

February 2015

# **NEW JERSEY**

**BERGEN COUNTY** 

# FRAUD

Misrepresentation — Fraudulent Concealment — Business Law

# Litigation-funding company claimed fraud among partners

VERDICT \$33,487,500

CASE George Prussin, individually, and The Law Funder, L.L.C. v. Matthew R. Sheldon, Esq., Rory Donadio a/k/a James R. Donadio, Montclair Financial Group, Inc., Montclair Funding, Corp., Montclair Funding Group, LLC, Ryan Jeffreys, Lawsuit Capital Advisors, L.L.C., Lawsuit Funding, L.L.C., Lawsuit Capital Management, L.L.C., Lawsuit Capital Funding, L.L.C., Solutions Corp., Scott Villanueva, Esq., Nelson Slosbergas, Esq., Bradley Braun, Gregory Krasovsky, Esq., The Law Offices of Raul J. Sloezen and Gregory Krasovsky, Joan Gordon, Catherine Donadio, Jessica Escobar a/k/a Ana Garza a/k/a Lisa Cantu, David Solomon, Law Capital Enterprises, John Does 1-100 (fictitious names), ABC, L.L.C. 1-25 (fictitious names), and XYZ Corp. 1-25 (fictitious names), No. L-10335-09 COURT Bergen County Superior Court JUDGE John L. Langan DATE 6/24/2014

# PLAINTIFF

ATTORNEY(S) Sean R. Callagy, Callagy Law, LLC, Paramus, NJ Michael J. Smikun, Callagy Law, LLC, Paramus, NJ

# DEFENSE

ATTORNEY(S) Alfred V. Gellene, Fusco & Macaluso, Denville, NJ (Montclair Financial Group, Inc., Rory Donadio) Henry E. Klingeman, Krovatin Klingeman LLC, Newark, NJ (Catherine Donadio) Gregory Krasovsky, pro se Matthew Sheldon, pro se None reported (Jessica Escobar) **FACTS & ALLEGATIONS** In 2004, plaintiff George Prussin, a resident of Tenafly, was one of a group that invested in and formed The Law Funder LLC, a company which provided funding to parties to bring personal injury and other types of court cases, in return for a percentage of any award the plaintiffs received. The company had direct inquiries from potential clients but largely used brokerage firms to locate clients and investigate whether they would be viable candidates for a loan. The brokerages received a percentage of the loan as a fee.

In about February 2005, Prussin alleged, certain of his business partners, notably Matthew Sheldon, who owned 25 percent of Law Funder, began a scheme to defraud the company for their own personal gain.

According to Prussin, the kickback scheme was set up so that Sheldon would refer any potential Law Funder clients who directly contacted him to Rory Donadio and his New Jersey brokerage, Montclair Financial Group Inc., rather than to other outside brokers, in exchange for evenly splitting the broker's fee. As a result, Sheldon approved cases for funding that should have never been approved and Law Funder lost millions of dollars and was exposed to tens of millions of dollars of risk. The scheme, which ran until about March 2009, was kept secret, and payments to Sheldon were made to his personal bank accounts.

Prussin, individually, and The Law Funder, sued the parties allegedly involved with the scam. Included as defendants were Sheldon, Donadio (individually and through Montclair Financial Group), and Gregory Krasovsky, an attorney whose firm represented The Law Funder and who knew of the fraud.

About 20 defendants were named in the complaint but most settled out or were dismissed prior to the lawsuit's conclusion. During trial, Donadio, Montclair Financial Group, and Donadio's mother, Catherine, settled out of the case for confidential amounts. The only defendants remaining at trial were Sheldon and Krasovsky, who represented themselves pro se (neither appeared at trial, however, because they were both incarcerated ). Also a defendant was Jessica Escobar, who allegedly received money from Sheldon from fictitious cases. (Escobar also did not appear at the trial, and was defaulted by the court.)



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According to Prussin's counsel, Sheldon "breached every conceivable fiduciary duty that he owed to Law Funder," by overvaluing cases, underwriting cases that should have been rejected, and tampering with cases underother company employees, all in order to obtain illegal kickbacks from the verdicts.

In one instance focused on by Prussin, Sheldon allegedly sent \$750,000 to "Ana Garza," an attorney in Texas. However, Garza was a fictitious person created by Jessica Escobar, who was allegedly involved in a relationship with Sheldon. Escobar masqueraded as both attorney Garza and as Lisa Cantu, Garza's paralegal. Escobar fabricated cases, which Sheldon and other employees of Law Funder underwrote either knowing that the cases were fake, or without performing due diligence to determine their validity. When the fictitious cases never resolved, Escobar disappeared, leaving Law Funder out of \$750,000. In addition to Sheldon receiving kickbacks, Donadio and his company, as well as another company, Law Capital Funding, were paid brokers fees on the non-existing cases.

Prussinalso sought a recovery for other instances of alleged fraud led by Sheldon, such as underwriting separate lawsuits against Russian and Greek airlines after fatal crashes, even though the suits were clearly not viable to Law Funder. The suits allegedly generated brokerage fees and a kickback, and cost Law Funder \$3.5 million.

Also called into question was Sheldon's role in a series of cases which required large investments and thus created the opportunity to create more money in kickbacks. Prussin alleged violation of the New Jersey RICO Act on the part of Sheldon.

In October 2013, Sheldon was sentenced to 33 months in prison for his role in the fraud. He was also ordered to pay \$869,492 in restitution, and forfeit \$869,492. Donadio pleaded guilty in criminal court. He was sentenced to house arrest and was ordered to pay restitution in the same amount as Sheldon.

**INJURIES/DAMAGES** Plaintiff's counsel asked the jury for a total recovery of between \$40 million and \$50 million. Included in this amount were recoveries for actual damages and interest, as well as disgorgement of profits due to the fraudulent activities, and compensatory damages. Under New Jersey law, these damages were to be trebled. Plaintiff's economics expert estimated these amounts at about \$40 million in total, related to legal malpractice, fraud, and violations of the New Jersey RICO Act. Plaintiff's counsel also sought an open amount in punitive damages.

**RESULT** The jury found in favor of Prussin and Law Funder, and against defendants Sheldon, Krasovsky, and Escobar. The jury awarded the plaintiffs for Sheldon's violation of the New Jersey RICO Act (these damages were trebled by the court), and for fraud, conspiracy, and legal malpractice. The jury also awarded plaintiffs for fraud, conspiracy, and legal malpractice February 2015

by Krasovsky and for fraud by Escobar. Also awarded were \$5 million in compensatory damages for Prussin, \$1 million in attorneys fees, and \$8 million in punitive damages. In total, the jury awarded \$33,487,500.

### GEORGE

PRUSSIN	\$5,000,000	compensatory	damages
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#### LAW

FUNDER, L.L.C	. \$2,818,750 conspiracy (Matthew Sheldon)	
	\$8,456,250 violation of the NJ RICO Act	
	(Matthew Sheldon)	
	\$2,818,750 fraud (Matthew Sheldon)	
	\$2,818,750 legal malpractice (Matthew	
	Sheldon)	
	\$650,000 fraud (Greg Krasovsky)	
	\$250,000 compensatory damages (Greg	
	Krasovsky)	
	\$650,000 conspiracy (Greg Krasovsky)	
	\$650,000 legal malpractice (Greg Krasovsky)	
	\$375,000 fraud (Jessica Escobar)	
	\$1,000,000 attorney fees	
	\$8,000,000 punitive damages	
	\$28,487,500	
DEMAND	\$3,000,000 (from Sheldon)	
OFFER	None	
TRIAL DETAILS Trial Length: 17 days		
	Trial Deliberations: 5 hours	
	Jury Composition: 4 male, 3 female	
	Jury Composition. + male, 5 female	
PLAINTIFF		

EXPERT(S)	Michael P. Ambrosio, J.D., legal malpractice,
	Newark, NJ (by report, did not testify)
	Mark M. Bello, litigation funding, Southfield, MI
	(by report, did not testify)
	Chris Young, economics, Livingston, NJ

#### DEFENSE

**EXPERT(S)** None reported

**EDITOR'S NOTE** This report is based on information that was provided by plaintiffs' counsel and counsel for Catherine Donadio. Counsel for Rory Donadio did not respond to the reporter's phone calls. Krasovsky, Sheldon, and Escobar were not asked to contribute to this report.

-Kirk Maltais

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