and that Pursuit invested *separate and apart from the Amended IFA*. On April 19, 2023, during oral argument, Defendants' counsel confirmed their position that Pursuit's funding of the Default Actions is governed by an oral agreement among the parties, separate from the Amended IFA. (Doc. [283](#).)

129. Hackman represented to Pursuit in an email that KrunchCash had made an aggregate \$17 million investment into the Maryland Advances, divided among Pursuit (approximately \$4 million or 23%), KrunchCash's proprietary capital (approximately \$3.3 million or 19%), and a third investor, which turned out to be Signal Funding (approximately \$10.1 million or 58%). As Pursuit would later learn, Hackman's representations regarding the amounts advanced to the Maryland Advance Recipients were false. As to LB Pharma Advance, Hackman claimed that Pursuit's investment represented 96% of that Advance, and that some "Other Investor," who he refused to disclose, held another 4%.

130. Based on these representations regarding the respective funding among co-investors, on March 20, 2020, Hackman demanded that Pursuit fund \$186,673, i.e., 23% of the \$811,620 KrunchCash supposedly incurred in legal expenses for the Maryland Default Action, and \$36,351, i.e., "95%"⁹ of the legal fees for the LB Pharma Default Action, imposing upon Pursuit an artificial deadline of just a few days to fund the capital contribution. KrunchCash did not provide any support (in the form of legal invoices or out-of-pocket expenses) ahead of Pursuit's funding that would substantiate that those fees had actually been incurred.

131. As part of the March 2020 request, Hackman also began demanding to retrade the parties' "0 and 50" compensation structure, such that KrunchCash and its management, *i.e.* Hackman, would be compensated even though the Advances were not performing (while simultaneously demanding that KrunchCash and/or KC PCRD retain the right to a 50% profit share). Thus Hackman was extorting Pursuit into paying him extra-contractual compensation, for his own personal benefit.

⁹ "95%" is not a typo in this instance. KrunchCash has inconsistently represented that Pursuit is allocated 95% and 96%.

132. Just four months later, in July 2020, KrunchCash again (and without advanced warning) sought advancement of monies for the two litigations. This time, Hackman ratcheted up his demands, asserting that “[i]f [Pursuit] is unable or unwilling to reimburse KrunchCash ..., then KrunchCash will have to cease its recovery efforts.” KrunchCash’s message was a thinly-veiled threat, meant to urgently extract an additional \$352,728.31 from Pursuit by an artificial deadline falling just one week after KrunchCash’s request to Pursuit.

133. KrunchCash represented, at the time, that there had been expenses of “\$1.5M+” for the two litigations — a \$700,000 increase from just four months earlier — but did not explain how or why the legal fees had ballooned so dramatically in that time period. KrunchCash did not, until much later, begin providing invoices to Pursuit, and, even then, the invoices were incomplete and sporadic.

134. In conjunction with the July 2020 demands, KrunchCash reiterated its extra-contractual demand that KrunchCash be reimbursed for its overhead and salaries. This time, openly repudiating the contractual waterfall payment structure, KrunchCash indicated that if Pursuit failed to accede to an additional upfront payment to KrunchCash and its principals, KrunchCash would forcibly deduct a “to be determined” amount from any future recoveries from the Maryland or LB Pharma Advances in addition to the 50% profit split.

135. Again, Pursuit expressed that it was willing to pay for legitimate third-party legal fees but declined to consent to KrunchCash’s extra-contractual demands for payment.

136. Pursuit was concerned that if it did not meet KrunchCash’s demands, KrunchCash would scuttle the litigations in bad faith, and, even if the Maryland or LB Pharma litigations ultimately paid off, KrunchCash would deduct unwarranted fees.

137. KrunchCash and Hackman tried to pressure Pursuit, claiming that Pursuit was a lone hold-out because the other investors had contributed their pro-rata portions. This was false. Signal Funding refused to fund KrunchCash's and Hackman's litigation, and no other investor was funding the Default Actions.

138. KrunchCash and Hackman also selectively disclosed information about the Default Actions along the way, providing a rosy picture that the litigations were on the brink of settlement with only a little more investment (from Pursuit). But these litigation updates were never entirely accurate. KrunchCash and Hackman provided misleading information to present a sense of urgency or immediate need to pressure Pursuit to provide additional funding for the Default Actions in order to preserve its investment or secure a recovery.

139. Meanwhile, Hackman was uniquely positioned to manage the Default Actions, and had both access to and control over the attorneys such that he was able to direct counsel to act for his benefit. Hackman had conflicted interests in the Default Actions because he and KrunchCash had been sued personally for various torts and allegations of usurious lending practices.

140. Hackman acted dishonestly, making numerous false, reckless, misleading, and unprofessional representations to courts presiding over the Default Actions, and to the end borrowers about Pursuit and the Advances. Hackman misrepresented, under penalty of perjury, the amounts advanced to, and repayment balances due from, the Maryland and LB Pharma Advance borrowers. Hackman inflated Maryland Advance balances by including phony advances, and double or triple counting advances on claims churned among investors, on accounting submitted to courts under penalty of perjury. Hackman refused to credit millions of dollars in "USE FEES" and repayments from the LB Pharma borrower, claiming the full \$6.7

million outstanding which was actually a mix of balances rolled forward and backed by stale receivables, and new funds inexplicably advanced to a counterparty with a concealed history of material shortfalls.

141. Hackman also misrepresented Pursuit's relationship and role vis-a-vis the Default Actions. For example, Hackman represented to LB Pharma that KrunchCash's "capital partners" – *i.e.*, Pursuit – were puppeteering the LB Pharma Advance, telling LB Pharma that that his "capital partners"—meaning Pursuit—were "asking" about specific revisions to the Pharma Advances, Hackman was "getting the shit kicked out of [him] today buy (sic) [his] capital partners," and Hackman's "capital partners r quickly loosing their patience." These statements were false.

142. Hackman made numerous reckless, aggressive, and unprofessional representations to the Pharma borrower about what his "[c]apital partners will accept" in order to "shut[] them up." Later, in January 2020, Hackman pressured the LB Pharma borrower, referring to "my capital partners and there (sic) attorney who is being restrained at the moment which I don't control" Again, these statements were false.

143. Pursuit had nothing to do with the day-to-day management of the LB Pharma Advance and the KrunchCash Parties kept Pursuit in the dark concerning the Advance, and did not disclose the defaults until much later.

144. LB Pharma sued Pursuit in November 2021 based on Hackman's false statements regarding Pursuit's role with the underlying LB Pharma Advances.¹⁰

145. For nearly two years, Hackman perpetuated a cycle of erratic and aggressive demands upon Pursuit: wire hundreds of thousands of dollars to KrunchCash without

¹⁰ Pursuit succeeded in dismissing the action based on lack of jurisdiction.

asking questions, and meet KrunchCash's demands for extra-contractual payments, or KrunchCash would sabotage the litigations or abandon them.

G. Hackman and KrunchCash Misappropriate Proceeds

146. With KrunchCash and Hackman refusing to provide transparency, Pursuit resisted contributing additional funding on Hackman's terms. Unable to extract unquestioned funding from Pursuit at this point, Hackman and KrunchCash started misappropriating money owed or belonging to Pursuit to fund the Default Actions, other business interests, and personal expenses.

147. *First*, as noted, Pursuit maintains other investments with KrunchCash, *i.e.*, the Miscellaneous Advances and the Connecticut Advances. In June 2019, as KrunchCash had become embroiled in litigation with the Resnick law firms, KrunchCash requested that it temporarily postpone payment of \$239,366 undisputedly due and owing to Pursuit on behalf of resolved Miscellaneous Advances. Pursuit agreed to the temporary postponement (without knowledge of the material fact that the Maryland Advance had been impaired) on the condition that KrunchCash confirm its liability to Pursuit in writing, which the parties eventually memorialized on June 4, 2019.

148. Once the Resnick and LB Pharma issues surfaced, just weeks later, Pursuit demanded its payment. KrunchCash refused to resolve or properly account for the \$239,366 payable to Pursuit, withholding it instead as funding for the Default Action.

149. *Second*, KrunchCash converted approximately \$270,000 in newly-realized recoveries from the Connecticut Advances. Prior to the initiation of the Maryland and LB Pharma Default Actions, when KrunchCash realized recovery from an Advance, KrunchCash promptly paid Pursuit its portion thereof. Since the Default Actions began, KrunchCash began

withholding the monies collected from the Advances and applying them to KrunchCash's legal bills, without authorization and despite protest from Pursuit. In total, KrunchCash has improperly withheld and misappropriated approximately \$500,000 in proceeds from the Connecticut and Miscellaneous Advances from Pursuit.

150. *Third*, in 2021, more than a year after Pursuit was informed about the LB Pharma Default Action, Pursuit discovered that KrunchCash had mishandled, partially misappropriated, and misrepresented the nature of \$700,000 recovered on the LB Pharma Advance realized in or around November-December 2020. KrunchCash represented that it had recovered the \$700,000 in the ordinary course, i.e., directly from LB Pharma—to give the impression that LB Pharma was performing. This was false. KrunchCash had, in fact, intercepted those funds in a hostile maneuver from a third-party insurance payor, and only after the relationship with LB Pharma had soured and the parties were in a full-blown dispute.

151. Also, problematically, KrunchCash collected those monies at a time when Pursuit's outstanding principal in the Pharma Advance was over \$6 million. Instead of remitting all funds to Pursuit, as is required until all principal is repaid, KrunchCash arbitrarily deemed a portion of the \$700,000 as "profit," and therefore subject to the 50/50 profit-split discussed above.

152. Pursuit now realizes that KrunchCash's (or nominally, KC PCRD's) investment arrangement with Pursuit was deliberately designed and implemented by Defendants to give KrunchCash and Hackman the opportunity to misappropriate funds. Although the Amended IFA requires KrunchCash to use the KC PCRD entity to isolate Pursuit's assets (ostensibly to prevent commingling), and for KC PCRD to service and collect proceeds, KrunchCash nevertheless has insisted that KrunchCash: (i) control Pursuit's funds through a

commingled account owned by KrunchCash; (ii) own the underlying asset; (iii) own Pursuit's assets; and, (iv) receive repayments directly from borrowers — across both Pursuit's assets, KrunchCash's proprietary assets, and other investors' assets. This created an opportunity for KrunchCash and Hackman to misappropriate funds, and then later claim that the KC PCRD entity shields them from liability, as they have done here.

153. Defendants have not remitted any funds to Pursuit since 2019 (with the exception of a portion of the disputed insurer payment) despite KrunchCash's regular receipt of monies from Advances.

154. Critically, Pursuit learned that KrunchCash collected, *but did not disclose or disburse*, \$2.5 million from the Maryland Advance in the Maryland Default Action. These monies were collected as the claims that were supposed to serve as collateral to Pursuit's investments settled and paid out. The KrunchCash Parties' failure to disclose a material revenue event on behalf of a substantial asset was highly material omission, and the failure to disburse those funds was a breach of the parties' agreements and Hackman's and KrunchCash's legal obligations, including those obligations that were assumed on behalf of KC PCRD.

155. KrunchCash's collection of \$2.5 million necessarily indicates a variety of additional improprieties, including the obvious question as to where those funds went. KrunchCash and Hackman have offered several explanations, none satisfactory or complete, and all highly problematic.

156. For one, the KrunchCash Parties concealed millions of dollars in spiraling legal fees. Just days before Pursuit and the KrunchCash Parties were due to speak in May 2021, Hackman surreptitiously deposited invoices into a shared Dropbox folder maintained by Hackman, reflecting an outrageous \$3.38 million in legal fees. Prior to this passive disclosure,

the KrunchCash Parties had refused to provide invoices since July 2020, *i.e.*, nearly one year earlier, and the last estimate of total fees the KrunchCash Parties had provided was \$1.5 million (in July 2020). The KrunchCash Parties did not disclose the ballooning total fees because, had they done so, it would have been immediately apparent to Pursuit and others that there were missing, unaccounted revenues being diverted to pay KrunchCash's and Hackman's attorneys.

157. In addition, KrunchCash and Hackman used proceeds to cover KrunchCash's operational costs, including payments to KrunchCash's general counsel, Sean McGhie, and payments to independent contractors or employees working under Hackman's direction, ostensibly to service the Advances. Hackman also paid himself hundreds of thousands of dollars in personal compensation not authorized by Pursuit or its agreements with the KrunchCash Parties.

158. Pursuit also learned, in 2021, that KrunchCash's representations regarding the funding of the Default Actions was false. Hackman's assertions that Pursuit owed its "pro-rata" share of the legal fees to catch up to other investors was false. Hackman misrepresented other investors' shares, and no other investor had contributed funding to the Default Actions.

159. In June 2021, immediately after learning of KrunchCash's concealment of the \$2.5 million recovered from the Maryland Advances, Pursuit commenced the Arbitration. In response, Hackman cut off Pursuit's access to information and documents, including the KrunchCash-PCSOFF Ledger, which Pursuit previously accessed.

160. As it turns out, KrunchCash had long been diverting Pursuit's (and Signal Funding's) investment capital to Hackman and its affiliates, for Hackman's own personal gain.

161. Once Signal Funding came into the picture, enabling the ponzi-scheme in the Maryland Advance, KrunchCash and Hackman caused more than \$XXXXXXXXXX of investor

funding and proceeds to be diverted from the commingled KrunchCash operating account and KC PCRD to another KrunchCash entity controlled by Hackman: KC CA.¹¹

162. This \$[REDACTED] necessarily represented investor capital and proceeds belonging to Pursuit and/or Signal Funding because, between the two of them, the two investors represented 90% to 97% of investor funding into KrunchCash during that time frame.

163. Hackman also diverted \$[REDACTED] in repayments from the Resnick law firm that should have been paid to Pursuit and, instead, deposited those directly into a separate KrunchCash bank account dedicated to paying for a luxury vehicle.

164. Hackman used investor funds, held in KrunchCash's account, to pay for Hackman's personal travel expenses, luxury vehicles, and other personal expenses. On information and belief, Hackman used funds diverted to the KC CA entity to fund other investments for his own personal benefit, and to fund personal expenses.

H. Alter Ego Allegations

165. KrunchCash, KC PCRD, KC CA and Hackman are all alter egos of one another.

166. KrunchCash acts as the purported "parent company" of KC PCRD and KC CA and, based on information and belief, KrunchCash or Hackman own 100% of the interests of KC PCRD and KC CA. KC PCRD was organized on April 10, 2018 the same day the parties entered into the Amended IFA. KC CA was organized on May 24, 2017.

¹¹ KC CA was set up by Hackman in 2017, on information and belief, in connection to an unrelated gem deal—irrelevant to Pursuit's investments—with other entities Hackman controlled in California. KC CA had a commercial relationship with the owner of a gem collection (the "Ophir Collection"), pursuant to which it sought to earn a consulting fee and a commission for advising the owner of the Ophir Collection on the sale of the gems. Pursuit was not an investor in the Ophir Collection deal, and never gave KrunchCash or Hackman permission to allocate any funding to that deal.

167. KC PCRD and KC CA have always listed Jeffrey Hackman, the sole owner of KrunchCash, as the “Manager” of these entities. All of these entities identify Hackman’s home address as the place of business—formerly, 200 East Palmetto Park Road, #700, Boca Raton, Florida, and now 500 S. Ocean Blvd., Apt. 401N, Boca Raton, Florida. The entities maintain common office space, address, telephone numbers, and email accounts.

168. KC PCRD and KrunchCash maintain a common “ledger” for Advances made using Pursuit’s funds. Despite Hackman’s insistence on the insertion of KC PCRD as the contracting entity in April 2018, KrunchCash continues to use the same KrunchCash-PCSOFF Ledger as before reflecting Advances in which Pursuit has an interest—which reflects all transactions between Pursuit and KrunchCash dating back to 2015, i.e., years before KC PCRD existed.

169. Hackman maintains complete discretion for KrunchCash, KC PCRD, and KC CA. Hackman negotiated the terms of the Amended IFA with Pursuit. Hackman has the exclusive authority to execute agreements on behalf of all entities, to enter into Advances, to operate bank accounts, to commence litigation, and to issue tax documentation. KC PCRD and KC CA have no independent authority to contract without KrunchCash’s and/or Hackman’s approval.

170. KC PCRD was formed as a dummy entity for the purpose of executing the Amended IFA with Pursuit, which Pursuit now understands was intended as a way to attempt to distance KrunchCash from liability or responsibility to Pursuit as an investor. At all relevant times KrunchCash has completely dominated and controlled KC PCRD, including by assuming all of KC PCRD’s obligations under the Amended IFA and making all decisions on behalf of KC PCRD for KrunchCash’s benefit, and using the existence of the dummy KC PCRD entity and the

similarly situated KC CA entity to attempt to strip Pursuit of its rights to its investment capital and proceeds.

171. Even though the Amended IFA requires KC PCRД to service the Advances, as set forth in Section 4, KrunchCash assumed that role, and the obligations appurtenant thereto, by assuming the “full power and authority” to “collect payments,” “remit[] payments,” and dividing funds between Pursuit and KrunchCash.

172. Since entering into the Amended IFA, at Hackman’s direction and insistence, Pursuit has remitted funds to KrunchCash — not KC PCRД — for new investments.

173. Since entering into the Amended IFA, KrunchCash — not KC PCRД — has remitted funds to Pursuit on behalf of realized Advances (to the extent they occurred).

174. KC PCRД is inadequately capitalized because Defendants require that Pursuit’s monies invested in, and all returns from Advances flow through KrunchCash’s accounts. Therefore, KrunchCash deliberately prevents funds from being held in the KC PCRД bank account, and Hackman has drained that bank account. Moreover, even Hackman’s fictitious accounting of the “balance” of the KC PCRД account shows that it has been completely drained of any capital.

175. KrunchCash is likewise undercapitalized and lacks liquidity. KrunchCash has intercepted funds otherwise distributable to Pursuit in order to fund its own obligations for the Default Actions, cover its overhead shortfalls (including through voidable transfers to insiders and affiliates), and to compensate Hackman. On information and belief, KrunchCash has obligations to other investors, and KrunchCash or Hackman has other financial obligations which have put a financial strain on KrunchCash.

176. KrunchCash commingles Pursuit's investment capital with its own capital, and the capital of third-party investors, in KrunchCash's bank accounts, and does not isolate Pursuit's funds within KC PCR D.

177. KrunchCash did not respect formalities with respect to raising capital from third-party investors. Defendants have never issued tax documentation (*e.g.*, a K-1 or Form-1099) to Pursuit. On information and belief, KrunchCash's use of revenue-share arrangements, documented in "Investor Funding Agreements" and "Purchase Agreements" were part of an effort by Defendants to evade regulatory scrutiny and investor rights and legal protections.¹²

178. KrunchCash and Hackman have caused millions of dollars in investor funding and proceeds to be transferred to KC CA, another dummy entity completely under Hackman's control. As discussed above, these transfers to KC CA were made to put assets out of the reach of KrunchCash's creditors, and were used to fund investments and Hackman's personal expense that neither Pursuit nor Signal Funding authorized.

179. KrunchCash, not KC PCR D, is a party to the Default Actions, at Hackman's election. The Default Actions represent the KrunchCash Parties' chosen course to "service" collection efforts on the Advances, which KC PCR D is obligated to do under the Amended IFA. KrunchCash and Hackman have assumed all of KC PCR D's servicing obligations under the Amended IFA.

180. On information and belief, KC PCR D does not observe corporate formalities: KC PCR D does not have a board of directors, does not conduct meetings of its

¹² Since 1996, Hackman has been subject to a permanent injunction, enjoining him from violating federal securities laws. See <https://www.sec.gov/litigation/litreleases/lr15182.txt>

members or officers, and does not maintain financial statements. KC PCRД has never issued tax returns or tax reporting documentation to Pursuit.

FIRST CAUSE OF ACTION

FRAUD

(Against KrunchCash, KC PCRД, KC CA and Hackman)

181. Pursuit incorporates the preceding allegations by reference.

182. As is set forth in additional detail *supra*, KrunchCash, KC PCRД and Hackman made material misrepresentations of fact including that: (i) Hackman had performed thorough due diligence on Advance Recipients and the collateral; (ii) the Maryland Advance collateral was sufficient to support the contemplated advances and unencumbered; (iii) new Advances represented new claims against which funds were advanced; (iv) the Maryland claims were collateralized 2-to-1; (v) the advances correlated to a direct cash payment to the Advance Recipients; (vi) that amounts collected represented amounts repaid by Advance Recipients; and, (vii) that Pursuit's returned principal would be reinvested in new receivables.

183. These misrepresentations were made in oral communications with Pursuit's principals as early as January 2018, repeated in text messages and other writings, and repeated in the thousands of entries made by Hackman in the KrunchCash-PCSOF Ledger which purported to show funds advanced, repayments, and reinvestment into new receivables, on a claim-by-claim basis.

184. KrunchCash, KC PCRД, and Hackman also made material misrepresentations of fact regarding the Default Actions, described in additional detail *supra*, including: (i) presenting falsified accounting to courts and investors that inflated amounts advanced and repayment balances owed by Advance Recipients (*e.g.*, including phony advances, double and triple counting advances and failing to credit repayments); (ii) telling Pursuit that other investors had agreed to fund, and had already funded, the Default Actions; (iii) and,

providing misleading disclosures about the Default Actions to present urgency and immediacy to its demands that Pursuit provide additional funding.

185. These various oral and written representations to Pursuit were materially false.

186. KrunchCash, KC PCR D and Hackman knew these statements to be false, and that the omission and concealment of facts regarding the actual performance, collateral profile, and structure of the investments were highly misleading and omitted or concealed to prevent Pursuit from discovering the falsity of KrunchCash's, KC PCR D's and Hackman's statements.

187. KrunchCash, KC PCR D and Hackman made these representations to induce Pursuit to commit additional capital to the Maryland and LB Pharma Advances, to induce Pursuit to maintain its capital at KrunchCash and KC PCR D and reinvest proceeds in additional Advances, and to induce Pursuit to advance funds for KrunchCash to pursue the Default Actions.

188. Pursuit reasonably relied on KrunchCash, KC PCR D, and Hackman to provide truthful and accurate information regarding the Advances because each was in a role, as a counterparty, servicer, custodian of funds, and manager of the investments, to possess superior access to information necessary to provide an accounting of the Advances. Hackman had direct access to, and worked closely with, the Maryland law firm's bookkeeper, providing direct instructions to her regarding Advances and repayments. Hackman also had direct access to LB Pharma's bank accounts and claims portals, so that he could directly monitor and track receivables.

189. There was a corrupt agreement among the Defendants to engage in a scheme to defraud investors, including Pursuit, described *supra*, in order to induce investors to entrust KrunchCash and Hackman with more investment capital.

190. Each of the Defendants is also liable based on a conspiracy to defraud Pursuit because each intentionally participated in furtherance of the plan or purpose to defraud Pursuit. Hackman was the puppet master of the various KrunchCash entities (KrunchCash, KC PCR D, and KC CA), and he used these separate entities to conceal his fraudulent conduct. KC CA maintained the bank account to which \$ [REDACTED] in investor funds were deposited to hide assets from investors and use them for other, undisclosed purposes, and, on information and belief, caused those funds to be relayed to other accounts under Hackman's control, or used investor money to fund other investments not authorized by Pursuit, at Hackman's direction. KC PCR D acted as front, and its bank account a conduit, through which Hackman and KrunchCash could generate transactions to create the appearance that the Advances were performing by moving funds in and out of that account from the KrunchCash operating account. KrunchCash acted as the entity facing Advance Recipients and transacting with Advance Recipients, and the conduit through which fraudulent transactions flowed. Hackman controlled the flow of information and accounting presented to investors throughout the relevant time period.

191. Pursuit has been damaged as a result of KrunchCash, KC PCR D's, KC CA's and Hackman's fraud and conspiracy to defraud, and is entitled to rescission of Pursuit's investment, punitive damages, attorneys' fees pursuant to N.Y. Gen. Bus. Law § 349(h), and compensatory damages in an amount to be determined at trial.

SECOND CAUSE OF ACTION
BREACH OF CONTRACT
(AMENDED IFA)
(Against KrunchCash, KC PCR D, and Hackman)

192. Pursuit incorporates the preceding allegations by reference.

193. Pursuit, KC PCRD, and KrunchCash are signatories to the Amended IFA. KrunchCash and its principal, Hackman, negotiated the Amended IFA directly with Pursuit, and Hackman is the signatory on behalf of KrunchCash and KC PCRD.

194. The Amended IFA requires KrunchCash to remit KrunchCash's future proceeds received from Advances provided by KrunchCash to KC PCRD to be immediately distributed to Pursuit pursuant to the allocations and disbursements provisions of the Amended IFA.

195. KrunchCash and KC PCRD agreed the terms of the Amended IFA extended to Pursuit's funds invested and/or allocated to fund recipients, including the recipients of the Maryland Advances, the Pharma Advances, and the Connecticut Advances, after the Amended IFA was executed.

196. Section 2 of the Amended IFA requires KrunchCash to remit KrunchCash's future proceeds received from Advances provided by KrunchCash to KC PCRD to be immediately distributed to Pursuit pursuant to the allocations and disbursements provisions of the Amended IFA.

197. Section 6 of the Amended IFA specifies that any proceeds will be allocated and distributed in the following order: (i) first, the amount repaid by the funding recipient will be deposited into KC PCRD's bank account; (ii) second, the Advance, or principal, will be deducted from the repayment amount and remain in the KC PCRD bank account to be re-advanced; (iii) third, any repayment amount above the principal will be allocated pursuant to the "0 and 50" split of profits among KC PCRD and Pursuit; and, (iv) fourth, the agreement states

that if proceeds are insufficient to repay the principal, the amount repaid will be limited to the amount actually received, i.e. whatever is received goes to repayment of principal.

198. Section 4 of the Amended IFA states that KC PCRCD will receive “a servicing fee in the amount of zero percent (0%) of each Advance,” i.e. nothing above its share of the profits in exchange for servicing the Advance. KC PCRCD is required to service the Advances, collect payments under the Advances, and remit payments received from Advances.

199. Notwithstanding KC PCRCD’s proscribed role under the Amended IFA, KrunchCash manifested an intent to be bound by the Amended IFA, and by its actions and representations to Pursuit, assumed KC PCRCD’s obligations under the Amended IFA. KrunchCash participated in negotiation of the Amended IFA with Pursuit, and KC PCRCD, which is controlled by KrunchCash and Hackman, was formed solely as a dummy entity to enter into the Amended IFA. Therefore, it is foreseeable that KrunchCash will be bound as the obligor under the Amended IFA.

200. KC PCRCD is required to enter into funding agreements with fund recipients, but instead KrunchCash acted as the signatory to the Advances, assumed responsibility as the servicer of the Advances, and collected funds from the Advances. Pursuing collection, KrunchCash chose to name itself, not KC PCRCD, as the party with a claim to repayment in the Maryland and LB Pharma litigations. KrunchCash was known to Pursuit, and directed Pursuit to deposit investment funds in KrunchCash’s bank accounts.

201. KC PCRCD is required to segregate the funds in a Bank Account into which Pursuit’s funds are deposited, and into which proceeds from Advances are to be deposited, allocated, and disbursed pursuant to Section 6 of the Amended IFA. KrunchCash assumed the

obligation to segregate and distribute funds by requiring Pursuit's funds and proceeds therefrom be deposited into its bank account, instead of the KC PCRDR Bank Account.

202. KrunchCash and/or KC PCRDR did, in fact, receive repayment amounts from the Advance Recipients including, without limitation, approximately \$2.4 million from the LB Pharma Advance after March 2019, \$[REDACTED] from the Maryland Advance (a portion of which is due to Pursuit) after March 2019, \$[REDACTED] from the Connecticut Advances, most of which was repaid in December 2021. These proceeds are subject to the terms of the Amended IFA. KrunchCash and KC PCRDR failed to deposit, allocate, or distribute those repayment amounts in accordance with the terms of the Amended IFA.

203. Specifically, KC PCRDR and KrunchCash breached the Amended IFA by (i) not directing repayments and proceeds from the Advances to the KC PCRDR Bank Account for distribution to Pursuit, (ii) breaching the distribution and allocation provisions of the Amended IFA, (iii) breaching the servicing obligations of the Amended IFA, (iv) improperly collecting funds from the Advances through KrunchCash and not through KC PCRDR, (v) not remitting or properly crediting payments received from the Advances, and (vi) requiring Pursuit's investment funds to be deposited into KrunchCash's, and not KC PCRDR's, bank account, including without limitation the proceeds from the Maryland Advances, the Pharma Advances, and the Connecticut Advances.

204. KC PCRDR and KrunchCash also breached the Amended IFA by collecting servicing fees and allocating repayment amounts to cover KC PCRDR's and KrunchCash's operational expenses, which are not authorized by, and are specifically capped at zero percent under the Amended IFA.

205. KrunchCash and Hackman are liable for breaches of the Amended IFA because they assumed KC PCRD's obligations under the Amended IFA, because KrunchCash is a signatory and bound by the terms of the Amended IFA, and because Hackman is the alter ego of KrunchCash and KC PCRD and he abused the corporate form of these entities and used his domination and control over them to commit a fraud or injustice against Pursuit.

206. Pursuit has been damaged as a result of the KrunchCash's and KC PCRD's breaches by at least \$3.6 million, plus interest, and by such further amounts that may be proven at trial.

THIRD CAUSE OF ACTION
BREACH OF CONTRACT
(PURCHASE AGREEMENT)
(Against KrunchCash and Hackman)

207. Pursuit incorporates the preceding allegations by reference.

208. KrunchCash and Pursuit are parties to the Purchase Agreement dated September 2017, and as amended. The Purchase Agreement governs KrunchCash's and Pursuit's rights and responsibilities with respect to the Miscellaneous Plaintiff Advances. The Purchase Agreement requires KrunchCash to collect amounts due from fund recipients and remit any amounts collected to Pursuit.

209. In June 2019, KrunchCash collected \$239,366 on behalf of the Miscellaneous Plaintiff Advances, and has acknowledged and agreed that KrunchCash owes those funds to Pursuit.

210. Nevertheless, KrunchCash refuses to pay these funds to Pursuit, in breach of the Purchase Agreement.

211. Hackman is liable for breaches of the Purchase Agreement because he is the alter ego of KrunchCash, and he abused the corporate form of KrunchCash and used his domination and control over the entity to commit a fraud or injustice against Pursuit.

212. Pursuit has been damaged as a result of KrunchCash's breach by at least \$239,366, plus interest, and by such further amounts that may be proven at trial.

FOURTH CAUSE OF ACTION
BREACH OF ORAL CONTRACT
(DEFAULT ACTIONS)
(Against KrunchCash and Hackman)

213. Pursuit incorporates the preceding allegations by reference.

214. KrunchCash has taken the position that the distribution of proceeds from the Default Actions is not subject to the terms of the Amended IFA, and that the Amended IFA expired on April 10, 2020. Pursuit disputes this reading of the Amended IFA, and contends any recovery from the Default Action constitutes a collection of proceeds that must be allocated pursuant to the terms of the Amended IFA. To the extent, however, the Amended IFA does not govern, since KrunchCash's commencement of the Default Actions, Pursuit and KrunchCash agreed on terms regarding the use and distribution of funds relating to the Default Actions.

215. Specifically, in connection with KrunchCash's solicitation of additional investment funds to fund purported pro-rata legal expenses relating to the Default Actions, KrunchCash and Pursuit agreed that any recovery would be distributed first pro rata among the various investors in proportion to the capital invested and outstanding correspondent to that particular Advance and then, any profits pursuant to the 50/50 split set forth in the waterfall set forth in the Amended IFA. Thus, for the Maryland Advance, Pursuit would be entitled to 23% (or the correspondent pro rata share when taking into account the fact that Pursuit overfunded the Default Action) until such time as it received return of capital for that Advance (inclusive of the

Default Action), and then the excess of the 23% would be split 50/50 between the KrunchCash Parties and Pursuit. For LB Pharma, the same waterfall would apply, with the assumption that Pursuit invested 96% across all Pharma Advances.

216. After commencing the Default Actions, and after soliciting capital from Pursuit to fund the prosecution of those actions, KrunchCash did, in fact, collect approximately \$4 million in repayment of the Maryland Advances, but failed to timely notify Pursuit that such funds were received, and failed to allocate and distribute those funds according to the waterfall set forth in the Amended IFA. In addition, KrunchCash did, in fact, collect approximately \$2.4 million in repayment of the LB Pharma Advances, but failed to timely notify Pursuit that such funds were received, and failed to allocate and distribute those funds according to the waterfall set forth in the Amended IFA.

217. KrunchCash has since reached settlements with the Maryland and LB Pharma Advance Recipients, but has not disclosed those settlement amounts to Pursuit, or even notified Pursuit of the settlements.

218. In addition, KrunchCash and Hackman misappropriated the collected repayment amounts and applied those funds for its own or its principal's benefit by using the funds to satisfy KrunchCash's or Hackman's own debts to third-parties, and to compensate KrunchCash, Hackman, and third-parties in a manner that was contrary to KrunchCash's agreement with Pursuit, and not authorized by Pursuit.

219. Thus, KrunchCash breached its agreement with Pursuit regarding funds provided and committed to prosecution of the Default Actions.

220. Hackman is liable for breach of the oral agreement regarding funding of the Default Actions because he is the alter ego of KrunchCash, and he abused the corporate form

of KrunchCash and used his domination and control over the entity to commit a fraud or injustice against Pursuit.

221. Pursuit has been damaged as a result of Defendants' breaches by at least \$750,000, plus interest, and by such further amounts that may be proven at trial.

FIFTH CAUSE OF ACTION
BREACH OF THE COVENANT OF GOOD FAITH AND FAIR DEALING
(Against KrunchCash and KC PCRD)

222. Pursuit incorporates the preceding allegations by reference.

223. Pursuit, KC PCRD and KrunchCash are parties to and bound by the terms of the Amended IFA.

224. Pursuit and KrunchCash are parties to and bound by the terms of the Purchase Agreement.

225. There is an implied covenant of good faith and fair dealing in the Amended IFA and the Purchase Agreement, such that one party will not purposely do anything to destroy or injure the rights of the other to receive the fruits of the contract, and the parties will act honestly and behave as a reasonable person would behave.

226. KrunchCash and KC PCRD acted intentionally and purposefully in a manner that, although not expressly forbidden by any contractual provision, deprived Pursuit of the right to receive the benefits contemplated under the Amended IFA and Purchase Agreement.

227. The Amended IFA and the Purchase Agreement do not specifically identify the Advances to which Pursuit's investment capital will be deployed. To the extent not expressly encompassed in the agreements, there is an implied covenant that KrunchCash and KC PCRD will act honestly and not use Pursuit's capital to fund investments not authorized by Pursuit.

228. The Amended IFA and the Purchase Agreement do not specifically address potential litigation with Advance counterparties, *e.g.*, the Default Actions. To the extent such Default Actions are not encompassed in KrunchCash's and KC PCR D's express servicing obligations, there is an implied covenant that KrunchCash and KC PCR D will work in good faith to recover Pursuit's funds, account for Pursuit's investments accurately, and disburse proceeds recovered from the Advance Recipients.

229. The Amended IFA and Purchase Agreement do not specifically address any allocation of servicing expenses in connection with KrunchCash's and KC PCR D's collection efforts. Implied, however, in the zero "Servicing Fee" expressed in the agreements is the idea that KrunchCash and KC PCR D would be incentivized to act reasonably in servicing the Advances, and recoup any costs to service the Advances, including the Default Actions, out of their 50% share of the profits.

230. The Amended IFA and Purchase Agreement do not specifically address KrunchCash's and KC PCR D's implied obligation to conduct themselves honestly and fairly in dealings with Advance Recipients.

231. To the extent not a breach of any express provision in the Amended IFA or Purchase Agreement, KrunchCash and KC PCR D breached the covenant of good faith and fair dealing, and acted in bad faith and dishonestly, by: (i) using Pursuit's capital to fund investments not authorized by Pursuit; (ii) engaging in self-dealing by managing the Default Actions not for the sake of maximizing the recovery of proceeds, but for the sake of concealing KrunchCash, KC PCR D, and Hackman's fraud and misappropriation of Pursuit's capital, and to defend against their own liability to the Advance Recipients; (iii) refusing to account to Pursuit for proceeds recovered through the Default Actions or disburse funds in relation to the

Advances; (iv) making false statements and threats against the Advance Recipients that led those counterparties to pursue legal action against Pursuit based on Hackman's misrepresentations; and (v) using Pursuit's capital and proceeds to pay for servicing and personal expenses, including personal payments to McGhie and Hackman.

232. Pursuit has been damaged as a result of Defendants' breaches in an amount to be proven at trial, and including, without limitation, amounts spent by Pursuit to account for the Advances, to defend against legal action prompted by Hackman's falsehoods and threats against Advance Recipients, amounts used to fund the Default Actions, and the loss of investment funds and proceeds used for unauthorized or improper purposes.

SIXTH CAUSE OF ACTION
BREACH OF FIDUCIARY DUTY
(Against Hackman)

233. Pursuit incorporates the preceding allegations by reference.

234. At all times, Hackman was the manager of KrunchCash and KC PCR D.

235. Hackman assumed a position of trust by (i) serving as an investment manager, with complete discretion to invest Pursuit's capital, (ii) controlling the KrunchCash-PCSO F Ledgers and all other financial documentation for KC PCR D and KrunchCash, (iii) monitoring and obtaining unique access to the Advance Recipients' accounting, collections, and payment functions, and (iv) maintaining complete control over the KrunchCash and KC PCR D bank accounts. Hackman thus possessed unique access to the financial, operational, and legal affairs of KrunchCash, KC PCR D, and the Advances into which Pursuit's monies were invested.

236. Moreover, Hackman was entrusted with the Default Actions because he was the manager of KrunchCash and a defendant (personally) in such actions. Accordingly, Hackman (i) was in a unique position to make decisions concerning the Default Actions, (ii) had

a duty be truthful and honest in such proceedings, and (iii) had access to attorney-client privileged information.

237. Finally, Hackman also assumed a confidential relationship with Pursuit and its principals. Hackman went to extreme measures to engender trust from Pursuit, including attempting to befriend Pursuit's principals and working to gain their trust over many years.

238. Hackman is thus in a fiduciary and confidential relationship with Pursuit, and owes Pursuit duties of loyalty, good faith, candor, and care.

239. Hackman knowingly breached his fiduciary duties by: (i) placing his own financial interests ahead of Pursuit's by threatening to and actually harming the Advances to extract improper, unearned payments and fees from Pursuit; (ii) threatening Pursuit's interests in the Advances through dilution and scuttling such Advances altogether; (iii) commingling Pursuit's investment funds with those of other investors and manipulating accounts to misdirect Pursuit's funds; (iv) abusing his position of trust by concealing collections from Advances; (v) refusing to provide accurate accounting to Pursuit, and providing misleading accounting, including by refusing to provide a complete accounting of the Advances, withholding and selecting disclosing invoices, not issuing tax documentation, and refusing to permit Pursuit's accounting to inspect the books and records of KrunchCash and KC PCRD; and, (vi) using Pursuit's funds to fund Hackman's personal expenses.

240. With respect to the Default Actions, specifically, Hackman: (i) lied to courts as to the amounts KrunchCash supposedly funded to the Maryland law firms; (ii) misrepresented Pursuit's role vis-a-vis the funding recipients in the Default Actions, causing Pursuit to be named as a party in the LB Pharma Default Actions; (iii) lied under oath in the Maryland Default Action as to the amounts deployed to the Maryland law firms; and, (iv)

inflated the amounts owed by the LB Pharma Advance Recipients by refusing to credit \$2.4 million in repayments.

241. Pursuit has been damaged as a result of Hackman’s breach of fiduciary duty in an amount to be proven at trial, in excess of \$10 million.

SEVENTH CAUSE OF ACTION
VOIDABLE TRANSFER
(Against KrunchCash, KC CA and Hackman)

242. Pursuit incorporates the preceding allegations by reference.

243. Pursuit asserts the following transfers are voidable under New York’s Debtor and Creditor Law as follows:

244. The vast majority (between 90% to 97%) of investor funding invested with KrunchCash after March 2018, approximately \$16.8 million, came from Pursuit or Signal Funding.

245. Since March 2019, KrunchCash collected at least \$6.6 million in repayments that the KrunchCash Parties withheld and failed to pay to Pursuit (or Signal Funding), including \$ [REDACTED] from the Maryland Advances, \$2.4 million from the LB Pharma Advances, and \$ [REDACTED] from the Connecticut Advances.

246. KrunchCash and Hackman transferred more than \$ [REDACTED] in investor funding and recovered proceeds from the Advances from KrunchCash’s and KC PCRD’s bank accounts to an account held by KC CA between March 2018 and October 2022.

247. KrunchCash and Hackman also deposited checks from Advance Recipients during that time frame into an undisclosed bank account held in KrunchCash’s name, which represented \$ [REDACTED] in proceeds owed to Pursuit and Signal Funding. Hackman did not distribute or allocate proceeds and profits from those repayments and, instead, used those funds

to pay for personal expenses, including car payments on a luxury vehicle and insurance premiums.

248. Hackman transferred funds through KrunchCash and KC CA bank accounts to himself, and to his wife, and used those funds to pay for personal expenses such as travel and luxury vehicles.

249. In response to this action, Hackman drained the KrunchCash and KC PCRD bank accounts, transferring all available funds to other bank accounts under his control, including that of KC CA, such that, as of October 2022, there were only a few hundred dollars left in KrunchCash's and KC PCRD's bank accounts. On information and belief, Hackman has further transferred funds belonging to or owed to Pursuit from KC CA or other accounts to which investor funds were diverted to Hackman's personal accounts or accounts he controls.

250. The transfers are void pursuant to N.Y. Debt. & Cred. Law § 273(a)(1) (and former N.Y. Debt. & Cred. Law § 276) because each was made with an actual intent to hinder, delay, or defraud Pursuit by misappropriating its investment capital and to prevent Pursuit from being able to recover its principal invested and proceeds owed under the agreements.

251. The KrunchCash Parties are insiders of each other, and Hackman is an insider and the managing member of each KrunchCash affiliated entity, including KC CA. Hackman, KrunchCash and KC CA retained control of the money after the transfers were made. These transfers were concealed from Pursuit and other debtors, and were done to remove or conceal assets beyond the reach of Pursuit in the event it is able to obtain a judgment.

252. The transfers included funds that Defendants do not dispute are owed to Pursuit, including the \$270,000 in proceeds owed from the Connecticut Advance that Hackman previously represented would be maintained in the KC PCRD bank account.

253. The transfers are also void pursuant to N.Y. Debt. & Cred. Law § 273(a)(2) and 274 (and former N.Y. Debt. & Cred. Law § 275) because each was made without receiving reasonably equivalent value in exchange for the transfer at a time that Defendants knew or reasonably should have believed KrunchCash, KC PCRD, and Hackman faced claims for tort and contract damages exceeding \$10 million.

254. These voidable transfers were concealed from Pursuit, and only discovered by Pursuit in October 2022 upon obtaining access to KrunchCash's bank records which revealed the unknown accounts and voidable transfers.

255. In July 2020, speaking to how proceeds collected after Hackman declared the Advance Recipients in default, Hackman misrepresented that proceeds collected would be applied to servicing expenses (which was disputed by Pursuit), with remaining funds held for the benefit of investors pending a determination of how to disburse those funds. In January 2022, Hackman misrepresented to Pursuit that he "would hold the \$270,000 [collected from the Connecticut Advance] and would not disburse it," pending resolution of the dispute among Pursuit and KrunchCash, KC PCRD, and Hackman.

256. Pursuit was damaged by these transfers in an amount to be determined at trial, and seeks avoidance of the transfers to the extent necessary to satisfy Pursuit's damages in this action, an attachment, injunction or other equitable remedy to prevent further dissipation of the assets, the appointment of a receiver to take charge of the funds transferred and any other personal property of Defendants, and any other relief that circumstances may require.

257. Pursuit also seeks an award of attorneys' fees pursuant to N.Y. Debt. & Cred. Law § 276-a.

WHEREFORE, Plaintiff prays for a judgment accordingly:

- A. Compensatory damages in an amount to be proven at trial, but not less than \$10 million, for Defendants' fraud, conspiracy to defraud, breach of contract, breach of the implied covenant, and breach of fiduciary duty;
- B. Directing Defendants to remit proceeds from the Advances to Pursuit;
- C. Rescinding Pursuit's investments with KrunchCash and KC PCRD;
- D. Disgorgement of Defendants' ill-gotten gains from the fraudulent investment scheme;
- E. A declaration that the voidable transactions are void, damages in the amount of the voidable transfers, equitable relief to return and/or prevent dissipation of the transferred assets, and the appointment of a receiver to take charge of Defendants' assets to satisfy judgment to Pursuit;
- F. Awarding punitive damages;
- G. Awarding Pursuit its attorneys' fees and costs in this action;
- H. Awarding Pursuit pre and post-judgment interest; and,
- I. Awarding Pursuit such other relief as the Court may deem just and proper.

Date: May 25, 2023



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Opportunity Fund, L.P.*

VERIFICATION

I, James Scott Turner, am an authorized signatory for Plaintiff Pursuit Credit Special Opportunity Fund, L.P.

I have read the foregoing Verified Second Amended Complaint and know the contents thereof to be true to the best of my knowledge, except as to the matters therein stated to be upon information and belief, and that as to those matters I believe them to be true.



James Scott Turner

State: Florida

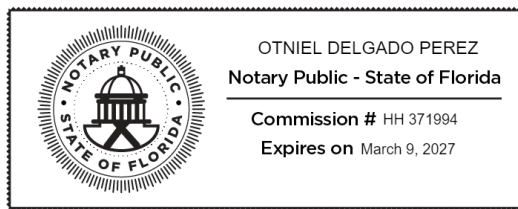
County: Orange County

Sworn to before me this

25th day of May, 2023



Notary Public



Notarized online using audio-video communication