UNITED STATES BANKRUPTCY COURT

CENTRAL DISTRICT OF CALIFORNIA

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In Re: SYNAPSE FINANCIAL TECHNOLOGIES, INC., Debtor.	Case No. 1:24-bk-10646-MB Chapter 11 Woodland Hills, California Friday, September 27, 2024 10:00 a.m.

DEBTOR'S EMERGENCY MOTION FOR ENTRY OF AN ORDER: (I) AUTHORIZING THE CONTINUED USE OF ITS CASH MANAGEMENT SYSTEM; (II) AUTHORIZING THE MAINTENANCE OF CERTAIN PRE-PETITION BANK ACCOUNTS; AND (III) AUTHORIZING BANKS TO RELEASE ADMINISTRATIVE HOLDS AND/OR FREEZES ON THE DEBTOR'S PRE-PETITION ACCOUNTS

CHAPTER 11 STATUS CONFERENCE

TRANSCRIPT OF PROCEEDINGS
BEFORE THE HONORABLE MARTIN R. BARASH
UNITED STATES BANKRUPTCY JUDGE

APPEARANCES:

For the Chapter 11 Trustee:

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Proceedings recorded by electronic sound recording; transcript produced by transcription service.

APPEARANCES: (cont'd.)

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For Joshua Nelson:	JOSHUA NELSON, IN PRO PER
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WOODLAND HILLS CALIFORNIA FRIDAY SEPTEMBER 27, 2024 10:00 AM

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(Call to order of the Court.)

THE COURT: Thank you.

Okay. Today is September 27th, 2024. This is our 10:00 a.m. calendar. Our one item is the Chapter 11 status conference in Synapse Financial Technologies.

Let me invite -- in a moment, I will invite Ms. McWilliams to start with her report. A couple reminders. There is no recording or photography permitted of any kind. That includes any sort of screenshot of these proceedings, and imaging whatsoever. The courtroom deputy is maintaining an audio recording of these proceedings. That should be the one and only recording, and that constitutes the Court's official record.

Secondly, just a reminder that when it is your turn to speak, please be sure to say your name and who you represent or who you are. If there is a transcript ordered, that helps the transcriber keep track of all the voices -- okay? -- especially if you go back and forth. Thank you.

Ms. McWilliams.

MS. MCWILLIAMS: Thank you, your Honor. It's good to see you again. I will give a brief oral report on the update to our efforts since the last conference, status conference update on September 13th.

Since that time, my advisors and I have continued to facilitate the partner banks' reconciliation work. No additional demand deposit account funds have been distributed since that date. To date, approximately $5,714,613 in DDA funds have been distributed, which is approximately 89 percent of all DDA funds held by the partner banks.

Since the last status conference, AMG has distributed an additional $97,810 in FBO (phonetic) funds. Lineage has distributed an additional $8,825 in FBO funds, and approximately 75 percent of FBO funds held across all four partner banks have been distributed.

Although all partner banks continue to work toward full distribution of end-use funds, neither Evolve nor American Bank have paid out any FBO funds to date, and, again, as a reminder for American Bank, that amount is only $43,000.

Evolve continues to report that it is estimating eight weeks time line for reconciliation, and that date seems to be on track, with a target end date of October 18, and my team continues to work closely with Evolve on this effort.

Lineage and Evolve have each submitted reports in their own words, with more details about each bank's reconciliation progress and distributions. Lineage also provided updated DDA and FBO numbers based on its additional reconciliation work for my most recent report. I will defer to their respective counsel to speak in more details about the banks' updates.

Now, I will briefly touch upon a prospective asset sale of the estate. With an end in sight to reconciliation efforts, my advisors are dedicating extensive efforts preparing for a sale of Synapse assets. We plan to file a sale motion and bidding procedures motion with the Court by Monday, September 30th.

Subject to the Court's order and input from secured creditors, B. Riley will commence an expedited sale process of Synapse assets, with focus on core technology assets and systems, with the objective of maximizing value for the estate in a fashion that is not disruptive to the reconciliation process or distributions by partner banks.

Recognizing the partner banks are working diligently to complete reconciliation and distribute remaining funds, I do not expect there to be substantive updates on reconciliation matters until Evolve concludes its reconciliation work and commences distribution of end user funds. In the meantime, my advisors will be focused on conducting a sale and marketing process for Synapse assets and reducing estate expenses as much as we can without interrupting reconciliation efforts.

For that reason, I respectfully propose, subject to the preference of the Court, to submit my next status report shortly after Evolve's reconciliation work is scheduled to conclude, during the week of October 21st.

And that, your Honor, concludes my oral remarks for the next -- for this status report.

THE COURT: Okay. Just looking at the calendar and internalizing everything you said. Okay.

All right. Who would like to speak next, if anyone?

(No response.)

THE COURT: All right. Ms. Caligure.

MS. CALIGURE: Yes. Andreatte Caligure, end user. I wanted to take a minute and just talk directly to the people who still have our phones about how this has been affecting my life.

So I wasn't at the last hearing because I was at the oncologist with my dog, because it took so long waiting for my retirement fund to get cashed out, to get my dog in to visit, my dog, who could have been treated, is now on the fast track to dying. So let's start with that. That's been fun. And I also spent about triple what I expected to, to treat my dog, who has yet to even really been treated.

I just can't understand why it continues to be so acceptable that we just poke at it with no sense of urgency.

My son is getting married tomorrow, and this time should be an enjoyable thing. It's been nothing but tension and stress, and the worry because I should be able to contribute to this, and this is why I prepared for this moment. This is why I have savings. I was ready for this.

So now I'm in a position where I have yet to be able to help my son for his wedding tomorrow, and I've had to choose between taking a 40-percent hit that I'm taking on cashing on my retirement, and settle with the IRS, or treat my dog, who's dying. So that's fucked.

So, as you just take your time reconciling, this was all completely preventable, and I spent so much time in preparation to save for exactly this scenario, and, like, how dare you take that from me, these moments that I'm supposed to have with my family and my pets? And you just don't care.

And I appreciate Ms. McWilliams so much, but this is getting ridiculous. I'm not being dramatic. This is ridiculous. You're really impacting people. This is not fair, the choices you're putting upon us, on top of the fact that I've lost $70,000 of fees.

I mean, this is insanity. I won't be able to retire anymore. The dog is dying. Thanks. And I get to go into a wedding tomorrow that I just have waited 28 years, and saved to contribute to, and not being able to. You don't even care. You don't even care.

Sorry. That's it. I just -- you need to really understand. This is real for a lot of people. This is devastating. I worked for 30 years to have these moments, and you're taking these from me. Thank you.

THE COURT: Thank you. I'm glad you're here to share that with everybody, but I'm sorry that you're going through that.

Joshua Nelson.

MR. NELSON: Thanks, your Honor. Joshua Nelson, Yotta end user.

I wanted to touch base on something I had asked last week, just to gain some clarity on it, because it was kind of a revelation to me, if I understood correctly, but, from what I understand, is it true that Evolve, in their reconciliation process -- are they reconciling accounts across all platforms, with all partner banks, or are they just focused on their in-house accounts? I'm just trying to gain some clarity on that. Thank you.

THE COURT: Thank you.

Ms. Stapleton?

MS. STAPLETON: Thank you. Caroline Stapleton from Orrick on behalf of Evolve.

Thank you, Mr. Nelson, for your question. Yes. The reconciliation that's being performed by Ancora (phonetic) is going to not only perform a reconciliation and identify end user balances at Evolve, but also across the entire Synapse ecosystem.

THE COURT: All right.

MR. NELSON: May I follow up with that, your Honor?

THE COURT: Yes, sure. Yes.

MR. NELSON: Sure. Joshua Nelson, end user for Yotta. So what was the decision making in that? Was that something by the Court or was that something by the Trustee? If you guys would have just focused on your own accounts, could this be reconcile quicker?

And, also, it's been five weeks. Do you have an type of status report, any type of update, any type of, you know, better knowledge of if there's going to be a shortfall? Because just -- you know, there's not much info, and we keep going weeks and weeks and weeks, and if it wasn't for end users raising their hand and asking questions, I feel like everybody is just silent. So I'd appreciate some answers. Thanks.

THE COURT: Okay.

MS. STAPLETON: Yes. This is Caroline Stapleton from Orrick on behalf of Evolve. So my understanding about the reconciliation decision-making process is that, in order to calculate the balances at Evolve, it was effectively going to be the same work to calculate balances across the ecosystem, because tracing the money movements across the ecosystem to determine the balances at Evolve would also determine the balances at other institutions. So it would not make it faster to only focus on Evolve's balances. It just would be less comprehensive, to your first question.

And then, to your comment about communication, we've been, you know, providing updates to the Trustee in these reports. We, you know, have been making sure that Evolve is aware of the feedback that we've been getting from end users here in these hearings about making sure that the customer care center communications are clear and not confusing.

My understanding is that the bank has been updating those communications to try to make sure that end users have a clear understanding of, you know, what's going on with the reconciliation and that, you know, everyone is able to access the information that's being provided in these hearings, but it is taking time. We are still on track. Ancora has indicated that it will be finished on or before October 18th with its calculation of the balances.

MR. NELSON: And is there any type of update as far as if there's going to be an estimated shortfall? I mean, can we get something, anything, you know, a thumbs up, thumbs down, a wink, yes, maybe, no, just something?

MS. STAPLETON: This is Caroline from Orrick on behalf of Evolve. Unfortunately, I have no information that I can share right now, because the reconciliation hasn't been finished. And so, once the reconciliation is concluded, we'll be able to provide information not only about end user balances, but about any potential shortfall.

THE COURT: Ms. McWilliams --

MR. NELSON: And if there is a shortfall, does Evolve have a plan?

MS. STAPLETON: This is Caroline Stapleton, Orrick --

THE COURT: I'll let you try to answer that.

MS. STAPLETON: Pardon?

THE COURT: No, go ahead.

MS. STAPLETON: So Evolve's plan is the same as it's been, and has been communicated every week, which is to pay end users the balances that they are owed by Evolve, and if they're owed more than Evolve has in the 46,000,000 that is set aside for end user funds that were a part of the payment processing activities, then Evolve will use the reserve funds that it's disclosed in these proceedings, to make sure that end users are paid out what they are owed by the bank.

MR. NELSON: Got it. So, if we can prove 100 percent that our money went in, and that it was held at

Evolve, even if there is a shortage, we will get paid?

MS. STAPLETON: Yes, Mr. Nelson. If Evolve owes in end user deposits, Evolve is going to pay those deposits, and it's going to be based on the Ancora reconciliation, which is considering all of the data, including Synapse's data, Evolve's data, and federal reserve transaction data.

MR. NELSON: And what about interest-bearing accounts? Will we receive that interest?

MS. STAPLETON: Yes, Mr. Nelson, for those accounts, and my understanding is that they're relatively limited, but, for those accounts that are interest-bearing demand deposit accounts with Evolve, Evolve will pay interest in accordance with those agreements.

MR. NELSON: Thank you. That's all I got.

MS. STAPLETON: Thank you.

THE COURT: Ms. McWilliams.

MS. MCWILLIAMS: Thank you, your Honor. I just want to clarify in response to Mr. Nelson's question that Trustee's instructions to the bank have been to commence reconciliation as quickly as possible and do the payout as quickly as possible, from the moment of my appointment, and some banks have had more comfort in doing that early on in the process, and I think Evolve has been reluctant to do so based on the need for reconciliation that they deemed appropriate from their perspective.

I don't want to speak for them. Ms. Stapleton is here to do that. But, from the Trustee's perspective, the instruction from the get-go was to commence reconciliation as quickly as possible, and pay out to depositors as quickly as possible. Thank you.

THE COURT: All right. Mark DiCamillo.

MR. DICAMILLO: Thank you, your Honor. Mark DiCamillo from M Bank (phonetic), a potential bidder for estate assets.

I just have a quick question for Ms. McWilliams and Mr. Gerten. Will the instructions for bidding be submitted to the Court, and will I need to access those through Pacer, or how will I be able to access those instructions?

MR. GERTEN: I'll take this one. This is Alex Gerten from Cravath on behalf of the Chapter 11 trustee. The bidding procedures will be filed on the Court's docket. We will make -- we've been in communication with you before, and we'll make sure to e-mail them to you, so you don't have to get them through Pacer.

We also anticipate putting out a press release, something end-day, a press release just so that there's entire dissemination beyond what is on the court's docket, and I think we will include a high-level time line on that for any potential bidders to reach out to us and express interest in the assets, get people under NDA due diligence.

MR. DICAMILLO: Thanks a lot. Thank you very much.

MR. SMITH: Good morning, your Honor. Jeffrey Smith, Curd, Galindo and Smith, on behalf of Fintech Triple2.

My question is, it looks like Evolve has set sort of a firm deadline of when they will have their reconciliation done and either start or completed distributions. I didn't see in the status report any similar deadline in terms of Lineage, and most of my clients' money is wrapped up in Lineage accounts. So do we have a firm deadline when they will complete, or have they completed, their reconciliation, and when will money start to be distributed to end users under Lineage, Fintech end users?

And the follow-up question, your Honor, would be, if they have completed their reconciliations, or close to it, have they identified any shortfall? Similar to Mr. Nelson's question, have they identified any shortfall, and what do they intend to do about that?

THE COURT: Thank you.

MR. GLENOS: Chris Glenos.

THE COURT: Mr. Glenos.

MR. GLENOS: Excuse me, your Honor. Yes. Chris

Glenos of Bradley Arant, coming counsel for Lineage Bank.

Mr. Smith, I'm sorry. Which Fintech are you with or do you represent?

MR. SMITH: Triple2.

MR. GLENOS: Purple Two?

MR. SMITH: Triple, T-R-I-P-L-E.

MR. GLENOS: Okay. Lineage Bank has -- its reconciliation is underway. It's distributed 90 percent of the funds it's holding. It's still reconciling and working on the remainder of the proceeds that are at the bank. Lineage was a payment processor. It did not have -- pursuant to an agreement with Synapse, it did not have contractual agreements directly with end users or any platforms.

So I point that out because Lineage has reconciled with the Federal Reserve all the transactions it processed, and its account balance is accurate. So there are no missing funds at Lineage, but our reconciliation efforts are continuing. They're ongoing. We have not set a firm deadline. We're working as diligently as possible to get the funds to their rightful owners as soon as possible.

MR. SMITH: Thank you.

THE COURT: All right. Thanks.

Anyone else want to be heard?

(No response.)

THE COURT: Okay. All right. I appreciate the report. A couple things, just in terms of scheduling. 27. Right. We have the Jewish holidays coming. Okay. Let's schedule our next status conference for October 23rd at 10:00 a.m. Okay?

MS. MCWILLIAMS: That works, your Honor.

THE COURT: Yes.

MS. MCWILLIAMS: I was hoping you'd say October 23rd, so thank you.

THE COURT: Okay. Well, you and I don't speak outside of court, so it may have been a mind meld.

MS. MCWILLIAMS: It's a good thing. It's a good thing.

THE COURT: Okay. October 13th at 10:00.

MS. MCWILLIAMS: October 23rd.

THE COURT: 23rd.

MS. MCWILLIAMS: Yes.

THE COURT: 23rd. And as soon as I get your motion, I will take a look at it. I assume it will be one of those sort of two-stage motions where you're asking me, maybe, to approve some procedures in the first instance with a sale hearing at a later date.

Mr. Gerten?

MR. GERTEN: This is Alex Gerten from Cravath on behalf of the Chapter 11 Trustee. That's correct.

THE COURT: Okay. So, you know, when you file it, you file it, and we'll deal with calendaring it appropriately once we see it. Do me a favor, though, when you do file it. Please just give a call to my law clerks and let them know that it's there, so that we can give it the prompt attention that it deserves. Sometimes, you know, things just go on the docket, and we don't know about them. Okay?

MR. GERTEN: Will do.

THE COURT: All right. Lastly, I want to address myself -- Ms. Caligure, you're still here, and I don't think I have anything adequate or satisfactory to say. I feel for you and what you're going through. I am also a parent, and none of my kids are -- I guess they could -- they are old enough to get married, but none of my kids are getting married yet.

I do not -- as much as I emphasize, I do not know what it is like to sit in your shoes. So, in some ways, I should not be giving you any sort of advice, but my hope for you is that, just for a day or two, you can turn this off, or turn the volume down, and enjoy what is a joyful, should be and inherently is, a joyful event, and I hope you can do that, and my thoughts are with you and your family. I hope you can enjoy, even just for a day. Okay? You deserve that, and your kids deserve that, and I'm so, so sorry for everything else you're going through.

All right. We'll see you all in October, and I'm looking forward to some good news, keep my fingers crossed. Thank you all.

MS. MCWILLIAMS: Thank you, your Honor.

THE COURT: Court is adjourned.

(Proceedings concluded.)

I certify that the foregoing is a correct transcript from the electronic sound recording of the proceedings in the above-entitled matter.

/s/ Holly Steihauer 10-3-24
Transcriber Date