

1 JELENA MCWILLIAMS  
1601 K STREET NW  
2 WASHINGTON, D.C. 20006-1682  
3 jmcwilliams@cravath.com  
Tel. 1-202-869-7710  
4  
5  
6  
7  
8  
9

10 **UNITED STATES BANKRUPTCY COURT**  
11 **CENTRAL DISTRICT OF CALIFORNIA**  
**SAN FERNANDO VALLEY DIVISION**

12 In re

13 SYNAPSE FINANCIAL TECHNOLOGIES,  
14 INC.,

15 Debtor.  
16  
17  
18  
19

Case No. 1:24-bk-10646-MB

Chapter 11

**CHAPTER 11 TRUSTEE'S SECOND  
STATUS REPORT**

DATE: June 14, 2024

TIME: 1:30 p.m. PT

PLACE: 303

21041 Burbank Boulevard

Woodland Hills, CA 91367 and

Via ZoomGov  
20  
21  
22  
23  
24  
25  
26  
27  
28

1 TO THE HONORABLE MARTIN BARASH, UNITED STATES BANKRUPTCY JUDGE,  
2 THE OFFICE OF THE UNITED STATES TRUSTEE, AND INTERESTED PARTIES:

3 I, Jelena McWilliams (the “Trustee”), the duly appointed, qualified and acting chapter 11  
4 trustee for the estate of Debtor Synapse Financial Technologies, Inc. (“Synapse” or the “Debtor”),  
5 hereby submit my second “Chapter 11 Trustee’s Status Report” (the “Report”), and represent as  
6 follows:

7 **I.**

8 **TIMELINE OF EVENTS**

9 **A. Filing of the Chapter 11 Case and Appointment of Chapter 11 Trustee**

10 On April 22, 2024, the Debtor filed a voluntary chapter 11 petition, schedules and statement  
11 of financial affairs. That same day, the Debtor filed an emergency motion for an order approving the  
12 sale of all its assets for \$9.7 million to TabaPay Holdings LLC and requested that a hearing take place  
13 on April 29, 2024. [Dkt. No. 8]. The Debtor represented that it is a technology company and “has  
14 proprietary technology and software which essentially allows financial technology platforms called  
15 ‘fintechs’ to provide certain financial products and services to the fintechs’ customers (referred to as  
16 end users or depositors) through certain banking providers and financial technology providers.” Id.  
17 The Debtor also filed a motion to approve a settlement reached with Evolve Bank & Trust (“Evolve”),  
18 one of its partner financial institutions.  
19

20 On May 1, 2024, the Court entered an order approving bidding procedures and set a hearing  
21 to approve the sale for May 9, 2024. [Dkt. No. 92]. The Debtor reported at the May 9 hearing that the  
22 settlement with Evolve had not been consummated due to disputes over Evolve funding a settlement  
23 payment. The buyer reported that it was unwilling to proceed with the sale without the Evolve  
24 settlement.  
25

26 On May 13, 2024, Evolve filed a motion for an order restoring access to the “Debtor’s  
27 Dashboard System” or, alternatively, “Authorizing Evolve to Close all of the Debtor’s Demand  
28 Deposit Accounts at Evolve Associated with Debtor’s Programs”. [Dkt. No. 137]. Evolve alleged that

1 it had been denied access to the Debtor’s computer systems and had been forced to freeze end user  
2 accounts. Id.

3 On May 13, 2024, the Court conducted a status conference on the sale and a hearing on  
4 Evolve’s motion. Although extensive arguments were made by counsel and their clients assessing  
5 relative blame, it was undisputed that end users had lost access to funds.  
6

7 On May 14, 2024, the Court conducted another status conference regarding access of end users  
8 to their funds and for continued use of cash collateral. The Debtor and secured creditors stated that  
9 they had agreed to the use of cash collateral through Friday, May 17.

10 On May 15, 2024, the United States Trustee for the Central District of California (the “U.S.  
11 Trustee”) filed a motion on an emergency basis requesting that the Court enter an order converting the  
12 Chapter 11 Case to chapter 7 for cause, or, in the alternative, for the appointment of a chapter 11  
13 trustee. [Dkt. No. 146].  
14

15 On May 24, 2024, following a hearing, the Court entered an order appointing a chapter 11  
16 trustee (the “Appointment Order”), and Jelena McWilliams was appointed by the U.S. Trustee as the  
17 Chapter 11 Trustee in this Chapter 11 Case (the “Case”). [Dkt. No. 196].

18 As a result of the foregoing, Jelena McWilliams became the duly appointed, qualified and  
19 acting Chapter 11 Trustee, and continues to act in this capacity. On June 6, 2024, the Trustee filed the  
20 “Chapter 11 Trustee’s Initial Status Report” (the “Initial Report”), and, on June 7, 2024, the Trustee  
21 presented the Initial Report at a Status Conference before the Court.  
22

23 **B. Debtor’s History and Partners**

24 As discussed in the Initial Report, the Trustee was informed that, beginning in 2014, Synapse  
25 opened Demand Deposit Accounts (“DDA Accounts”) on behalf of approximately 100 financial  
26 technology platform partners (collectively, the “Fintech Partners”) and their end users at certain banks.  
27 Beginning in 2020, Synapse developed its cash management program in connection with its  
28 subsidiary, Synapse Brokerage LLC (“Synapse Brokerage”), through which Synapse began opening  
Cash Management Accounts (“CMA Accounts”) on behalf of Fintech Partners and their end users at

1 certain banks. Additionally, Synapse offered secured loan origination services to end users of its  
2 Fintech Partners through its subsidiary, Synapse Credit LLC (“Synapse Credit”). Most end user funds  
3 are held in omnibus “For Benefit Of” Accounts (“FBO Accounts”)<sup>1</sup> and the remaining funds are held  
4 in DDA Accounts across four banks. The four banks are: American Bank, AMG National Trust,  
5 Evolve Bank and Trust, and Lineage Bank (collectively, the “Partner Banks”).

6 **C. Update on Ledger Reconciliation and Release of End User Funds**

7 Upon appointment on May 24, the Trustee began learning from Partner Banks, Fintech Partners  
8 and other parties in interest of the challenges in the reconciliation process precipitated by Synapse’s  
9 bankruptcy and abrupt winding down. The Trustee was informed of situations where partner banks  
10 lost access to Synapse systems, had reason to believe there were inaccuracies in Synapse’s ledger and  
11 identified unexpected shortfalls in the FBO Accounts they hold. At the time of the Trustee’s  
12 appointment, Partner Banks did not have open lines of communication or protective mechanisms in  
13 place to facilitate data sharing among each other.

14 In light of these issues, it was prudent for the Partner Banks to agree to temporarily pause  
15 distributions to end users to work to communicate, investigate and reconcile end user accounts and  
16 funds across the Banks. In the absence of business-as-usual operations at Synapse, the Trustee  
17 facilitated workarounds like interbank data sharing and reconciliation against Fintech Partner trial  
18 balances. To enable such workarounds, the Partner Banks and the Trustee entered into a “Stipulated  
19 Protective Order” to expedite the flow of information for purposes of the reconciliation of Synapse’s  
20 and its clients’ financial accounts and protect confidential material related thereto. The Court lodged  
21 an “Order Approving Stipulated Protective Order” on May 31, 2024 (the “Protective Order”). Over  
22 the past two weeks, the Partner Banks have committed extensive resources, populated a shared data  
23 room and convened for frequent status meetings to ensure coordination and make progress on the  
24 reconciliation of end user funds.

25 At the time of this Report, these efforts have enabled the partial reconciliation of Synapse-  
26 related end user accounts and funds, as detailed below.

27 \_\_\_\_\_  
28 <sup>1</sup> A “For Benefit Of” or “FBO” account is a type of custodial account. It is a pooled account that  
allows a company to manage funds on behalf of, or “for the benefit of,” one or more of their users  
without assuming legal ownership of that account.

1                   **1.        DDA Account Reconciliation**

2           The Trustee has been informed that all Partner Banks believe that the DDA Accounts they hold  
3 have been fully reconciled across all banks. Prior to the submission of this Report, Evolve began  
4 distributions of DDA funds on instructions from its regulator. Since the Trustee’s appointment, Evolve  
5 has distributed approximately \$4.09 million of DDA funds, with approximately \$2.279 million in  
6 funds remaining to be distributed. Lineage holds \$388,769.25 of the remaining DDA funds to be  
7 distributed. Of the total DDA funds held by Lineage, \$235,856.30 are held for one Fintech Partner that  
8 is Lineage’s direct DDA customer, and \$152,912.95 are held for another Fintech Partner as part of an  
9 Evolve DDA program. Neither American Bank nor AMG each hold any DDA Accounts or funds for  
10 Synapse end users. The Trustee is not aware of any reported shortfall between cash held in DDA  
11 Accounts at the Partner Banks and the amounts owed to DDA end users as shown on the Synapse trial  
12 balances.

13           The Trustee has been informed by the Partner Banks that, based on the completed  
14 reconciliation, they are comfortable paying out all DDA Account funds as soon as practicable.

15                   **2.        FBO Account Reconciliation**

16           As of the time of this Report, the Partner Banks have reported the following results of the  
17 reconciliation of FBO Accounts. American Bank holds \$43,339.67 of FBO funds related to a single  
18 Fintech Partner and plans to transfer these funds to other Partner Banks that are holding funds for this  
19 Fintech Partner which will manage distributions to this Fintech Partner. As of June 11, 2024, AMG  
20 held \$57,732,939.67 in FBO funds for: (1) Fintech Partners that have not already been paid, and (2)  
21 to re-issue payments that failed or were returned through May 24, 2024. Approximately \$72,000 of  
22 these FBO funds may be for unidentified Synapse Brokerage FBO customer use. AMG also holds  
23 \$150,845.19 in unallocated interest associated with Synapse Brokerage sweep network deposits,  
24 which was transferred into AMG FBO Accounts on June 7, 2024. Evolve holds \$46,926,558.83 in  
25 FBO funds from net Receiving Depository Financial Institution activity from Synapse Brokerage.  
26 Lineage holds an aggregate \$61,869,727.69 attributed to DDA and FBO Accounts in a single FBO  
27 Account. Based on Lineage’s reconciliation of \$388,769.25 of DDA funds, the remaining  
28 \$61,480,958.44 in this account are FBO funds.



1 amount of the shortfall, the source of the shortfall or how many end users would be  
2 impacted by the shortfall.

3 Based on communications with the Partner Banks, the Trustee believes that the Partner Banks  
4 may be able to complete most of the work regarding further reconciliation, settlement payments among  
5 banks and identifying the sources of shortfalls in the next two weeks. Whatever shortfall the Partner  
6 Banks are unable to reconcile in that timeframe is most likely unreconcilable without far more  
7 extensive efforts, expense and technical expertise, which would require resources that the estate does  
8 not have. Even if these efforts could be undertaken, full reconciliation to the last dollar with the  
9 Synapse ledger and Fintech Partner's ledgers may not be possible. The Trustee believes that further  
10 reconciliation efforts are likely to result in a shortfall that predates Synapse's bankruptcy petition, as  
11 has been previously reported by Mr. Pathak<sup>2</sup> and been the subject of an ongoing legal dispute.<sup>3</sup>

12 **D. The Trustee's Authority and Potential Distributions to End Users**

13 Pursuant to The United States Bankruptcy Code (the "Bankruptcy Code"), the Trustee has the  
14 authority to direct the disposition of property of the Synapse bankruptcy estate. However, the Trustee  
15 does not have the authority to direct the disposition of property that is not part of the Synapse  
16 bankruptcy estate.

17 Relevant to this issue, on June 10, 2024, at the continued Meeting of Creditors, pursuant to  
18 section 341(a) of the Bankruptcy Code (the "Creditors' Meeting"), Sankaet Pathak and Tracey Guerin  
19 gave sworn testimony that all funds held in Synapse-related DDA and FBO Accounts at Partner Banks  
20 belong to end users. Most end users are individual depositors and some end users are Fintech Platforms  
21 that deposited operational or other company funds at Partner Banks via Synapse. Mr. Pathak and Ms.  
22 Guerin testified that, prior to the bankruptcy, Synapse had deposited operational funds at Evolve in  
23 accounts in the Synapse ecosystem. Thus, Evolve holds Synapse property in an FBO Account on  
24 behalf of Synapse as an end user of Synapse's own ecosystem. Mr. Pathak testified that the amount of

25

26 <sup>2</sup>Sankaet Pathak, *Mercury Reconciliation Issues*, MEDIUM (May 9, 2024),  
27 <https://medium.com/@sankaet/mercury-reconciliation-issues-7f3c8dec9b93>.

28 <sup>3</sup>Petition to Initiate Proceedings for Provisional Relief in Connection with an Arbitrable Controversy  
Under Code of Civil Procedure Section 1281.8, *Mercury Technologies Inc. vs. Synapse Financial  
Technologies, Inc.*, December 11, 2023 (Superior Court for the State of California for the County of  
San Francisco).

1 Synapse property held in the Evolve FBO is verifiable according to the Synapse trial balances. It is  
2 the Trustee's understanding that, to the extent that Evolve distributes FBO funds to end users, Synapse  
3 property would be distributed to the Synapse estate.

4 At the Creditors' Meeting, Mr. Pathak and Ms. Guerin also testified that Synapse maintained  
5 an operational account at American Bank, but, to their knowledge, this account was maintained  
6 separately from the Synapse ecosystem. Mr. Pathak and Ms. Guerin testified that, to their knowledge,  
7 AMG and Lineage did not hold operational funds or any other property of Synapse Technologies.

8 Additionally, the Trustee and proposed counsel have conducted an analysis of the legal  
9 ownership of the funds held in DDA and FBO Accounts at Partner Banks, any interest the Synapse  
10 bankruptcy estate may have in these funds and by extension what legal authority the Trustee may or  
11 may not have with regard to these funds. Particularly, Synapse's 2021 contract with American Bank,  
12 2022 contract with Evolve, and 2022 contract with Lineage include clauses specifying that Synapse  
13 does not have any right to or interest in the funds deposited in an end user's account.

14 As a result of this legal analysis, and the testimony of Mr. Pathak and Ms. Guerin, the Trustee  
15 believes that the cash held in DDA and FBO Accounts at Partner Banks belongs to end users and not  
16 to the Synapse bankruptcy estate, except to the extent that Synapse is an end user of an FBO Account  
17 held at Evolve, where the amount due to Synapse is identifiable and would be distributed to the  
18 Synapse estate in its capacity as an end user. The Trustee believes that the funds in the DDA and FBO  
19 Accounts are not property of the Synapse bankruptcy estate and that the Partner Banks' distribution  
20 of end user funds would not result in the unauthorized disposition of estate property. The Trustee does  
21 not have legal authority to direct the timing, amounts or method of Partner Banks' disposition of these  
22 funds.

23 Accordingly, on June 11, 2024, the Trustee communicated to the Partner Banks that they must  
24 proceed with regard to the end user funds held in DDA and FBO Accounts as they deem appropriate  
25 and on advice of their respective legal counsel. While the Trustee has no authority to direct the Partner  
26 Banks' actions with regard to end user funds, the Trustee is aware of certain decisions that Partner  
27 Banks may have to make to the extent they proceed with the release of end user funds. These decisions  
28 may include:



- 1 • Determining to make pro rata payments to Fintech Partners or end users if a Partner
- 2 Bank or Banks has reported a shortfall in FBO funds held;
- 3 • Delaying the reconciliation and payout of amounts less than \$1 per end user to prioritize
- 4 repaying amounts over \$1 (*e.g.*, AMG has reported 31,914 end user accounts with less
- 5 than \$1; Lineage has reported some 10,000 end user accounts with less than \$1; Evolve
- 6 has reported 3,620 end user accounts with less than \$1);
- 7 • Distributing funds to the appropriate Fintech Partner instead of end users if unable to
- 8 locate end users;
- 9 • Distributing funds to end users directly even if funds are held in FBO Accounts in the
- 10 name of a Fintech Partner if that Fintech Partner has ceased operations or otherwise
- 11 would be unable to facilitate in-turn distributions to end users; and
- 12 • Determining the method of distributing funds (*e.g.*, check, wire).

13 **E. Further Reconciliation Efforts**

14 To facilitate further reconciliation efforts, the Trustee is working to collect and make available  
15 all Synapse ledger records, data, and systems on a confidential and read-only basis to all Partner Banks.  
16 The Trustee has been informed that the key Synapse systems that support and store ledger records are  
17 MongoDB and Amazon Web Services (“AWS”). The Trustee appreciates that AWS and MongoDB  
18 have continued services to date, despite the Debtor’s inability to keep current on its payments and is  
19 working to transition data and winddown these services as soon as practicable.

20 As of the date of this Report, the Trustee and proposed counsel have obtained administrative  
21 access to MongoDB from Synapse’s former officers. The Trustee was informed that master credentials  
22 to the Synapse AWS environment were known to only two former Synapse engineers, Samip Mehra  
23 and Chester Mui, who have not responded to the Trustee and proposed counsel’s communications and  
24 requests to provide credentials. As a workaround, the Trustee is working with AWS to gain access to  
25 the Synapse environment.

26 The Trustee and proposed counsel plan to facilitate uploading read-only copies of the data  
27 contained in MongoDB and AWS to the interbank data room established pursuant to the Protective  
28 Order for use by the Partner Banks in further reconciliation efforts. The Trustee also encourages and

1 will facilitate to the extent possible, ongoing interbank communication and data sharing to enable  
2 further reconciliation.

3 **F. Trustee’s Authority with regard to Non-Debtor Subsidiaries**

4 Synapse Brokerage is a fully owned subsidiary of Synapse. Based on research, discussions  
5 with Synapse Brokerage constituents, and the sworn testimony of Mr. Pathak at the Creditors’  
6 Meeting, Synapse Brokerage was founded with the view to establishing programs for Cash  
7 Management Accounts and Money Market Accounts. Operationally, Synapse Brokerage has not yet  
8 established such programs but has only deployed a sweep network at American Deposit Management  
9 Company (“ADMC”) for the purpose of increasing the pool of FDIC insurance coverage available to  
10 depositors and earning interest on sweep network deposits, which was distributed among Synapse,  
11 Fintech Platforms and end users according to respective agreements among Synapse and its customers.

12 Synapse Credit is a fully owned subsidiary of Synapse. Based on research, discussions with  
13 Partner Banks and Fintech Platforms and the sworn testimony of Mr. Pathak at the Creditors’ Meeting,  
14 Synapse Credit is a state-by-state lending entity that provided one-time or revolving secured loans to  
15 individuals and businesses. The loans were secured by one-to-one collateral that was either held in  
16 Fintech Platform reserves in the Synapse ecosystem or deposited by end users, depending on the type  
17 of loan program under which the loan was issued.

18 At the time of this Report, neither Synapse Brokerage or Synapse Credit is debtor in this Case  
19 or any other bankruptcy case. As both entities are wholly owned subsidiaries of Synapse, the Trustee  
20 has indirect authority over both entities vis-à-vis the Debtor’s sole equity ownership of the  
21 subsidiaries. However, the Trustee does not have legal authority to directly manage the businesses of  
22 or otherwise control Synapse Brokerage and Synapse Credit.

23 It is possible that certain property of the Synapse estate resides at Synapse Brokerage or  
24 Synapse Credit, such as due portions of revenue sharing agreements or interest owed by a subsidiary  
25 to the parent. The Trustee and proposed counsel are working to identify such property of the estate,  
26 recovery options and mechanisms by which recovered property can be used to fund reconciliation  
27 efforts and other administrative expenses.

28 **G. Meetings with Parties in Interest**

1 Since June 7, 2024, the Trustee and proposed counsel have had follow-up meetings and  
2 communications with known parties in interest as well as initial meetings and communications with  
3 additional constituents.

4 **1. Bank Partners**

5 The Trustee and proposed counsel continue to have frequent meetings and daily  
6 communications with the Partner Banks and their respective counsel, individually and collectively.  
7 The purpose of these meetings has been to ensure the progress of and resolve open issues and questions  
8 related to ongoing reconciliation efforts. On June 11, 2024, the Trustee communicated to the Partner  
9 Banks that the Trustee does not have authority to direct the Partner Banks' distribution of end user  
10 funds and that the Partner Banks should proceed with regard to the end user funds held in DDA and  
11 FBO Accounts as they deem appropriate and on advice of their respective legal counsel.

12 **2. Meeting of Creditors**

13 On June 10, 2024, the continued Meeting of Creditors pursuant to section 341(a) of the  
14 Bankruptcy Code was held. Former Synapse officers Mr. Pathak and Ms. Guerin, and former Debtor's  
15 counsel Krikor L Meshefejin of the law firm Levene, Neale, Bender, Yoo & Golubchik LLP, attended  
16 this meeting as a courtesy even though they no longer manage or represent the Synapse estate since  
17 the appointment of the Trustee. At this meeting, the Trustee asked Mr. Pathak and Ms. Guerin  
18 questions about Synapse's business and Mr. Pathak and Ms. Guerin gave sworn testimony in response  
19 to these questions.

20 **3. Debtor's Former Officers, Key Employees and Contractors**

21 The Trustee and proposed counsel continue to meet and communicate with Mr. Pathak, Ms.  
22 Guerin, Pam Wismer, an independent contractor from Ascent CFO Solutions who provided part-time  
23 CFO services to the Debtor and Jack Doan, the former chief human resources officer of the Debtor.  
24 The purpose of these meetings and communications has been to discuss open questions and issues  
25 related to the ongoing reconciliation efforts and to obtain key contacts, systems access and data critical  
26 to the reconciliation process.

27 **4. Financial Technology Platform Partners**

28

1 The Trustee and proposed counsel have continued to have meetings and communications with  
2 many of the Fintech Partners of Synapse and their respective counsel, including: Changed Inc.,  
3 Copper, Gig Wage, Grabr, Gravy, IDT, Juno, Latitud, Mercury, Sunny Day Fund, TClub (d/b/a  
4 Abound), Yieldstreet and Yotta. The purpose of these meetings and communications has been to intake  
5 information from newly identified Fintech Partners, facilitate reconciliation efforts against Fintech  
6 Partner ledgers and provide key updates on reconciliation efforts.

7 **5. Financial Advisors**

8 The Trustee and proposed counsel have received several in-bound communications from  
9 individual and institution experts in finance, accounting and forensics who have offered discounted or  
10 free third-party reconciliation and audit services. The Trustee through proposed counsel is following  
11 up with these experts to discuss the scope of reconciliation work with a view to engage or refer for  
12 engagement by Partner Banks or Fintech Partners financial advisor(s) that may be able to assist with  
13 further reconciliation efforts.

14 **6. End Users**

15 The Trustee and proposed counsel have had additional meetings and communications with  
16 affected end users. The purpose of these meetings and communications has been to further understand  
17 the impact to end users and inform end users that the Trustee's top priority continues to be restoring  
18 access to end user funds as soon as possible.

19 **7. Kroll, Inc.**

20 The Trustee and proposed counsel have continued to meet with and maintain open lines of  
21 communication with Kroll, Inc., which was engaged by the Synapse Audit Committee to conduct an  
22 audit and reconciliation of the Synapse ledgers in 2023. The purpose of these meetings and  
23 communications has been to further discuss the findings of the audit and reconciliation conducted by  
24 the Kroll team as regards Synapse systems, transaction history and governance.

25 **8. Regulatory and Government Bodies**

26 The Trustee and proposed counsel have had meetings with staff from the Financial Industry  
27 Regulatory Authority ("FINRA"). The purpose of these meetings was to discuss FINRA staff's  
28 engagement with Synapse Brokerage and relevant personnel, FINRA staff's understanding of and

1 access to the firm's books and records, and more generally to share and compare information  
2 concerning the status of end user funds.

3 **9. *Regulatory Counsel***

4 The Trustee and proposed counsel have met with Lowenstein Sandler LLP, regulatory counsel  
5 to the Debtor and Synapse Brokerage. The purpose of these meetings has been to discuss the  
6 relationship between the trusteeship of Synapse and the regulatory history of Synapse Brokerage,  
7 including recent communications that Lowenstein Sandler LLP has had with FINRA and SEC staff  
8 concerning Synapse Brokerage.

9 **10. *Brokerage Subsidiary Constituents***

10 The Trustee and proposed counsel have continued to communicate with Jeff Stanley, the  
11 former president and chief executive officer of Synapse Brokerage. The purpose of these  
12 communications has been to discuss Synapse Brokerage's operational funds and accounts and their  
13 location and the types and location of accounts holding funds belonging to end users of Synapse  
14 brokerage.

15 **11. *Vendors and Suppliers***

16 The Trustee continues to receive numerous in-bound communications from creditors with  
17 unpaid invoices and the like. The Trustee continues to be focused and has instructed proposed counsel  
18 to focus on restoration of end user access as a priority over these inquiries. For certain "critical  
19 vendors" such as AWS and MongoDB, which host or provide database services, the Trustee has  
20 through proposed counsel has reached out to discuss continued service and options to obtain  
21 credentials and access to AWS.

22 **12. *Potential Asset Purchasers***

23 The Trustee continues to receive in-bound inquiries from potential purchasers of assets of the  
24 Debtor. As is typical in a chapter 11 context, it is not clear how serious or actionable any of these  
25 inquiries may be, and the Trustee's primary focus now is on restoring end user access. Accordingly,  
26 the Trustee has had proposed counsel acknowledge receipt and request additional preliminary offer  
27 information from potential purchasers. The Trustee is investigating mechanisms by which funding  
28

1 from a purchaser and/or proceeds from a sale may provide cash that can be used to fund critical Debtor  
2 operations to facilitate further reconciliation efforts.

3 **H. Obtaining Access to Debtor’s Systems, Accounts and Records**

4 **1. *Synapse Systems Access***

5 The Trustee and proposed counsel have obtained access to Debtor’s MongoDB database  
6 platform, Slack communications platform, Rippling HR system and the data room populated to  
7 facilitate TabaPay, Inc.’s due diligence in connection with its canceled asset purchase. The Trustee  
8 and proposed counsel are working to obtain access to Debtor’s cloud computing platform, Amazon  
9 Web Services and email accounts.

10 **2. *Records Collection and Preservation***

11 The Trustee and proposed counsel have had several communications with AWS and  
12 MongoDB, two key service providers that host records and databases of the Debtor. Based on  
13 discussions with former Synapse officers and employees, the Trustee determined that the continuation  
14 of these services is essential to facilitate ongoing reconciliation efforts. The Trustee and proposed  
15 counsel contacted AWS and MongoDB to make them aware of the irreparable harm that would result  
16 to the Debtor and end users if access to these hosting services was interrupted or records were deleted.

17 **3. *Bank Accounts***

18 The Trustee and proposed counsel have identified the banks and key accounts in which the  
19 Debtor held operational funds. The Trustee has been in contact with bank personnel to obtain access  
20 to the Debtor’s primary operational accounts held at First Citizens Bank (acquiror of Silicon Valley  
21 Bank) to verify balances and transfer funds to trustee accounts as appropriate. The Trustee is in the  
22 process of gaining access to secondary operational and other bank accounts.

23 **I. Retention of Professionals**

24 **1. *General Bankruptcy Counsel***

25 The Trustee plans to file the “Chapter 11 Trustee’s Application for Order Authorizing  
26 Employment of Cravath, Swaine & Moore LLP as General Bankruptcy Counsel” which will seek an  
27 order of this Court authorizing the employment of Cravath, Swaine & Moore LLP, the firm at which  
28

1 the Trustee is a partner, to act as the Trustee’s general bankruptcy counsel, effective as of May 24,  
2 2024, the date of appointment.

3 **2. Local Counsel**

4 The Trustee plans to file the “Chapter 11 Trustee’s Application for Order Authorizing  
5 Employment of Keller Benvenuti Kim LLP as Local Counsel” which will seek an order of this Court  
6 authorizing the employment of Keller Benvenuti Kim LLP, a California firm, to act as the Trustee’s  
7 local counsel, effective as of May 24, 2024, the date of appointment.

8 **II.**

9 **SIGNIFICANT ISSUES**

10 **A. Proceeds from Sales, Cash Collateral and Wind-Down Budget**

11 The Debtor continues to appear to have no available liquidity and has no arrangement with  
12 secured lenders to access cash collateral in the event that the estate obtains funding. The Trustee and  
13 proposed counsel are working to identify sources of funding for the estate and developing a winddown  
14 plan that minimizes expenses. As described above, the Trustee and proposed counsel have had  
15 preliminary communications with various parties regarding offers to purchase assets from the estate  
16 and related financing. However, the Trustee believes that, based on the estimated value of Debtor’s  
17 assets in their current condition and the estimated effort and expense to conduct an auction of these  
18 assets, which would be incurred on an administrative expense priority basis, that it is inadvisable to  
19 pursue the sale of Debtor’s assets while the Case remains in chapter 11. Instead, the Trustee anticipates  
20 conversion to chapter 7 in the near future, under which an orderly and cost-effective liquidation may  
21 take place.

22 **B. Conversion**

23 The Trustee believes this Case should remain in chapter 11 for the time being, and, as  
24 of the time of this Report, anticipates seeking conversion to chapter 7 shortly after making certain  
25 Synapse records available to Partner Banks to enable their further reconciliation efforts.

1 III.

2 **CONCLUSION AND RECOMMENDATION**

3 In the hearing regarding the Trustee’s appointment, Judge Barash stated that “the Trustee can  
4 immediately start speaking to parties in interest and developing a plan to fund the continued  
5 preservation of Synapse’s systems and data, and to continue the process of sharing information and  
6 hopefully reaching some agreement with the participating banks that allows funds to be returned to  
7 end users, to the rightful owners of those funds, as soon as humanly possible.” To this end, the  
8 Appointment Order instructed that, “[a]s soon as possible, the chapter 11 trustee is directed to meet  
9 and confer with counsel for the various constituents in business with the Debtor, including the financial  
10 technology platforms, the partner financial institutions and the Debtor’s secured lenders.” [Dkt. No.  
11 196]. Over the past three weeks, the Trustee’s top priority has remained restoring access to end user  
12 funds.

13 As directed by the Court, the Trustee immediately began and continues to meet and confer  
14 with parties in interest to determine paths to releasing customer funds. In the wake of the abrupt  
15 winddown of Synapse’s operations, termination of all employees and lack of funds in the Synapse  
16 estate, the Trustee facilitated various workarounds to enable reconciliation. These workarounds have  
17 included interbank data sharing and communications, reconciliations among banks and with Fintech  
18 Partners, and communications with former Synapse officers and employees who continue to cooperate  
19 with requests for information.

20 After three weeks of effort, the Partner Banks have been able to fully reconcile DDA Accounts,  
21 return some DDA funds to end users and prepare to return the remaining DDA funds as soon as  
22 practicable. Additionally, Partner Banks have been able to partially reconcile end user FBO accounts  
23 and prepare to release reconciled end user funds as soon as practicable.

24 Based on the legal analysis of the nature of end user funds held in DDA and FBO Accounts at  
25 Partner Banks, it appears that those funds are not property of the Synapse bankruptcy estate and that  
26 the Trustee has no authority to direct the Partner Banks’ disposition of end user funds. Thus, the  
27 Trustee has communicated to the Partner Banks that they must proceed on the advice of their respective  
28 counsel to make decisions regarding the distribution of end user funds.



1 While there is additional work to be done with regard to reconciliation, settlement payments  
2 among banks and identifying the sources of any shortfalls, the Trustee estimates that most achievable  
3 efforts may be completed in the next two weeks. During these two weeks, the Trustee and proposed  
4 counsel will complete their work to obtain key systems access and populate the existing data room  
5 with Synapse ledger records, to facilitate further reconciliation.

6 The Trustee will present the foregoing at the Status Conference scheduled for June 14, 2024,  
7 at 1:30 p.m. Pacific Time. Depending on the outcome of the Status Conference and other meetings  
8 and communications, the Trustee may respectfully request that Court grant certain relief as the Court  
9 deems appropriate after the Status Conference.

10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

DATED: June 13, 2024

**JELENA MCWILLIAMS**  
**CHAPTER 11 TRUSTEE**

By: /s/ Jelena McWilliams

Jelena McWilliams

Chapter 11 Trustee

###

## PROOF OF SERVICE OF DOCUMENT

I am over the age of 18 and not a party to this bankruptcy case or adversary proceeding. My business address is:

Cravath, Swaine & Moore LLP, 2 Manhattan West, 375 Ninth Avenue, New York, NY 10001

A true and correct copy of the foregoing document entitled (*specify*): \_\_\_\_\_

CHAPTER 11 TRUSTEE'S SECOND STATUS REPORT

---

---

will be served or was served **(a)** on the judge in chambers in the form and manner required by LBR 5005-2(d); and **(b)** in the manner stated below:

**1. TO BE SERVED BY THE COURT VIA NOTICE OF ELECTRONIC FILING (NEF):** Pursuant to controlling General Orders and LBR, the foregoing document will be served by the court via NEF and hyperlink to the document. On (*date*) 6/13/2024, I checked the CM/ECF docket for this bankruptcy case or adversary proceeding and determined that the following persons are on the Electronic Mail Notice List to receive NEF transmission at the email addresses stated below:

Raymond O Aghaian raghaian@kilpatricktownsend.com, ndelman@kilpatricktownsend.com  
Ron Bender rb@lnbyg.com  
J Scott Bovitz bovitz@bovitz-spitzer.com  
Rudy J Cerone rcerone@mcglinchey.com, lgraff@mcglinchey.com;jingargiola@mcglinchey.com  
Sara Chenetz schenetz@perkinscoie.com,  
docketLA@perkinscoie.com;cmallahi@perkinscoie.com;jkulow@perkinscoie.com;chenetz-sara-perkins-coie-8670@ecf.pacerpro.com;rleibowitz@perkinscoie.com  
Russell Clementson russell.clementson@usdoj.gov  
Andrew Michael Cummings andrew.cummings@hklaw.com,  
philip.dobbs@hklaw.com;hapi@hklaw.com;reena.kaur@hklaw.com  
Michael G. Farag mfarag@gibsondunn.com  
Paul R. Glassman pglassman@stradlinglaw.com  
Nicholas Christian Glenos cglenos@bradley.com  
Michael H Goldstein mgoldstein@goodwinprocter.com, ASchaefer@goodwinlaw.com  
Michael I. Gottfried mgottfried@elkinskalt.com,  
cavila@elkinskalt.com,lwageman@elkinskalt.com,docketing@elkinskalt.com  
Steven T Gubner sgubner@bg.law, ecf@bg.law  
Ralph P Guenther rguenther@guentherlawgroup.com  
Robert T. Honeywell robert.honeywell@klgates.com  
Lance N Jurich ljurich@loeb.com,  
pmatsuda@loeb.com;ladoCKET@loeb.com;ljurich@ecf.courtdrive.com;fmckeown@loeb.com  
Monica Y Kim myk@lnbyg.com, myk@ecf.inforuptcy.com  
Jeffrey C Krause jkrause@gibsondunn.com, dtrujillo@gibsondunn.com;jstern@gibsondunn.com  
William J Levant wlevant@kaplaw.com, wlevant@gmail.com  
Adam A Lewis alewis@mofo.com, adam-lewis-3473@ecf.pacerpro.com  
Jelena McWilliams (TR) jmcwilliams@cravath.com, mao@cravath.com  
Krikor J Meshefejian kjm@lnbyg.com  
Fred Neufeld fneufeld@stradlinglaw.com, tingman@sycr.com  
David M Poitras dpoitras@bg.law  
Paul M Rosenblatt prosenblatt@kilpatricktownsend.com, moroberts@ktslaw.com  
Brandy A Sargent brandy.sargent@klgates.com, litigation.docketing@klgates.com;janna.leasy@klgates.com  
Zev Shechtman Zev.Shechtman@saul.com, zshechtman@ecf.inforuptcy.com;easter.santamaria@saul.com  
Jason D Strabo jstrabo@mwe.com, jbishopjones@mwe.com  
United States Trustee (SV) ustpreGion16.wh.ecf@usdoj.gov  
Jeffrey C Wisler jwisler@connollygallagher.com, dperkins@connollygallagher.com  
Claire K Wu claire.wu@pillsburylaw.com, irene.hooper@pillsburylaw.com;docket@pillsburylaw.com  
Beth Ann R. Young bry@lnbyg.com, bry@lnbyb.com

---

This form is mandatory. It has been approved for use by the United States Bankruptcy Court for the Central District of California.

Service information continued on attached page

**2. SERVED BY UNITED STATES MAIL:**

On (*date*) 6/13/2024, I served the following persons and/or entities at the last known addresses in this bankruptcy case or adversary proceeding by placing a true and correct copy thereof in a sealed envelope in the United States mail, first class, postage prepaid, and addressed as follows. Listing the judge here constitutes a declaration that mailing to the judge will be completed no later than 24 hours after the document is filed.

None.

Service information continued on attached page

**3. SERVED BY PERSONAL DELIVERY, OVERNIGHT MAIL, FACSIMILE TRANSMISSION OR EMAIL** (*state method for each person or entity served*): Pursuant to F.R.Civ.P. 5 and/or controlling LBR, on (*date*) 6/13/2024, I served the following persons and/or entities by personal delivery, overnight mail service, or (for those who consented in writing to such service method), by facsimile transmission and/or email as follows. Listing the judge here constitutes a declaration that personal delivery on, or overnight mail to, the judge will be completed no later than 24 hours after the document is filed.

None.

Service information continued on attached page

I declare under penalty of perjury under the laws of the United States that the foregoing is true and correct.

6/13/2024

*Date*

Robert N. Greenfield

*Printed Name*

*/s/ Robert N. Greenfield*

*Signature*