UNITED STATES BANKRUPTCY COURT

CENTRAL DISTRICT OF CALIFORNIA

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| In Re: | ) Case No. 1:24-bk-10646-MB |
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| SYNAPSE FINANCIAL TECHNOLOGIES, INC., | ) Chapter 11 |
| | ) |
| | ) Woodland Hills, California |
| Debtor. | ) Friday, September 13, 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.

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WOODLAND HILLS CALIFORNIA FRIDAY SEPTEMBER 13, 2024 10:00 AM

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(Call to order of the Court.)

THE CLERK: Please come to order. This Court is now in session. The Honorable Martin R. Barash, presiding.

THE COURT: All right. Thank you, Madam Deputy.

And welcome. This is our 10:00 a.m. hearing in the Synapse Financial Services case. This is a status conference in the case.

A couple of reminders.

Madam Deputy, Ms. Coulson (phonetic) says she can't hear me.

Ms. McWilliams, can you hear me? No. Okay. Hold on.

THE CLERK: I don't see anything being muted.

(Pause.)

THE COURT: All right. People still can't hear me? Hello, hello?

All right. Can you hear me in the ear?

THE CLERK: I can hear you in the ear, yes, through FTR, but, yes.

THE COURT: Okay. Can people hear me now? But we have the echo. All right. Hold on a second.

You can hear me in your headphone?

All right. Hold on, folks. We're having a little technical difficulty. I turned on the -- can you hear me now? Okay. Let's -- so the only -- is Eric here?

THE CLERK: No, he's in northern. I think Michael's here, I think.

(Pause.)

THE COURT: Hello, hello? You do hear me in your ear? Phones or the --

THE CLERK: Yes.

THE COURT: I know what it is. I know what it is. Hold on.

Okay. Can you hear -- can you hear me? Okay, but it's super echoey. How about now? All right.

UNIDENTIFIED SPEAKER: It's better.

THE COURT: All right. We're cooking with fire.

Okay. Ladies and gentlemen, welcome. This is our 10:00 a.m. calendar. I apologize for the technical complications, but I think we're ready to get started. This is the status conference in Synapse Financial Services.

A couple of reminders. First of all, this is a federal court proceeding. No recordings are permitted of any kind, no photographs of any kind, no screenshots.

The clerk of the court is maintaining an audio recording of these proceedings. That should be the one and only recording of these proceedings and constitutes the Court's official record. If anyone wants a copy of that recording or a transcript, they can contact the clerk of court.

What else do I want to tell you? It looks like we have a pretty good showing. Hopefully people got the word that I announced last time, that the AT&T conference line had been discontinued, and that this is really the -- this Zoom video conference is the one and only way to participate remotely. That either through a registered connection or through telephonic connection. All right?

I know I'm forgetting something, and I'll -- when I think of it I'll mention it.

I'm going to turn the floor over to the Chapter 11 Trustee to give her report.

Ms. McWilliams.

MS. MCWILLIAMS (via Zoom): Thank you, your Honor, and thank you for holding another hearing on this topic. I will give a summary of the Trustee's activities and the bank's activities as I understand them since the last status conference.

The last status conference we have had was on August 30th, your Honor. And since then my advisors and I have continued to facilitate the Partner Bank's reconciliation work.

Since that last status conference, Evolve has distributed an additional $123,857 in demand deposit accounts, which now brings us to approximately 89-percent of all DDA funds held by the partner banks being distributed to the end users.

Since the last status conference, AMG has distributed an additional $177,596 in FBO funds, and Lineage has distributed an additional $6,382,503 in FBO funds, which brings us to approximately 75-percent of FBO funds held across all four partner banks being distributed to the end users.

Although all partner banks continue to work towards full distribution of end user funds, neither Evolve nor American Bank have been able to pay out any FBO funds to date.

My team continues to work closely with Evolve and Evolve's consultants on the reconciliation effort, facilitating additional data sharing, Synapse systems navigation and interbank communications. Evolve continues to report that its estimated eighth week timeline for reconciliation is on track, with a target end date of October 18th.

Lineage and Evolve have each submitted reports in their own words with more details about each bank's reconciliation progress and distribution. I will defer to their respective counsel to speak in more details about the bank's updates. And I would like to give my compliments to

Lineage on being able to distribute almost the majority of the funds that they hold.

As I have discussed in previous status conferences, certain partner banks are still in need of additional information from Fintech partners or end users to be able to make distributions. The majority of Fintech partners have been responsive, but I'm aware of a few that have not responded to outreach, including Donut, Namebase (phonetic), Trim, Unest (phonetic) and C-5. I urge all Fintech partners to work efficiently to respond to partner bank outreach and their information requests to facilitate payments.

I will note that the American Bank's payment of $43,000 that they hold still has not been facilitated because of the difficulty in communication in reaching appropriate parties.

I also urge all end users to check their information in their Fintech apps or website and provide current bank routing and account numbers to receive payments, or in the alternative, current mailing addresses to receive paper checks. For example, AMG reports that it sent follow-up e-mails to over 1,800 end users who had not responded to previous requests, and had only received 80 responses.

The partner banks are including bank contact information in these e-mails which end users may utilize to verify authenticity before submitting their information.

I have also received requests from individual end users who have received e-mails from banks to verify the authenticity of those e-mails, and in those cases I have forwarded them to the appropriate banks who have handled the outreach directly. I continue to meet with and hear from end users whose situations grow more and more dire while they wait for access to their funds.

As an example, I would like to highlight a story shared with me by an end user's name Nathan (phonetic), who is in the Air National Guard and due to be deployed. Nathan's e-mail is attached to my most recent status report as Exhibit C. Nathan is not alone. There are many, many people who have been absolutely devastated by this experience, your Honor. You know this. You have heard from a number of them. And I know the banks know this as well.

And for all of the valiant efforts that have been done to date to pay out the majority of the FBO and DDA funds, that doesn't mean a whole lot to the end users who have not received their funds.

I urge all parties to work as quickly as possible to complete reconciliation and make distributions, and my advisors and I will continue to make every effort to support an expedite this work.

In closing, I respectfully propose, subject to preference of the Court, to submit my next status report in approximately two weeks during the week of September 23rd. Thank you, your Honor.

THE COURT: Thank you.

All right. Who else would like to address the Court? All right. Sean -- apologize, is it Grisan or Grisan?

MR. GRISAN (via Zoom): You nailed it, your Honor. Thank you.

THE COURT: Okay.

MR. GRISAN: I just want to first by stressing that the amount of questions I have for this room are exceeding the time I'm willing to take of anyone. I appreciate their time. But the main reason for that is because this is the only opportunity every two weeks that I collect more information.

Yotta's unavailable. When I call Evolve, they say that they have no money of Yotta end users, which I still don't understand. When I call the Federal Reserve I actually get hung up on now at this point, because they say they have no information for me.

And just the -- the stress and frustration with the lack of information and course of action here continues to be a pain point for end users. But my -- I have two questions today. The first one being, end users are assuming at the end of the reconciliation process that fund disbursement will begin immediately. That's an assumption. I don't know if anyone's clarified that. So that's my question, is if we can expect disbursement to happen immediately after reconciliation?

THE COURT: Is that -- is that -- who's that question directed to?

MR. GRISAN: I -- well, I'm an end user of Evolve Bank and Trustee and Yotta. So, I guess my question would be to those two entities, but if the Trustee has more information I'm willing to take an answer from anyone at this point.

THE COURT: Sure. Well, if he's an Evolve customer, maybe Evolve would be willing to respond.

MR. SWAMINATHAN (via Zoom): Of course, your Honor. So the answer is --

THE COURT: Could you --

MR. SWAMINATHAN: -- as soon as the record --

THE COURT: -- could --

MR. SWAMINATHAN: I'm sorry.

THE COURT: -- first -- yeah. Go ahead.

MR. SWAMINATHAN: Yeah. Aravind Swaminathan on behalf of Evolve.

So the answer is, once the reconciliation process is done, we will begin the distribution of funds. Whether it's immediate or not or whether some process will have to be put in place, it will be reasonably quickly after that. I don't expect it to be the next day, but I do expect it to be shortly thereafter.

THE COURT: Thank you.

Mr. Grisan, you said you had two questions.

MR. GRISAN: Yeah. Thank you. That's -- that's good news. I appreciate that.

My second question is just understanding the reconciliation process as a whole. I work in finance and our reconciliation cadence is monthly, quarterly at a max. So I'm just wondering why there was no consistent reconciliation process occurring, especially when there was communications of shortfalls, and that there was a lot of information regarding Synapse declaring bankruptcy.

I feel like this could have been a much more proactive process that could have stopped this entire disaster from happening. So I'd like to understand why that didn't occur over the last couple years or months. Thank you.

THE COURT: Thank you.

Mr. Swaminathan?

MR. SWAMINATHAN: Sure. Yes, your Honor. On behalf of Evolve. So, I don't know the answer to that. I don't know why the reconciliation process was not done before that. I think what I can say is that up until we determined that the Synapse ledger was not accurate, we relied on the Synapse ledger.

THE COURT: And I'll add, Mr. Grisan, I'm an -- you know, in a sense, an outsider, but I can just tell you from sitting here through, you know, through the pendency of this case, it was clear at the outset of the case that there was a dispute of some kind between Synapse and Evolve. And when the case started, they reported to me that they were in the process of trying to settle that dispute. But beyond that, I mean that's kind of all I know. And I'm obviously, I'm an outsider to that dispute.

So, it was clear to me that -- it was clear to me that they -- they were trying to reach a settlement agreement, but ultimately it did not appear to me that they had a meeting of the minds, and that's around the time that things started to unravel.

All right. Anybody else?

Yeah. Nathan Delman.

MR. DELMAN (via Zoom): Thank you, your Honor. Sorry. I'm starting my video. And I apologize for my dog.

THE COURT: Well, you should never apologize for your dog.

MR. DELMAN: Thank you. There's something in the back yard and he wants everyone to know about it.

So, Nathan Delman from Kilpatrick, Townsend, Stockton. I'm appearing on behalf TClub/Abound of Fintech.

THE COURT: Okay.

MR. DELMAN: Generally speaking, at the beginning of the case my client was informed that the end user funds were at Lineage in an FBO account. Early in this bankruptcy we reached out to Lineage and were told that there was an entry for the amount of my client's end user funds at Lineage and we were -- at Lineage, and we were told this approximate amount. Later, then Lineage told us they could not trust the Debtor's records.

And if I'm reading the status reports correctly, it appears that Lineage has now just disbursed about 90-percent of the FBO monies, and correct me if I'm wrong. But we've not been able to get confirmation that there is going to be enough remaining funds to pay out all the reconciled amounts.

So, in other words, this distribution of funds is a good thing and we're happy to hear about it, but we want to know if these distributions are being made, you know, with the knowledge that there will be enough to distribute all the funds once the reconciliation has happened.

THE COURT: Okay. Mr. Glenos --

MR. GLENOS (via Zoom): Chris Glenos --

THE COURT: -- I see you're unmuted. Go ahead.

MR. GLENOS: Yes, sir, your Honor. Chris Glenos of Bradley, Arant, Boult, Cummings, counsel for Lineage Bank.

To be clear, there are no missing funds at Lineage. The FBO account balance at Lineage as been reconciled against the Federal Reserve's records. That means every dollar in and every dollar out of the FBO account has been reconciled with the Fed, and Lineage has every FBO dollar that it's supposed to have.

The challenge is presented -- or with Synapse's record keeping. Synapse was the party that was responsible for tracking end user balances. It was the only party with access to all of the information required to track end user balances. So as a result of that, Lineage has been forced to perform its own reconciliation of Synapse's records.

I agree with everything Mr. Delman said. Lineage and all of the platforms were provided -- and all the banks, with Synapse -- with the final trial balance that Synapse generated right before it went out of business. And that's the information that Mr. Delman quoted. I mean, the trial balance speaks for itself.

So, Lineage is undertaking to reconcile that. I can't -- Lineage can't admit or deny that money is owed to a particular platform or end user or the amount that would be owed until it is reconciled. So I can't speculate about a unreconciled accounts at this point. But I can confirm Mr. Delman's statement that the trial balance generated by Synapse did attribute a certain amount of funds from Abound/TClub to Lineage Bank.

THE COURT: But your reconciliation process is ongoing?

MR. GLENOS: Yes, of course, your Honor. We are continuing. We've distributed 90-percent of the funds, and our reconciliation efforts will continue. And we expect further distributions in the future.

MR. DELMAN: Thank you, Mr. Glenos, again. So just to make sure I'm getting the -- I can distill what you said. That my client should have some assurance that once the reconciliation is complete that the funds will be available?

MR. GLENOS: Well, I can't -- all I can say is that it is Lineage's intent to pay the lawful amount to end users. Reconciliation is ongoing. I can't speak to what the reconciliation results will be.

MR. DELMAN: But when this lawful amount is determined, there's -- it's your -- it's Lineage's belief that the funds will be there?

MR. GLENOS: Well, Lineage has the funds it's supposed to have. I don't know how else to answer your question at this point, Mr. Delman. It's an ongoing process.

MR. DELMAN: All right. Thank you.

THE COURT: I'm going to sort of interpose a question of my mind -- of my own that comes to mind. I know our, understandably, kind of our -- a lot of our discussions have focused on the individual end users, as opposed to the Fintech customers.

But if I'm Mr. Delman's client, or any other one of the Fintech's that perhaps we haven't been attending or show up and they say, well, our records show that our end users have, you know, deposits of -- insert a number, $100,000. How would they go about figuring out which of the banks the funds of that Fintech's end users, like how would they know where those funds were deposited?

Ms. McWilliams, is there -- is there an answer to that, or is that still a moving target?

MS. MCWILLIAMS: I think that is a moving target, your Honor, to the extent that the bank's data comports with Synapse's data, then it's clear that it's -- say, bank A, I won't name the banks.

THE COURT: Yeah.

MS. MCWILLIAMS: To the extent there is a discrepancy between the Synapse data and what the bank data shows, and the reconciliation process does not really track the movement of money to the penny, then it is not 100-percent clear. But I think it's best to leave it to, at this point, Evolve and Lineage, to the extent that their counsel are able to answer that question, given the amount of reconciliation they have done.

THE COURT: Okay.

Mr. Glenos?

MR. GLENOS: Your Honor, I don't know the perfect answer to that question. Unfortunately, when Synapse would direct money movements from one bank to the next in very large volumes, 10's of millions, hundreds of millions of dollars, those money movements were not attributed to specific platforms or end users. So that makes it very challenging.

I don't know how an end user from the outside looking in would determine where their funds are located, except to look at the agreements that they signed with whatever banks they signed the agreements with. With Synapse, Synapse brokerage, the debtor affiliates, and to look at their end user statements, which might suggest where Synapse attributed their funds to be.

THE COURT: Not a very satisfying answer, Mr. Delman. But I mean, I'm not being critical of Mr. Glenos, but this is a very -- this is still kind of a fluid situation it seems to me. You know, just kind of, just based on my observations from the outside on the report.

And I think what everybody's trying to do, and I think what the report reflects, is that, you know, a substantial has been returned, but this reconciliation process isn't finished. And I'm not hearing anybody give you the warm and fuzzies. I mean, let's not forget, Ms. McWilliams has reported that there's a shortfall between Synapse's ledger of 60- to $90,000,000 between what that ledger shows and what the banks have reported are the aggregate of their deposits.

So at some point the banks presumably, if they can get comfortable with their reconciliations, are going to try to return the funds that they have, but there may be folks whose money is not returned because it represents that unaccounted shortfall, which is -- if I'm correct, Ms. McWilliams, still the subject of your investigation, is it not?

MS. MCWILLIAMS: It is at this point -- thank you, your Honor. It is at this point subject of, frankly, the reconciliation work that's ongoing, and that's going to be I would say, the final say in what, if anything, is missing, and maybe even why it's missing. But at this point in time, it's still unclear until Evolve is able to complete its process.

MR. DELMAN: I suppose if I could just kind of put my question -- maybe rephrase in a different way, and I'm not expecting a satisfying answer here, your Honor.

But I guess our concern is that these distributions have started, and so the people who have been reconciled ahead of other parties are getting their funds. And that it sounds like eventually the well will run dry, and just because the reconciliation was later in the process, you're being damaged by that, and that just doesn't equitable. That's my concern.

If anyone can speak to that, they can. If that statement can just hang on its own, I suppose that's fine, because I don't think I'll get a satisfying answer, but that is my statement. So if anyone could address that would be appreciated.

THE COURT: Thank you, Mr. Delman.

Ms. McWilliams, did you want to add?

MS. MCWILLIAMS: Yes, your Honor. I don't think I have a complete answer to Mr. Delman's question, but I will -- I would just like to make one correction to the best of my understanding.

If there is a shortfall in the end, and we suspect there will be, the end users who end up in that pool, they're not in that pool because the reconciliation process started later. They are going to be in that pool because the data did not support the movement of money.

The easy ones, the low-hanging fruit, will be -- and when I say the "low-hanging fruit," what I mean by that, I'll be very specific, because I know end users are listening.

To the extent that -- to just track the reconciliation movement between and among the banks and within an individual bank's ledger, to the extent that they're able, the banks are able to connect all the dots along the way, that person gets paid out. To the extent that it's unclear where that movement of money or there is a gap, that is probably where the shortfall will end up affecting the end users.

So it's not the timing of the reconciliation process as much as the complexity and the availability of the data in this chain of, you know, command, frankly, as to how the money was moved, and whether or not the banks are able to connect the dots. But I will leave it to the bank and their technical staff who are working on this to respond with more detail.

THE COURT: Does anyone else have anything to add to mister -- in response to Mr. Delman's question? Okay.

Did you have a follow-up, Mr. Delman, or --

MR. DELMAN: So, from what I'm hearing is that this 60- to $90,000,000 shortfall is due to -- for -- I (indiscernible) not having better financial language here, but it's due to some sort of misaccounting of what's in the accounts, and not due to the fact that their -- that the money's just not there that was supposed to be in the account. Is that a way of saying it?

MS. MCWILLIAMS: Your Honor, this is the Trustee. I'm unable to affirmatively respond yes or no to that. I do think that it would be best if the banks and their technical staff that's working on the reconciliation maybe provide some clarity as to why the shortfall would be here.

Since May 24th when the Trustee was appointed, the banks have -- they didn't have access to the Synapse ledgers, as I mentioned in my numerous reports, and finally they have access to Synapse's data -- databases and the Synapse ledger. So they're going through this process.

And I believe there were shortfalls before the reconciliation efforts, as reported in various social media, newspaper media, et cetera, other reports. But I have not been -- unable to come to the -- or my advisors, to the bottom of this, given the reconciliation process.

I do believe that the banks' technical staff is working on the actual ledger reconciliation. Should have a better answer as to what is the likely, I would say root cause of the shortfall.

THE COURT: Does anyone from the banks have anything to add or provide any insight?

Mr. Swaminathan?

MR. SWAMINATHAN: Yes, your Honor. Aravind Swaminathan for Evolve. I think that the answer is, that is right conciliation process, right, and I'm not the technical expert. We have a series of experts at Ancora (phonetic) that are working on this. That is that process.

And so, Mr. Delman, I think -- my hope is that we answer some of those questions when that process is done, but I think that's exactly why we're going through that process. Because I don't -- we don't know the answers to your -- some of your questions you're asking, and we hope that that reconciliation process and expect it will answer those questions when we're done, and determine whether there was a shortfall or not. If there's not a shortfall, great. If there is a shortfall, what that was. But I don't think we validated any of those things yet.

MR. DELMAN: I appreciate all the answers and the information. I understand this is a complex matter. And I also understand that the end users who have been (indiscernible) reconciled, you know, deserve their funds and they want them.

But I have to say that even though I'm been told it's not a matter of timing, I don't see how that's the case. If we don't know -- if we're not certain that there's enough funds there when all of the accounts are reconciled, and the ones that are reconciled are getting paid in full, I don't understand how it's not a timing issue, respectfully.

MR. SWAMINATHAN: Your Honor, if I might? Aravind Swaminathan for Evolve.

THE COURT: Sure.

MR. SWAMINATHAN: Mr. Delman, I agree with you, and that is why we are waiting to complete a reconciliation process, to make sure that we know the answers before we distribute funds. It's exactly the problem you've identified. It's why we are going through that process before we can get there.

MR. DELMAN: But I thought 90-percent -- in some circumstances, 90-percent has been distributed already.

MR. SWAMINATHAN: Yeah.

THE COURT: I think, Mr. Swaminathan, I think you should clarify who you represent.

MR. SWAMINATHAN: Yeah, yeah. On behalf of Evolve, who is doing this reconciliation process, Mr. Delman. The answer is, no, we are waiting to distribute those funds until we complete our reconciliation process.

THE COURT: And if you -- if you --

MR. DELMAN: If that's -- that's -- that's not -- that's not the counterparty to my concern, so, if it's Lineage.

THE COURT: I see.

MR. GLENOS: Your Honor, Chris Glenos for Lineage Bank.

Mr. Delman, Lineage's focus is on the funds that are at Lineage Bank. Lineage is not -- has not undertaken and is not undertaking to solve the mystery of why there's a shortfall system-wide. Lineage is -- is -- has paid off funds to platforms and individuals, end users who are not customers of Lineage or customers of the platforms and of Synapse. Based on its reconciliation and its determination that those funds were owed to those -- those entities, that process is ongoing.

Lineage does not have the resources to reconcile the entire system and the 10's of thousands of end users while sitting on funds that have been reconciled. So, Lineage has paid out the funds that it has reconciled, and its process is ongoing.

We're doing this in a way that we hope will get the funds out as expeditiously as possible. And that is what we've been urged to do by the Trustee and by the Court, and that's the right thing to do. And that's what we want to do and that's what we're doing.

MR. DELMAN: Can you answer whether or not there is a risk that towards the end of this reconciliation process, Lineage will be able to verify that all the information is correct, but the well will be dry? Is there a risk that will happen?

MR. GLENOS: I think there's risk at the end of the day that end users throughout the system will not get paid because of a shortfall. That's all I can say. Our reconciliation is not complete. I can't speculate about what it's going to show.

MR. DELMAN: But funds are being distributed already. That's -- you understand my concern. So I'm just wondering why the funds are being distributed if -- I understand that there's -- the Court has urged the distributions to be done sooner rather than later, and I understand that, but it just, again, doesn't seem equitable -- I mean, you are in a court of equity, that certain end users would be paid in full.

And, again, I hate to harp on the timing, but it -- to my mind, it's timing. It's if you get done quickly enough, there's money there. And if there's no assurance there's going to be money at the end, it just doesn't seem like an equitable process.

THE COURT: All right. Thank you, Mr. Delman. I don't hear anybody else chiming in to respond. I certainly appreciate -- appreciate your questions and your client's concerns. I mean, I've said in the past, this whole situation, not referring to any particular party, the whole situation is a mess and it's complicated.

I think it's complicated by the existing regulatory scheme, which has its limits. This company and this whole ecosystem, as people refer to it, is a new creature. And I hope that when this is over, our lawmakers can learn something from this and take steps to prevent it ever from happening again, but, unfortunately, we're in the middle of a mess.

Joshua Nelson?

MR. NELSON (via Zoom): Thank you, your Honor. I have a few questions, so I'll try to keep it quick. These are pretty much all going to be addressed to Evolve, as I am a Yotta end user with an Evolve account and routing number.

It is concerning the shortfall because that's obviously a big concern of a lot of end users. I know that it's pretty much speculation at this point, but it's kind of strong speculation that there's going to be a shortfall.

As these accounts are reconciled, we're three weeks in, is there any update, you know, as these accounts are being reconciled, whether or not that shortfall is indeed, you know, going to come into fruition or not? And if there is a shortfall, does Evolve have a plan in place to address it? Thank you.

THE COURT: Mr. Swaminathan?

MR. SWAMINATHAN: Yes, your Honor. Aravind Swaminathan on behalf of Evolve.

So I don't know that there's a shortfall, which is why we're conducting the reconciliation process. And so, once we've identified -- once we've completed that process, I think we're be able to answer your question. But I think you nailed it, which is, there's a suspected shortfall. I don't know if that's true -- even true or not. And to date we have not seen anything, but our process is still ongoing. We expect we'll be done by October 18th, and we'll the answers to those questions hopefully at that time.

MR. NELSON: Thank you for that. So, also, you know, with -- and I brought this up in another hearing as well. It was found that some of our accounts, if not all of our accounts at Evolve are in interest-bearing accounts.

Through reconciliation is there -- is there a way for when that happens, if they -- you know, you reconciled my personal account and you see there was, you know, x amount of interest earned on my account during this, you know, time period that we haven't had access to the money, is that interest going to be transferred to end users, or is that something that Evolve will keep for themselves?

MR. SWAMINATHAN: What I can say -- this is again, Aravind Swaminathan on behalf of Evolve -- is, many of those accounts are not interest-bearing accounts. To the extent that they are, when the reconciliation process is done, we will match that up and try to determine whether there is any interest doing (sic) at that point.

MR. NELSON: Got it. Thank you so much. One last question, and this may not be able to be answered. And Ms. McWilliams kind of touched on it earlier.

As far, you know, during the reconciliation process, it kind of seems like, you know, if there's a shortfall, it's not necessarily -- you know, I'm having trouble kind of trying to articulate this just because it's a bit of a strange question.

But, essentially, if my account, you know, if my, you know, history is extremely straightforward, you know, in the sense that, you know, you can see I made, you know, six deposits and -- for x amount, and, you know, and I withdraw an x amount of money. And, you know, it's a very, you know, four-minus-two-equals-two kind of deal.

If it's more straightforward on my end, does that make the chance of when our accounts are reconciled, you know, to be paid in full, or is there -- is there any type of guidance, you know, as far as, you know who should be worried, who shouldn't be worried, or is that even something that can be answered?

And that's my last question. I appreciate you guy's time. Thank you.

MR. SWAMINATHAN: Yes. Your Honor, Aravind Swaminathan for Evolve.

Mr. Nelson, it's a good question. I think -- I don't know the answer to your question because I don't know that there is a shortfall. And so, I think what we have to do is get through that process and try to determine where we are at that point. I don't know that -- it's a hypothetical, sort of on a hypothetical, and I -- but I understand why you're asking the question. I just don't have a good answer for you, because I don't know if there is even a shortfall to begin with.

I know that people have talked about one, but again, you heard me say, that's why we're doing the reconciliation process, to determine if there actually is one.

THE COURT: All right. Thank you, Mr. Swaminathan.

Anthony Serino.

MR. SERINO (via Zoom): Thank you, your Honor. Anthony Serino, impacted end user of Juno. My questions are primarily to Evolve.

So, I'd like to understand how I can obtain a DDA statement of my account at Evolve, so I had monies being direct deposited to an Evolve DDA in my name. As I understand it, from there money may or may not have been swept into an FBO account and into the Synapse brokerage, and, therefore, subject to reconciliation.

What I'm trying to get is a statement from Evolve on a DDA, where those direct deposits went. And if I call into customer service, they say I need to get that from Juno, which doesn't make sense to me. Juno's not a bank. And secondarily to that, they said they don't have access to that DDA.

So, can you provide some guidance on how we can obtain a statement for an account maintained at Evolve in my name? I mean, you're a federally regulated bank. You've got to be able to produce a DDA statement. It's not a very complex tale.

THE COURT: Thank you, Mr. Serino.

Mr. Swaminathan?

MR. SWAMINATHAN: Yes. On behalf of Evolve, your Honor.

Again, I don't mean to be sounding exactly like a broken record. We do have that information. I don't know why that's the response you got, but I would ask you just to contact the bank again, and we will see if we can sort that out. But again --

MR. SERINO: I've called several times. It's the same --

MR. SWAMINATHAN: Okay.

MR. SERINO: -- boilerplate response every time.

MR. SWAMINATHAN: We'll take that as an away, Mr.

Serino. We'll try and work on it for you.

MR. SERINO: It was the takeaway several weeks ago, and no progress is being made. I'm trying to track the flow of funds up until the point it goes into the FBO account. I understand fully the complexity from that point forward. I -- what is straightforward is the money went into Evolve, and I want to see the record of, okay, Evolve swept it into the FBO account.

And so line of questioning is coming, because it's Kate (phonetic), the former CEO, is saying that Evolve had stopped sweeping money into the FBO accounts. So, you know, a simple DDA statement of Evolve should prove that out. Okay, money in, and it was swept into the FBO account. I want to see that.

MR. SWAMINATHAN: I don't know why that request hasn't (indiscernible), Mr. Serino. I will work on that.

MR. SERINO: Thank you. And then second question. There's been talk of a reserve account at Evolve. Can you confirm the source of funds for that reserve account? Is it funded from end users' money, or is that coming from the coffers of Evolve Bank?

MR. SWAMINATHAN: I don't have the answer to -- for that right this moment, but Ms. Stapleton might. So she can answer that question.

THE COURT: Ms. Stapleton?

MS. STAPLETON (via Zoom): Sure. Caroline Stapleton on behalf of Evolve. The reserve funds that are held by Evolve are actually -- they're not funded by end user money, they are funded by Synapse's corporate funds. And that was per the agreement between Evolve and Synapse. So those are -- the reserve funds are not funded by end user money, however, the reserve funds will be used to pay balances owed to end users if in fact they are needed as a result of the reconciliation.

MR. SERINO: Thank you. Final question. So money is being swept into FBO accounts. That was really the sole discretion of Synapse brokerage providing that direction?

MS. STAPLETON: Mr. Serino, could you repeat that question? I just want to make sure I understand it. This is Carolyn Stapleton for Evolve.

MR. SERINO: Again, I'm just trying to follow the flow of money. So I had money deposited into an account at Evolve. It allegedly was transferred to FBO accounts. So, you know, every two weeks I had money going into an Evolve DDA. Evolve stance was that money was -- is not in the account. It's been swept out into an FBO fund. That direction to sweep that money, was that provided to you by Synapse brokerage?

MS. STAPLETON: Your Honor, this is Caroline Stapleton on behalf of Evolve.

The funds that were deposited into Evolve were swept at Synapse's instruction to Synapse brokerage program or via payment instructions that were given by end users.

For example, an end user was sending -- it was receiving debits or credits. Basically Evolve was performing payment processing on behalf of Synapse brokerage and users during the transition period, and those instructions on behalf of the end users did come from Synapse. Does that answer your question?

MR. SERINO: Yes. Thank you.

MS. STAPLETON: Okay.

THE COURT: Thank you, Mr. Serino.

Trevor Vance?

MR. VANCE (via Zoom): Thank you, your Honor. And I have two questions. One -- both of which have already been touched on.

I'm a Yotta end user with Evolve Bank, bank account number and routing number. The reserve amount that I see listed in the web update from Evolve, is that number represented somewhere in court documents? I see the bank additionally holds approximately $35.3 million in reserve funds. Is that number represented in court documents?

THE COURT: Yes, Ms. Stapleton?

MR. STAPLETON: Your Honor, this is Caroline Stapleton for Evolve.

Yes, that Evolve has disclosed that number in court -- in prior filings with this Court through updates with the Trustee.

MR. VANCE: Okay. Thank you, Ms. Stapleton. My second question references back to Mr. Nelson's question, where as an end user I've got very simple accounting. You know, some deposits in, some debits out, not a lot of transaction activity, but I didn't really hear a good answer -- hoping for a good answer, but didn't really hear an answer that addressed that issue towards reconciliation when Ms. McWilliams was describing reconciliation activity to account activity. Does my question make sense?

MS. STAPLETON: Is that for Evolve?

MR. VANCE: Evolve or the Trustee. I'm not sure.

MS. STAPLETON: I can take a crack at answering it. This is Caroline Stapleton for Evolve.

The reconciliation is looking at all of the transaction-level activity and comparing it to what records at Synapse show apply to each account. And so even if in fact there were a very small number of transactions or very simple transactions, it still has to be lined up with what's available from the Synapse records, which could tell show something different, and then to determine what the actual transactions were in and out of that account.

The purpose of the reconciliation is ultimately to discern what is the true balance calculated at each Synapse brokerage end user's account level that is owed by Evolve. And so -- and the amounts that we see on the Synapse ledger are inaccurate. We're trying to calculate the accurate records, and the number of transactions or simplicity of those transactions doesn't really impact the work that has to be done to compare what's happening in reality to what Synapse's records say. I don't know if that fully answers your question, but (indiscernible) --

MR. VANCE: I'm sure it doesn't either, but -- so let me -- if I can encapsulate it to -- I'm not even sure I can do that. If I have a simple set of transactions, like, Mr. Nelson said, four in, two out, that doesn't necessarily equate to a simple reconciliation because of the complexity of the environment?

MS. STAPLETON: You should do my job.

MR. VANCE: And doesn't it -- doesn't --

MS. STAPLETON: You nailed it. Yeah. That's --

MR. VANCE: And doesn't necessarily equate to an end user getting their funds earlier or later?

MS. STAPLETON: Mr. Vance, this is Caroline Stapleton on behalf of Evolve. That's right. And for the reasons that my partner, Aravind, talked about a few minutes aga in response to another question. That we need to also make sure that the reconciliation calculates the true balances at Evolve for all of the end users that have balances at Evolve, so that the payout can be both accurate and fair.

MR. VANCE: Thank you very much for your time.

MS. STAPLETON: Thank you.

THE COURT: All right. Thank you, Mr. Vance.

Jordan Gonzales?

MR. GONZALES (via Zoom): Thank you, your Honor. Jordan Gonzales, impacted end user from Yotta. I just wanted to follow-up on two of the things that already came up.

Mr. Glenos made a point that I wanted to just follow-up on. He said that, you know, Lineage doesn't have the ability to reconcile the whole picture, and that's completely understandable. Wouldn't expect them to do that. But is there someone who would --

THE COURT: I'm sorry. Mr. Gonzales, I think you -- the last part of your question kind of got cut off.

MR. GONZALES: Sorry. So, understandably, you know, Lineage Bank can't necessarily do the resourcing to reconcile the whole picture on behalf of Synapse, right. So is there someone who is doing the whole-picture reconciliation versus little pools of it?

MR. GLENOS: Chris Glenos for Lineage Bank. Mr. Delman (sic), that's certainly a fair question. I think, you know, if the -- if the bankruptcy estate had funds, that's something that the Trustee could do, but there are no funds there to pay for that.

It would be an extraordinary undertaking that would require forensic -- you know, a large forensic firm to get in and do all the work and look at the records of all the banks and of Synapse, and to try to put the big picture together.

MR. GERTEN (via Zoom): This is a --

MR. GLENOS: And we talked --

MR. GERTEN: I apologize for interrupting, Chris.

THE COURT: Yeah. Mr. Gerten --

MR. GLENOS: Go ahead, Alex.

MR. GERTEN: This is Alex Gerten on behalf of the Chapter 11 Trustee.

So, as Chris said, the estate is quite resource strapped, however, our plan -- our plan on this is that Evolve is conducting a fairly extensive reconciliation. They will come to their results on that, and hopefully they'll be able to quickly pay out funds to many of the end users. Hopefully we, them and other banks can come to a resolution that results in everyone getting paid. It's difficult to speculate on the probability of that happening.

Once we get to that point where Evolve believes it has a complete reconciliation, if we're not able to get to a satisfactory resolution, then we're -- you know, we'll have to be done. Hopefully we are in a position to do it, to take a look at what they did to come to the numbers that they came to, to make sure that things were done properly. But it's not -- it's not a -- it's difficult to system-wide review, any sort of system-wide review until each of the constituent parts is completed first.

And so that's the stage of what -- the stage of where we're at in this process, is that the banks are doing their own reconciliations. I think Evolve is a more extensive reconciliation than others, and we'll have to -- we'll have to review the results of that when -- when the times comes.

THE COURT: Yeah. Ms. McWilliams, you wanted to add something?

MS. MCWILLIAMS: Thank you, your Honor. My advisor, Alex -- my counsel Alex is very -- is quite correct on this, but I do want to actually put this in very plain English for the end users.

My hope at the beginning of this process was that we could relatively quickly weed out everything that makes sense. And what I mean by that is, that it would be clear if John Smith -- I'm using the name hypothetically. There is a John Smith, and so I'm not referring to anyone in particular.

But if John Smith is owed money and it's $100, that they would be able to reconcile that quickly. And it would come to this pool of people and funds that we're not sure what to do with, and we would spend most of time on that pool, kind of as a delta at the end.

The process has turned out to be a lot more complex, complicated, and, frankly, frustrating for everyone involved. I can guarantee it's everybody along the way. From the database owners to the banks to the IT staff at banks, to the Trustee's advisors, to everybody along the way, including the end users, that it's taken so long.

And we -- since we don't have the resources on the Trustee's side to pay for this -- ideally, initially we were going to pay for all of this. There's just -- until something is sold from the estate, there's no funds to pay for any of this.

So we had to rely on the banks to do this. And once the banks are done with what I was hopeful would be done much more quickly, we will come to this delta. And the reason I'm giving all of this explanation is because I'm hopeful that when we come to this delta, meaning, some end users are not -- have not been paid and there is some kind of a shortfall, as I suspect, I will -- at that point in time, I would encourage banks to be as transparent as possible with the end users as to the flow of funds, as to the movement of money, and why there is a shortfall, including the people who may be in a position that they're not getting paid. Because I do think that the end users are owed more transparency and accountability than this process has given them to date.

I'm hoping that once we're done, we, meaning individual banks and everybody else in this ecosystem that's working on reconciliation, is done to that delta, that the end users will -- hopefully there won't be a shortfall, but to the extent that there is, and I suspect there will be, I think at that point in time the end users are owed answers. And so I will urge the banks to provide that.

And to Alex Gerten's point, we will have to decide at that point in time what we do vis-a-vis the end user missing funds. Thank you.

THE COURT: So if I can just follow-up. Could you just say something briefly about the role that B. Riley is playing in all of this, because you brought -- you brought them on. Are they -- are they just technical advisors? Are they doing any analysis of their own, or are they waiting for the banks to complete their respective work, and then leverage the work that they've done? Just curious.

MS. MCWILLIAMS: Sure. Sure. I believe Seth Freeman from B. Riley is on -- on this call, your Honor. And to the extent that Seth is available, I would defer to him to describe the work they are doing. If not, I'm more than happy to do that on B. Riley's behalf.

THE COURT: Yeah. Usually he's -- usually his camera's on.

Mr. Freeman, I see you.

MR. FREEMAN (via Zoom): Yes.

THE COURT: Okay. Go ahead.

MR. FREEMAN: I'm on -- on my cell phone today, your Honor. This Seth Freeman with B. Riley Advisory Services/Ratner. And we have been helping coordinate the transfer of data to the banks, and quite a bit of energy specifically assisting Evolve, and more recently, Ancora, and dealing with a lot of technical issues, as well as looking at the different business sides and asset sides of the case.

And it's our expectation that we will, as you suggested, leverage the bank data, as the Trustee has stated, and be able to have a global -- in terms of being responsive to the end user question, be able to have a global reconciliation. And then that will, you know, define if there is a shortfall, and to quantify the shortfall.

And then as your Honor can understand, there would probably be a phase two of this entire situation, which is to figure out how to make up the shortfall, and the responsibility for it.

THE COURT: Thank you. Thank you, Mr. Freeman.

Mr. Swaminathan?

MR. SWAMINATHAN: Yes, your Honor. On behalf of Evolve. So I think as you've heard, your Honor, everybody agrees that this is a complicated, hard process, and Evolve is doing it for everybody. When our reconciliation process is done, in which we've invested in at our own expense, we will have answers to all the questions that are being asked, including the questions that Mr. Delman asked.

And so, it's really Evolve has taken on the laboring oar. We appreciate the work that B. Riley has done to support us from a technical perspective, but Evolve with Ancora has taken on the laboring oar of conducting the reconciliation across the board, not piecemeal, but for everybody.

THE COURT: Thank you for that clarification.

Mr. Gonzales put his hand down, and then put his hand up. I want to -- before I go to Mr. De Arman, Mr. Gonzales, did you have a follow-up?

MR. GONZALES: Yeah. It wasn't supposed to click out. My technology problem. Sorry, sir.

THE COURT: No, no worries.

MR. GONZALES: Thank you for the answers.

THE COURT: Yeah. I just didn't want to -- I wanted to sort of complete your turn before we went on.

MR. GONZALES: Yes, your Honor. Yes, sir. Thank you. So, again, Jordan Gonzales, impacted end user. Also, just two more quick things.

THE COURT: Yes.

MR. GONZALES: Ms. Stapleston -- Mrs. Stapleton mentioned that the reserve funds were there for -- from the Synapse corporate side for -- to cover any shortfall, if there was any. Is there any guarantee that Synapse's creditors cannot get a hold of that, to make sure that end users have priority?

MS. STAPLETON: This is Caroline Stapleton on behalf of Evolve. Evolve's taken every measure, both contractually and otherwise, to ensure that those funds are going to be available for end users, and is confident that if Evolve needs to distribute them to end users, it will be able to do so.

MR. GONZALES: Thank you, ma'am.

Then last question. Again, I just want to thank Ms. McWilliams, and thank you, Judge, for all that you guys are doing for all of us. The last question is, how long are you guys willing to keep it in this state, allowing basically the Debtor's estate to keep running up these bills? I can't imagine this process has -- can go on forever, right? So I'm just kind of curious how long we can expect to continue to have these conferences. Thank you.

THE COURT: I don't know. Ms. McWilliams, you want to comment.

That sort of implicates a litigable issue that might be presented to me, so I'm going to decline to answer that. Right now we're in Chapter 11, and nobody has brought a motion to convert the case to Chapter 7. If as and when somebody does, I'm going to have to adjudicate that issue and apply the law according to the record that's presented to me. So I'm not going to comment. I hope you understand. But maybe Ms. McWilliams has something she can -- she can say.

MS. MCWILLIAMS: I will say, your Honor, that we are -- we are determined to help the end users get their funds back. And we're working with the banks to expedite that process as much as we can. We now have a date certain from Evolve, and I suspect we'll be in the reconciliation mode at least to that date.

While we're in the reconciliation mode, I believe it is the intent of the -- of this Court and Judge Barash to help the end users, as you have -- your Honor demonstrated along the way. So I suspect we'll be in -- in some form of work, whether or not the hearings, et cetera, for probably another few weeks.

And I also do want to clarify something, because I know it has been some speculation in social media, et cetera. Any work that is performed on behalf of the Trustee by the Trustee or Cravath, Swaine and Moore, and B. Riley, to the extent that we -- any of us get paid for the hours put in, that money is not coming from the end users' funds. That is, basically, the end user funds, I will repeat again, are not part of the estate.

The any -- the only way that the parties who are working on Chapter 11 can get paid is from the estate funds, which would be -- if there are any funds there, it would be a separate pool of money, and that is not the end users' money and vice versa.

So, we're currently working on making sure that the end users get paid. And whether or not Cravath, Swaine and Moore and R. Riley get paid, it's going to be decided later, depending on whether or not there is anything in the estate not related to the end users. Thank you.

THE COURT: Thank you. Appreciate that.

All right. Mr. Jason De Arman?

MR. DEARMAN (via Zoom): I just have two quick questions. I have noticed on multiple times on this call that Lineage just (indiscernible) Synapse's ledger. They've also used, I think it was Federal Reserve (indiscernible) --

THE COURT: I'm sorry. Mr. De Arman, can you -- Mr. De Arman --

MR. DEARMAN: Yeah.

THE COURT: -- can you do me a favor? Maybe get closer to whatever the microphone is, because you're cutting in and out a little bit like a --

MR. DEARMAN: Okay.

THE COURT: -- like on a --

MR. DEARMAN: Can you hear me better now?

THE COURT: -- like on an old speaker phone. Yeah. Go ahead. Let's see.

MR. DEARMAN: Okay. So I'm with -- I'm an end user with Juno. So two quick questions. Number one, I notice that Lineage consistently has said they did not resolve just on Synapse ledgers, they also used Federal Reserve transactions. I haven't heard Evolve mention that they've done that. They've only relied on the ledgers from Synapse.

And number two, I was a little late for the call, but I know that the Trustee said that the estimated resolution for this, resolving things with Evolve is October 18th. Is that still on target? Those are my only questions.

THE COURT: Thank you.

All right. Mr. Swaminathan?

MR. SWAMINATHAN: Yes, your Honor. Aravind Swaminathan for Evolve.

Mr. De Arman, yes, we are using the same transaction data to do that reconciliation, and we are on track for October 18th.

THE COURT: Thank you.

All right. Joshua Nelson.

MR. NELSON: Yes, sir. Joshua Nelson, Yotta end user. This is directed towards Mr. Swaminathan.

I may have misheard what you said a few minutes, and if I did, I apologize. But did you -- when you were referring to the reconciliation process, did you say that you were -- that Evolve is performing that across all platforms, or just for the funds that are suspected in Evolve? And I apologize if I misheard that.

MR. SWAMINATHAN: No, it's -- Aravind Swaminathan on behalf of Evolve. You heard that correctly, Mr. Nelson, for all platforms. So we expect a reconciliation will -- will essentially answer the questions that folks have been asking as to all platforms, not just one.

MR. NELSON: Okay. Thank you so much.

MR. SWAMINATHAN: Yup.

THE COURT: Learned something new today. So, thank you.

Anybody else? All right. Well, I think we'll bring this status conference to a close. Let's plan to reconvene on Friday, September 27th at 10:00 a.m. for a continued status conference.

I'll look forward as always to the Trustee's written report the evening before. And I just want to -- I should have said at the beginning, thank you. I read your report. But I do read every one of -- I read every word. And I appreciate the effort that goes into that. And I do recommend those reports to folks that may be listening. There's a lot of information there.

Fortunately, the problems still are what they are, and people that don't have access to their money, you know, reading the report's not going to get you your money, but they're very detailed regarding the efforts of the Trustee and her professionals.

And I also appreciate the information that the banks, who have provided -- provided addenda to those reports, I appreciate the work that they've done -- that they're doing outside of this Court, but I appreciate the reports, both in writing and here in the courtroom.

Of note that on September 27th, the Court also has penciled in at 1:30, we have omnibus hearing date for any motion practice. I don't know that we have anything pending. If there is nothing pending, that 1:30 hearing will simply come off calendar. But that's -- that's what we have going on on the 27th.

All right. Thank you, everybody. To those of you that are suffering, please hang in there. And to those of you that are working on solving this problem, please, please, please keep your -- keep your foot on the pedal. Thank you.

Court is --

MS. STAPLETON: Thank you, your Honor.

THE COURT: -- court is in recess until 1:30.

(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 Steinhauer Transcriber

10-3-24 Date