eab/inf. 2020R00699

UNITED STATES DISTRICT COURT
DISTRICT OF NEW JERSEY

UNITED STATES OF AMERICA	:	Hon.
	:	
v.	:	Crim. No. 22-
	:	
	:	18 U.S.C. § 1343
VINCENT GALANO	:	

I N F O R M A T I O N

The defendant having waived in open court prosecution by Indictment, the United States Attorney for the District of New Jersey charges:

(Wire Fraud)

Relevant Entities, Individuals and Terms

1. At all times relevant to this Information:

a. Accounts receivable factoring, also known as invoice financing ("factoring"), was a financial transaction through which a company obtained cash by selling its unpaid invoices, ordinarily at a discount, to a factor. After selling their invoices at a discount to the factor, factoring clients sent their debtors notices of assignment naming the factor as the assignee of the debt owed on the invoices. The factor, in turn, collected invoiced amounts owed by the clients' debtors and, upon collection of the entire invoiced amount, paid its clients the balance of the invoice, deducting the factor's fees.

b. Defendant VINCENT GALANO ("GALANO") resided in or about Middletown, New Jersey. From in or about 1994 to in or about 2020, GALANO factored accounts receivables for numerous corporate clients.

c. Prime Capital Group, Inc. ("PCG") was a company that GALANO incorporated in or about 1994 for the purpose of factoring accounts receivables for various corporate clients.

d. PF Funding, LLC ("PF Funding") was a limited liability company founded by GALANO in or about 1996 for the purpose of factoring accounts receivables for various corporate clients.

e. "Individual Victim 1" was a person who served as a lender to GALANO's factoring entities, including PF Funding, for approximately fifteen years.

f. "Individual Victim 2" was a person who served as a lender to GALANO's factoring entities, including PF Funding, for approximately fifteen years. (Individual Victim 1 and Individual Victim 2 are referred to collectively herein as "Individual Victims 1 and 2.")

g. "Corporate Victim 1" was a limited liability company formed by Individual Victims 1 and 2 in or about 2007 for the purpose of pooling other investors to finance GALANO's factoring business. Corporate Victim 1 paid off the outstanding loan balances owed by PF Funding to other lenders, and issued PF Funding new debt on terms more favorable to GALANO.

h. "Corporate Victim 2" was a limited liability company formed by Individual Victims 1 and 2 in or about 2018. Corporate Victim 2's only asset, an unsecured line of credit, was created by Individual Victims 1 and 2 in or about 2009 as a means to provide PF Funding capital to grow its accounts receivables portfolio.

i. "Corporate Victim 3" was a limited liability company formed in or about 2009 by two individuals who raised money from numerous investors to invest in Corporate Victim 1.

Background

2. In or about 1994, GALANO created PCG for the purpose of factoring accounts receivables. GALANO financed PCG's operations through lines of credit issued by various financial institutions.

3. In or about 1996, GALANO formed PF Funding, a limited liability company that largely replaced PCG as GALANO's principal factoring entity, while additionally assuming much of PCG's outstanding debts to various financial institutions. PF Funding entered into short-term lending agreements at high interest rates with various lenders.

4. From in or about 1996 until in or about 2006, PF Funding steadily grew its factoring business, increasing its client base as well as its portfolio of accounts receivables. However, PF Funding experienced hardship repaying its loans given the extraordinarily high rates of interest owed to its lenders under its existing contractual obligations.

5. To resolve this issue, GALANO met with Individual Victim 1 in or about 2006 to propose a lending arrangement whereby Individual Victim 1 would lend PCG and PF Funding capital to continue PCG's existing factoring business and to fund and grow PF Funding's factoring business. In connection with GALANO's request for financing, Individual Victim 1 reviewed various

documentation that GALANO provided, including profit and loss statements, balance sheets, and account receivables assignment schedules.

6. Shortly thereafter, Individual Victims 1 and 2 agreed to loan money to PCG and PF Funding through a limited liability company they formed for this express purpose (the "factoring lender"). PF Funding and the factoring lender entered into a promissory note and a personal guaranty, by which GALANO personally obligated himself to repay the factoring lender's loan. As a measure of added protection, the factoring lender structured the loan as a percentage of the collateral of PCG's and PF Funding's reported portfolio of accounts receivables. Further, the factoring lender paid off all outstanding debt owed by both PCG and PF Funding to their existing lenders. In turn, PF Funding assumed new loan obligations to the factoring lender, albeit at substantially lower rates of interest than PF Funding had negotiated with its prior lenders. Through the lending arrangement, the factoring lender permitted PCG to continue servicing its existing factoring relationships, but required that all new factoring transactions were undertaken by PF Funding.

7. As GALANO's factoring business continued to grow, so too did its need for greater capital to fund its increasingly larger portfolio of invoices. Accordingly, Individual Victims 1 and 2, both similarly interested n growing PF Funding, formed Corporate Victim 1 for the express purpose of loaning additional capital to PF Funding to grow its factoring business. In or about 2007, Corporate Victim 1 began a secured lending relationship with PF Funding, as evidenced by a promissory note, personal guaranty, security

agreement, and a blanket lien on all PF Funding assets pursuant to Article 9 of the Uniform Commercial Code.

8. Thereafter, Corporate Victim 1 made loan advancements to PF Funding in or about 2007 and 2008. By in or about the fall of 2009, Corporate Victim 1 had loaned PF Funding a total of approximately $11.6 million, with no instances of late payment or events of default by PF Funding.

9. In or about 2009, in response to requests by GALANO for increased funding to service PF Funding's growing accounts receivables portfolio -- both due to new clients and increased business from existing clients -- Individual Victims 1 and 2 agreed to loan PF Funding additional funds through an unsecured agreement subordinate to the Corporate Victim 1 loan (the "unsecured line of credit"). In or about 2018, Individual Victims 1 and 2 transferred the unsecured line of credit to a newly-formed limited liability company, Corporate Victim 2.

10. Corporate Victim 1 advanced additional loans to PF Funding during in or about each of the following years: 2010, 2013 through 2016, and 2018 through 2020. All of the funds loaned by Corporate Victim 1 to PF Funding during the period of in or about 2013 through 2016 and 2018 through 2020, amounting to a total of approximately $32.5 million, were used to buy down a portion of the unsecured line of credit, thereby maintaining a balance on the unsecured line of credit acceptable to Individual Victims 1 and 2, and their investors.

11. Beginning in or about May 2010, PF Funding regularly drew on the unsecured line of credit to fund its factoring business. Nearly every month from May 2010 through November 2019, PF Funding accessed hundreds-of-thousands, and occasionally millions, of dollars from the unsecured line of credit. Over that period, PF Funding drew a total of approximately $61.25 million on the unsecured line of credit ostensibly to fund its factoring operations. As stated above, Corporate Victim 1 purchased approximately $32.5 million of the balance on the unsecured line of credit over that approximately nine-and-a-half year period.

12. GALANO created two reports that he regularly distributed to Individual Victim 1 to apprise GALANO's lenders of the state of PF Funding's factoring business. The first of these reports, the "invoice aging report," provided PF Funding's lenders with a purported snapshot of the entire portfolio of PF Funding's existing factoring clients. In addition to listing each of PF Funding's factoring clients in alphabetical order, the invoice aging report purported also to identify the clients' debtors, as well as the total amount of outstanding accounts receivables owed by each debtor. The accounts receivables were further categorized by the age of the outstanding invoices, informing the lenders as to the likelihood of collection. The second report, which GALANO continually updated as his balance grew under the unsecured line of credit, provided his lenders a monthly snapshot of the overall balance on the unsecured line of credit, including the amount of interest owed by PF Funding as a function of the balance and any advances that GALANO took

during the monthly reporting period (the "loan balance and interest report"). By reviewing the invoice aging report and the loan balance and interest report, PF Funding's lenders, including Corporate Victim 1 and Corporate Victim 2, relied upon GALANO's representations as to the portfolio of accounts receivables and the advances that GALANO took to factor those accounts receivables.

13. PF Funding grew its client base and receivables portfolio between the years 2007 and 2010, enjoying several years of positive returns on its factoring business. The period saw positive returns for Corporate Victim 1, too, as GALANO remained current on PF Funding's principal and interest payments.

14. However, beginning in or about 2011, GALANO purchased increasingly greater numbers of invoices for which he was unable to collect the debt owed on the receivables. GALANO concealed these losses from his lenders by misrepresenting the growing uncollected debt on the invoice aging report. As GALANO accumulated increasingly risky accounts receivables, his prospects of repaying the growing loan balance to his creditors grew ever bleaker. Indeed, a handful of PF Funding's factoring clients who experienced extraordinary financial loss alone resulted in several millions of dollars in unrecoverable invoices purchased by PF Funding.

15. From in or about 2011 through in or about 2019, GALANO attempted to offset the mounting bad debt by adding new clients, endeavoring to grow PF Funding out of its impending financial ruin by increasing its

portfolio of supposedly profitable receivables. GALANO continued to conceal the worsening situation from his investors, while obtaining increasingly more funds from them to support his fledgling factoring business.

16. In or about 2019, Individual Victim 1 told GALANO that Individual Victim 1's pool of investors would no longer fund the unsecured line of credit, and that GALANO would need to seek funding from another source to continue to grow his factoring business.

17. In or about March 2020, GALANO met with the two principals of Corporate Victim 3, and requested an extension of time to make the April 2020 interest payments on the Corporate Victim 1 and Corporate Victim 2 loans, blaming his need for additional time on the COVID-19 pandemic 's purported deleterious effects on his factoring clients and their debtors. Shortly thereafter, Corporate Victim 1 and PF Funding entered into a temporary forbearance agreement, pursuant to which PF Funding agreed to submit daily bank statements and invoice aging reports to Corporate Victim 1. The invoice aging reports that GALANO submitted to his lenders continued to misrepresent the overall outstanding balance of accounts receivables, inasmuch as the reports misrepresented as collectable millions of dollars of defaulted, as well as already collected, invoices.

18. During a telephone call on or about May 7, 2020, GALANO admitted to one of the principals of Corporate Victim 3 that GALANO had concealed from his lenders significant losses suffered by PF Funding over many years. GALANO added that he had routinely distributed to the lenders over a

prolonged period of time fabricated reports, including many iterations of a falsified invoice aging report that overstated the number and value of outstanding invoices which the documents represented as payable. However, many of the invoices, as well as their associated values, were, as GALANO knew at the time he sent the falsified invoice aging reports, not only unpaid after far more than 120 days, but unpayable. GALANO further admitted that he made the misrepresentations about the status of outstanding invoices so that he could continue to draw on the unsecured line of credit in order to pay the interest owed on both the unsecured line of credit and the Corporate Victim 1 loan, thereby appearing to maintain both loans as current. During the telephone call, GALANO, acknowledging that PF Funding was unable to meet its payment obligations under either the Corporate Victim 1 loan or the unsecured line of credit, agreed with the determination of his lenders that an event of default had occurred.

19. From in or about 2007 through in or about 2020, PF Funding made payments on the principal of the loans issued through both Corporate Victim 1 and the unsecured line of credit totaling approximately more than $15 million. In addition, during that same period, PF Funding paid nearly all of the interest owed on the loans issued through Corporate Victim 1 and the unsecured line of credit in an amount totaling approximately $51.8 million.

20. By May 2020, at which point PF Funding had defaulted under its credit obligations, PF Funding owed a balance of approximately $38,396,000

on the Corporate Victim 1 loan, and approximately $21,546,536 on the unsecured line of credit.

The Scheme to Defraud

21. From at least as early as in or about 2011 through at least in or about May 2020, in the District of New Jersey and elsewhere, the defendant,

VINCENT GALANO,

did knowingly and intentionally devise and intend to devise a scheme and artifice to defraud, and to obtain money and property by means of materially false and fraudulent pretenses, representations and promises, and, for the purpose of executing and attempting to execute such scheme and artifice, did transmit and cause to be transmitted by means of wire, radio, and television communication in interstate and foreign commerce writings, signs, signals, pictures and sounds, as more fully set forth below.

Goal of the Scheme to Defraud

22. The goal of the scheme and artifice to defraud was for GALANO, by repeatedly misrepresenting to his lenders the number and value of outstanding invoices he was capable of factoring, fraudulently to obtain from Corporate Victim 1 and other victims tens-of-millions of dollars in loan proceeds.

Manner and Means of the Scheme to Defraud

23. It was part of the scheme that, beginning in or about 2011, GALANO, upon purchasing from PF Funding's factoring clients increasingly greater numbers of invoices for which payment was uncollectable, concealed these losses from his lenders and misrepresented the growing uncollectable

debt on the invoice aging report. Rather than reflecting the bad debt accrued from the purchase of invoices which could not be factored, the invoice aging reports created by GALANO and distributed to his lenders, including among others Corporate Victim 1, characterized these bad invoices as fully collectable. In other instances, the invoice aging reports mischaracterized some invoices that had already been paid and collected as outstanding and capable of being factored, in essence double-counting to drive up the outstanding receivables.

24. It was further part of the scheme that, beginning in or about 2011 and continuing until in or about May 2020, GALANO, by misrepresenting to his lenders the outstanding number and value of invoices that PF Funding could factor, was able to obtain increasingly greater funds from his lenders.

25. It was further part of the scheme that, from in or about 2011 until in or about May 2020, GALANO emailed his victim lenders documents, including the invoice aging report and the loan balance and interest report, purporting to reflect, among other information, PF Funding's (i) portfolio of clients, (ii) list of receivables (including individual invoice values), and (iii) schedule of funds advanced from the unsecured line of credit. However, beginning in or about 2011, the documents GALANO created and sent to his lenders purposely and knowingly falsified the number and values associated with many of the receivables, thereby concealing from the victim lenders the true and accurate state of PF Funding's factoring business.

26. It was further part of the scheme that GALANO falsified information sent to his lenders by manipulating the overall value of PF

Funding's portfolio of outstanding invoices in an amount proportional to the funds he needed to draw from the unsecured line of credit in order to maintain as current the principal and interest payments on the Corporate Victim 1 loan and the unsecured line of credit. Absent these falsified figures, PF Funding likely would have defaulted on its loan commitments long before May 2020.

27. It was further part of the scheme that after GALANO sent the falsified documents to PF Funding's lenders, Individual Victim 1 wire transferred funds to PF Funding's bank account in the amounts that GALANO requested. GALANO used these funds to attempt to grow PF Funding out of its precarious, and ultimately disastrous, financial situation.

28. To effect the object of the scheme and artifice to defraud, the following acts, among others, were taken:

a. On the following approximate dates, among others, GALANO, having emailed Individual Victim 1 an invoice aging report and a loan balance and interest report purporting to reflect, among other information, PF Funding's (i) portfolio of clients, (ii) list of receivables (including inflated individual invoice values), and (iii) schedule of funds advanced from the unsecured line of credit, received by wire transfer funds from Corporate Victim 1 and the unsecured line of credit in the amounts, as follows:

i. October 1, 2013 -- wire transfer in the amount of $696,733;

ii. November 21, 2014 -- wire transfer in the amount of $501,374;

iii. August 22, 2015 -- wire transfer in the amount of $770,607;

iv. July 8, 2016 -- wire transfer in the amount of $601,751;

v. December 29, 2017 -- wire transfer in the amount of $1,517,641;

vi. July 3, 2018 -- wire transfer in the amount of $1,166,144; and

vii. November 28, 2019 -- wire transfer in the amount of $679,680.

b. On or about March 9, 2012, GALANO emailed a principal of Corporate Victim 3 to provide a summary of PF Funding's business in 2011, and a forecast of its business for 2012. In that email, GALANO stated that, "2011 was another good year for us . . . ." GALANO further remarked in the email that, "[w]e only experienced . . . one default in 2011 . . . [and] [o]ur total exposure on this account is currently $17,300. Our client continues to operate and pay this down monthly." Predicting PF Funding's performance in 2012, GALANO stated that he expected "sales of our existing clients to continue to increase due to the general improvement in the economy." In the email, GALANO knowingly concealed from his lenders that debtors of other factoring clients had by March 2012 defaulted on their invoices.

Execution of the Scheme

29. On or about November 28, 2019, for the purpose of executing and attempting to execute the aforesaid scheme and artifice to defraud, in the District of New Jersey and elsewhere, the defendant,

VINCENT GALANO,

did knowingly and intentionally transmit and cause to be transmitted by means of wire, radio, and television communication in interstate and foreign commerce, a writing, sign, signal, picture, and sound, that is a wire transfer in the amount of $679,680.

In violation of Title 18, United States Code, Section 1343.

Philip R. Sellinger by [illegible]

PHILIP R. SELLINGER
UNITED STATES ATTORNEY