

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

JELENA MCWILLIAMS  
1601 K STREET NW  
WASHINGTON, D.C. 2006-1682  
jmcwilliams@cravath.com  
Tel. 1-202-869-7710

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

In re  
  
SYNAPSE FINANCIAL TECHNOLOGIES,  
INC.,  
  
Debtor.

Case No. 1:24-bk-10646-MB  
Chapter 11  
**AMENDED CHAPTER 11 TRUSTEE'S  
INITIAL STATUS REPORT**  
  
DATE: June 7, 2024  
TIME: 1:30 p.m. PT  
PLACE: 303  
21041 Burbank Boulevard  
Woodland Hills, CA 91367 and  
Via ZoomGov

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 amend my initial “Chapter 11 Trustee’s Status Report” (the “Report”), and represent as  
6 follows<sup>1</sup>:

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) though certain banking providers and financial technology providers.” Id. The  
17 Debtor also filed a motion to approve a settlement reached with Evolve Bank & Trust (“Evolve”), one  
18 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  
27

28 <sup>11</sup> The amendments to the “Chapter 11 Trustee’s Initial Status Report,” filed June 6, 2024, 9:11 p.m.  
PT, are largely ministerial in nature. There are no substantive updates to the information represented  
in the earlier filed Report.

1 On May 13, 2024, Evolve filed a motion for an order restoring access to the “Debtor’s  
2 Dashboard System” or, alternatively, “Authorizing Evolve to Close all of the Debtor’s Demand  
3 Deposit Accounts at Evolve Associated with Debtor’s Programs”. [Dkt. No. 137]. Evolve alleged that  
4 it had been denied access to the Debtor’s computer systems and had been forced to freeze end user  
5 accounts. Id.

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

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

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

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

21  
22 As a result of the foregoing, Jelena McWilliams became the duly appointed, qualified and  
23 acting Chapter 11 Trustee, and continues to act in this capacity.

24 **B. Impact on End Users**

25 The Trustee and proposed counsel have received voluminous communications from  
26 affected end users and are further aware of the impact to these end users through media, public filings  
27 and information shared with the Trustee by parties in interest in this Case. The Trustee shares the  
28 Court’s urgency to restore access to end user funds and remains laser-focused on this priority. Since

1 the appointment, the Trustee and proposed counsel have been working around the clock to investigate  
2 the events that led to the reconciliation issues and freezing of end user accounts and identify a path to  
3 unfreezing customer accounts as soon as possible. Aware of many personal stories from impacted end  
4 users, the Trustee and proposed counsel are working diligently and rapidly to facilitate a resolution.

5 **C. Update on Ledger Reconciliation and Unfreezing of End User Accounts**

6 In the hearing regarding the Trustee’s appointment, Judge Barash stated that “the Trustee can  
7 immediately start speaking to parties in interest and developing a plan to fund the continued  
8 preservation of Synapse’s systems and data, and to continue the process of sharing information and  
9 hopefully reaching some agreement with the participating banks that allows funds to be returned to  
10 end users, to the rightful owners of those funds, as soon as humanly possible.” Restoring access to end  
11 user funds is the Trustee’s top priority.

12 The Appointment Order instructed that, “[a]s soon as possible, the chapter 11 trustee is directed  
13 to meet and confer with counsel for the various constituents in business with the Debtor, including the  
14 financial technology platforms, the partner financial institutions and the Debtor’s secured lenders.”  
15 [Dkt. No. 196]. Immediately upon appointment on Friday evening, the Trustee and the Trustee’s  
16 proposed counsel at Cravath began meeting and conferring with former Synapse officers, Sankaet  
17 Pathak and Tracey Guerin. The Trustee began conferring with other parties in interest over the  
18 Memorial Day weekend and has continued to meet with the partner financial institutions, partner  
19 financial technology platforms and other parties to resolve whatever issues need to be resolved to  
20 restore end user access to funds to the greatest extent possible and as soon as possible.

21 **1. *Synapse Corporate Structure and Operations***

22 Through the meetings and communications described below, the Trustee was informed  
23 that early in its operations beginning in 2014, Synapse initially opened Demand Deposit Accounts  
24 (“DDA Accounts”) on behalf of approximately 100 financial technology platform partners  
25 (collectively, the “Fintech Partners”) at four banks. The four banks are: American Bank, AMG  
26 National Trust, Evolve Bank and Trust, and Lineage Bank (collectively, the “Partner Banks”). At some  
27 point in 2020 and later, Synapse developed its cash management program in connection with its  
28 subsidiary, Synapse Brokerage LLC (“Synapse Brokerage”), and began opening Cash Management

1 Accounts (“CMA Accounts”) on behalf of Fintech Platforms at Partner Banks. According to its  
2 privacy policy, Synapse Brokerage provided cash management account and related services to account  
3 holders. Additionally, Synapse has another subsidiary, Synapse Credit LLC (“Synapse Credit”).  
4 According to its privacy policy, Synapse Credit is a licensed U.S. lender of record that offered loan  
5 origination, servicing, credit reporting, and marketing and regulatory compliance monitoring services  
6 to Fintech Partners. At the time of this Report, neither Synapse Brokerage nor Synapse Credit is a  
7 debtor in this Case or any other bankruptcy case.

8 **2. Relationships with Partner Banks**

9 Synapse often used multiple Partner Banks to service different functions for the same Fintech  
10 Partner. In certain instances, end user deposits through a Fintech Partner were deposited in an account  
11 at one Partner Bank, while end user withdrawals through that same Fintech Partner were processed  
12 from a different account at a different Partner Bank. This business model makes it both essential and  
13 difficult to reconcile transactions and ensure end users receive access to the correct amount of funds  
14 due to each end user.

15 **a. American Bank**

16 The Trustee was informed that American Bank held brokered sweep deposits from  
17 Synapse Brokerage and provided debit card issuance services to five Synapse Fintech Partners.  
18 American Bank did not participate in payment processing or lending services. Prior to the Synapse  
19 bankruptcy, at American Bank’s request, Synapse and American Bank began executing a winddown  
20 plan to terminate the relationship, and as of May 17 had less than \$50,000 in sweep deposits.

21 **b. AMG National Trust**

22 The Trustee was informed that AMG began accepting brokered sweep deposits from Synapse  
23 Brokerage in August 2023. To facilitate those deposits and other transactional activity, Synapse  
24 Brokerage established deposit accounts at AMG for Synapse Brokerage and other deposit accounts  
25 “for the benefit of” its Fintech Partners and their end users (“FBO Accounts”)<sup>2</sup>. Beginning in February  
26 2024, AMG also processed ACH and wire transactions for four of Synapse Brokerage’s Fintech  
27

28 <sup>2</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 Partners but provided no lending, credit card or debit card services. AMG has held no accounts for  
2 Synapse and has no official relationship with any Fintech Partner or end user. Synapse Brokerage was  
3 the custodian of record for its Fintech Partners and processed and recorded all end user transactions.

4 *c.* **Evolve Bank and Trust**

5 The Trustee was informed that Evolve provided to Synapse Financial Technologies Inc.,  
6 banking services, including DDA Accounts. Further, Evolve provided payment processing services  
7 for Synapse Brokerage.

8 *d.* **Lineage Bank**

9 The Trustee was informed that Lineage Bank provided ACH and wire transfer processing as  
10 an originating depository financial institution for Synapse pursuant to a Master Services Agreement  
11 (“Lineage MSA”). Lineage asserts that Synapse had established a reserve account at Lineage to secure  
12 its obligations pursuant to the Lineage MSA. Lineage stated that in the fall of 2023, it discovered that  
13 Synapse transferred approximately \$60 million of end user funds to the reserve account, prompting  
14 Lineage to move those funds into a FBO account for the benefit of the end users. As a result, in March  
15 2024, Lineage terminated the Lineage MSA for cause. With the exception of one DDA Account,  
16 Lineage provided only ACH and wire processing services to Synapse. Lineage claims that it has never  
17 maintained bank accounts for end users and that it never entered into customer agreements directly  
18 with end users, that it has only one account with a Fintech Platform, that it was not a Program Bank  
19 or a custodian for Synapse Brokerage and that it was not involved with Synapse Brokerage in any  
20 way.

21 **3. FBO Funds**

22 The Partner Banks have informed the Trustee that the end user funds they hold are FBO funds  
23 held either for the benefit of Synapse or Synapse Brokerage and its underlying end users, as follows:

- 24 • AMG National Trust holds FBO Accounts in the name of Synapse Brokerage and  
25 believes Fintech Partner’s end users of the Brokerage are the legal beneficial owners  
26 of funds in these accounts.
- 27 • Evolve has FBO accounts in the name of Synapse, which is where the DDA funds are  
28 held, as well as FBO accounts in the name of Synapse Brokerage. Over several months,

1 Synapse Brokerage moved approximately \$650 million from Evolve to AMG and other  
2 banks as part of the migration of Fintech Partners and end users to Synapse Brokerage.  
3 Some of those funds were subsequently further moved among Partner Banks. Synapse  
4 Brokerage continued to regularly direct cash movement between banks as part of its  
5 sweep program. Moreover, Evolve has indicated that for payment processing purposes,  
6 Synapse Brokerage has leveraged omnibus accounts, which were not in the name of  
7 individual Fintech Partners but, rather, in the name of Synapse. In addition, based on  
8 the terms and conditions that were provided to customers whose accounts were  
9 migrated to Synapse Brokerage, Synapse Brokerage leveraged “Program Banks”<sup>3</sup> to  
10 hold customer funds.

11 • Lineage Bank holds an FBO Account that is designated for the benefit of Synapse  
12 Financial Technologies, Inc. However, the Debtor assigned the funds under their  
13 brokerage program to Lineage. As a result, the majority of the funds at Lineage (with  
14 the exception of those associated with one Fintech Partner) belong to programs where  
15 the end users are the customers of Synapse Brokerage.

16 The Trustee was informed that, in ordinary circumstances, Partner Banks holding FBO  
17 Accounts on behalf of Synapse Brokerage would release those funds to Synapse Brokerage and then  
18 Synapse Brokerage would distribute those funds to the respective Fintech Platforms that are customers  
19 of Synapse Brokerage. The Trustee learned that, while Synapse Brokerage is not in bankruptcy,  
20 Synapse Brokerage and the Debtor shared employees, functions and systems. For example, the Trustee  
21 was informed that Synapse Brokerage and the Debtor maintained a single, intertwined ledger database  
22 on MongoDB and engineers formerly employed by the Debtor were tasked with generating reports for  
23 Synapse Brokerage. The Trustee and proposed counsel met and conferred with the former President  
24 of Synapse Brokerage and learned that he and the only other employee of Synapse Brokerage had been  
25 terminated effective May 24, 2024. At this time, there are no employees left at Synapse Brokerage.  
26 Therefore, the Trustee believes that releasing funds to Synapse Brokerage will not result in the timely  
27 restoration of funds to end users.

28 \_\_\_\_\_  
<sup>3</sup>As of May 22, 2024, the list of Program Banks on Synapse’s website includes American Bank, AMG, and Lineage. (<https://synapsefi.com/list-of-program-banks>).

1 The Trustee was also informed that Evolve has not been able to reconcile its deposits against  
2 the Synapse ledgers due in part to their view that Synapse’s proprietary ledger system is difficult to  
3 interpret without expertise from persons familiar with the systems. Evolve’s position is that it can  
4 reconcile the DDA Accounts it has through Synapse Financial Technologies, but it cannot reconcile  
5 Synapse brokerage accounts as it only performed payment processing.

6 Due to the lack of funds, the Debtor terminated all Synapse employees and independent  
7 contractors effective May 24, 2024, so there are no employees left at Debtor’s business to provide the  
8 necessary expertise to interpret the Synapse ledger. Over the Memorial Day weekend, the Trustee and  
9 proposed counsel had several meetings with a well-regarded third-party forensics firm to consider a  
10 potential engagement with regard to the reconciliation, but their fee estimate was prohibitive in light  
11 of the lack of estate resources. Due to the lack of any funds, the Trustee is neither able to engage  
12 former Synapse employees on an independent contractor basis nor a third-party forensics firm to  
13 provide this expertise. Even if a third party could be engaged, the Trustee has learned it could take  
14 many weeks or more to have an independent third party to complete the reconciliation.

15 As a result of the foregoing, the Trustee agreed with the recommendation put forth by certain  
16 of the Partner Banks that the Partner Banks complete a reconciliation with each other in order to  
17 determine the amount of Synapse-related FBO funds held by each Partner Bank and the correct amount  
18 of funds due to each end user (the “Initial Bank Reconciliation”). Between May 25 and May 29, the  
19 Trustee and proposed counsel met and conferred with each of the Partner Banks several times. During  
20 these meetings, the Partner Banks expressed the need to collectively share information in order to be  
21 able to reconcile ledgers among themselves. On May 29, the Trustee met with the Partner Banks  
22 collectively to discuss the process for conducting the Initial Bank Reconciliation.

23 To facilitate the information sharing necessary to complete the Initial Bank Reconciliation, the  
24 Partner Banks and the Trustee entered into a “Stipulated Protective Order.” The Court lodged an  
25 “Order Approving Stipulated Protective Order” on May 31, 2024 (the “Protective Order”). The  
26 Protective Order governs the disclosure and discussion of information and documents by and among  
27 the Banks and the Debtor, including confidential trial balances or other financial account reconciliation  
28 information exchanged by the Banks regarding the Debtor and/or its affiliates in connection with this



1 Case. The purpose of the Protective Order is to expedite the flow of information for purposes of the  
2 reconciliation of the Debtor's and its clients' financial accounts, protect confidential material related  
3 thereto, ensure that the parties are permitted reasonable, necessary use of such material and address  
4 the handling of such material at the end of the Case.

5 Since the entry of the Protective Order, the Banks have disclosed and discussed data and  
6 documents to facilitate the Initial Bank Reconciliation in order to unfreeze end user accounts,  
7 including creating and populating a shared data room. Since May 29, 2024, the Trustee has had  
8 frequent status meetings with the Partner Banks to ensure coordination and the progress of the Initial  
9 Bank Reconciliation. The Trustee has directed the Partner Banks' communication requests to Sankaet  
10 Pathak, the former chief executive officer of the Debtor, who is familiar with the Synapse systems, to  
11 provide information and answer questions regarding the Synapse ledger system to facilitate the Initial  
12 Bank Reconciliation. As of the date of this report, the Partner Banks have indicated that they require  
13 additional information to complete the Initial Bank Reconciliation, including:

- 14 • The role, transactions and funds attributed to Synapse Credit, including whether  
15 unsecured loans were provided to end users and how those loans were funded;
- 16 • Whether Synapse Brokerage maintained its own ledger system or whether the systems  
17 were intertwined such that platform level reports include transactions and balances for  
18 multiple Synapse entities;
- 19 • Whether current Synapse systems are capable of generating a full trial balance as of  
20 May 17<sup>4</sup> inclusive of balances at all Partner Banks;
- 21 • Whether current Synapse systems are capable of generating customer statements as of  
22 May 17 and, if so, whether those statements would reconcile with the Synapse ledger  
23 and trial balances as of May 17;
- 24 • The make-up of negative balances and overdrafts associated with certain Fintech  
25 Partners on the Synapse ledger;

26  
27  
28  

---

<sup>4</sup> The Partner Banks generally agree that May 17, 2024, is the last date on which Synapse ledgering was completed and accessible.

- 1 • The criteria used to decide which of the Partner Banks were allocated negative-balance
- 2 accounts on the Synapse trial balance and why some Partner Banks have no negative
- 3 account balances while other Partner Banks have significant negative account balances;
- 4 • Whether negative account balances and their allocations match or approximate the
- 5 actual FBO cash balances;
- 6 • Whether money owed for financial transaction settlements was deducted from end user
- 7 accounts as is shown on certain trial balances and whether that money should have been
- 8 deducted from excess bank balances instead;
- 9 • Whether Synapse turned off the automation that triggered settlement payments on or
- 10 around May 8 or whether Synapse continued to send payment instructions for
- 11 settlements which were denied by certain Partner Banks;
- 12 • Whether Synapse changed allocations for Fintech Partner funds between May 8 and
- 13 May 17 as is indicated on the Synapse ledger and, if so, how the Partner Banks should
- 14 fund settlements among one another; and
- 15 • Whether reserve funds associated with specific Fintech Partners can be distinguished
- 16 from end user funds and from reserve funds associated with other Fintech Partners and
- 17 whether details of the timeline, means and history of funding those reserves can be
- 18 traced and reconciled with the Fintech Partner's records of funding reserves?

19 The Partner Banks have advised the Trustee of the following, as of June 6, 2024:

- 20 • Partner Banks hold approximately \$180 million in total cash (both DDA and FBO
- 21 accounts) associated with Fintech Partner end users and potential platform reserves.
- 22 • The remaining trial balance, after distributions made by certain Partner Banks prior to
- 23 the appointment of the Trustee on May 24, 2024, is approximately \$265 million.
- 24 • As a result, the trial balances from the Fintech Partners and Synapse that served as
- 25 inputs for the Initial Bank Reconciliation reflects a shortfall of approximately \$85
- 26 million.
- 27 • The source of the shortfall, including whether end user funds and negative balance
- 28 accounts were moved among Partner Banks in a way that increased or decreased the

1            respective shortfalls that may have existed at each Partner Bank at an earlier time, is  
2            not known at this time.

- 3            • It would take some Partner Banks several weeks (if not longer) to completely reconcile  
4            which payments among the Partner Banks relate to which Fintech Partner accounts and  
5            agree on the amounts due to Fintech Partners and their underlying end users by each  
6            Partner Bank.
- 7            • While it appears that Synapse assigned customer balances to the Partner Banks via a  
8            ledger, those customers may not have funds with those Partner Banks to the extent that  
9            they are Synapse Brokerage customers.
- 10           • Some Partner Banks believe that they would be able to reconcile certain amounts of  
11           FBO funds with the applicable Fintech Partners and that those funds (the “Reconciled  
12           FBO Funds”) could be distributed to the relevant end users, recognizing that such a  
13           distribution could result in end users being paid less than the full amount they are due as  
14           a result of the overall shortfall.
- 15           • Access to Synapse’s systems, especially the database hosted on MongoDB and AWS,  
16           is essential to completing the reconciliation process.

17           **4.        *Partner Banks’ Proposed Next Steps***

18           **a.        American Bank**

19           American Bank has informed the Trustee that, as of the date of this report, it holds \$43,339.67  
20           in end user funds and is owed approximately \$2,337,000 by the other Partner Banks as a result of  
21           unsettled debit transactions from May 8 to May 23, 2024. American Bank has stated that, while it has  
22           all card data transactions by customer, it requires other Partner Banks’ ledgers by account (i.e., node)  
23           so it can correctly determine the amounts each Partner Bank owes American Bank.

24           **b.        AMG National Trust**

25           AMG has informed the Trustee that, since Synapse ceased operations, it has reached out to all  
26           of the Fintech Partners that are on its Synapse/Brokerage-assigned Trial Balance to confirm with the  
27           Fintech Partner that the end user balances on the Trial Balance are correct for payment purposes. AMG  
28           believes that, (1) if a Fintech Partner expects to continue its operations, AMG should be able to have

1 the total of its end users' funds transferred to another custodian to continue those operations, and (2)  
2 for Fintech Partners winding down their operations, AMG should be able to work with the Fintech  
3 Partners to determine the best way to make distributions to the underlying end users.

4 AMG believes that reconciling Synapse ledgers against Fintech Partner information is the best  
5 source of truth. AMG has informed the Trustee of its observations throughout the reconciliation  
6 process: (1) examples of Fintech Partners' end user accounting systems that track all details of end  
7 users' transactions and balances, (2) multiple examples of account balance records Fintech Partner  
8 end users have provided that match the amounts in the Trial Balance and (3) other evidence that the  
9 Fintech Platforms are actively confirming that the underlying end users' information is correct. AMG  
10 has stated it has been in continuous correspondence with the Fintech Partners, nearly all of which have  
11 confirmed all balances with AMG as of the date of this Report.

12 AMG has informed the Trustee that it could make initial distributions for all of the funds it  
13 holds for end users on the AMG trial balance within two weeks, with most of the dollar amount flowing  
14 out within a week. AMG has conveyed to the Trustee a request that it be authorized to make  
15 distributions for the full amounts.

16 *c.* **Evolve Bank and Trust**

17 Evolve has informed the Trustee that it sees two potential paths forward, for both of which  
18 Evolve would seek the Trustee's or the Court's authorization:

- 19
- 20 • Instruct all Partner Banks to consolidate all the Synapse Brokerage FBO cash into one  
21 account and have the Trustee or the Court determine the amount to be paid to each  
22 Fintech Partner or end user.
  - 23 • Allow the Trustee or the Court to determine the amount to be paid to each Fintech  
24 Partner or end user and based on the cash balances held by each Partner Bank, instruct  
25 them as to the amount to be paid out even if there is a shortfall.

26 Evolve has informed the Trustee of its position that it would be improper for any Partner Bank  
27 performing payment processing and holding funds in an omnibus account for Synapse Brokerage to  
28 otherwise distribute those funds to Fintech Partners or end users at this time as the end users are

1 Synapse Brokerage customers, and Evolve does not have the authority to determine how to distribute  
2 such customer funds.

3 *d.* **Lineage Bank**

4 Lineage has informed the Trustee that it believes that all remaining funds outside of  
5 DDA-related programs are verifiably for the benefit of Synapse Brokerage and the two banks that  
6 Lineage believes have had direct relationships with Synapse Brokerage, AMG National Bank and  
7 American Deposit Management Co., and that such funds should be transferred directly to those banks.

8 **D. Meetings with Constituents**

9 The Appointment Order stipulates that, “[a]s soon as possible, the chapter 11 trustee is directed  
10 to meet and confer with counsel for the various constituents in business with the Debtor, including the  
11 financial technology platforms, the partner financial institutions and the Debtor’s secured lenders.”  
12 Immediately upon notice from the U.S. Trustee of the impending Appointment Order on May 24, the  
13 Trustee and proposed counsel began scheduling meetings with constituents over the Memorial Day  
14 weekend and during the next week. The Trustee appreciates all the constituents who share in the  
15 urgency to restore access to end user accounts and funds and accommodated requests to meet on  
16 weekends, holidays and at all hours. Since appointment, the Trustee has met, either by video  
17 conference or by telephone, with numerous constituents in the Case. The substance of those meetings,  
18 generally stated, is described below:

19 **1. *Debtor’s Former Officers, Key Employees and Contractors***

20 The Trustee and proposed counsel have had several meetings and continue to maintain open  
21 lines of communication with Sankaet Pathak, founder and former chief executive officer of the Debtor,  
22 Tracey Guerin, former general counsel of the Debtor, and Pam Wismer, an independent contractor  
23 from Ascent CFO Solutions who provided fractional chief financial officer services to the Debtor. The  
24 purpose of these meetings and communications has been to discuss the history of the Case, the events  
25 that led to the reconciliation issues and freezing of end user accounts and to obtain key contacts,  
26 systems access and information to facilitate the ledger reconciliation process that is underway.

27 **2. *Bank Partners***

28

1 The Trustee and proposed counsel have had several meetings with the Partner Banks of  
2 Synapse and their respective counsels: American Bank, N.A., AMG National Trust, Evolve Bank and  
3 Trust and Lineage Bank. The Trustee had initial meetings with each of the Banks and their counsel to  
4 discuss the history of their relationship with Synapse, the events that led to the reconciliation issues  
5 and freezing of end user accounts and the current status of their internal reconciliation process. The  
6 Trustee is continuing to meet and communicate with the Partner Banks individually and collectively  
7 to track the status of the Initial Bank Reconciliation and to resolve open issues and questions related  
8 to the Initial Bank Reconciliation and other avenues to unfreeze end user accounts. The Trustee has  
9 generally been successful in getting participation in these meetings and efforts from senior (CEO level)  
10 executives at the Partner Banks.

11 **3. *Financial Technology Platform Partners***

12 The Trustee and proposed counsel have had meetings with many of the Fintech Partners of  
13 Synapse and their respective counsels, including: Changed Inc., Copper, Gig Wage, Grabr, Gravy,  
14 IDT, Juno, Mercury, Sunny Day Fund, TClub (d/b/a Abound), Yieldstreet and Yotta. The purpose of  
15 these meetings was to discuss the history of the Fintech Partners' relationship with Synapse, the events  
16 that led to the reconciliation issues and freezing of end user accounts, the volume of affected customers  
17 and funds and the current status of their internal reconciliation process.

18 **4. *End Users***

19 The Trustee and proposed counsel have had several meetings and communications with  
20 affected end users. The purpose of these meetings and communications has been to understand the  
21 impact to end users and inform end users that the Trustee's top priority is restoring access to end user  
22 funds as soon as possible.

23 **5. *Debtor's Counsel***

24 The Trustee and proposed counsel have met with and maintain open lines of communication  
25 with counsel for the Debtor, Levene, Neale, Bender, Yoo & Golubchik LLP. The purpose of these  
26 meetings and communications has been to discuss the history of the Case, open issues regarding the  
27 administration of this Case and the events that led to the reconciliation issues and freezing of end user  
28 accounts.

1                   **6.       Counsel to Secured Creditors**

2           The Trustee and proposed counsel have met with McDermott, Will & Emery LLP, counsel to  
3 TriplePoint Capital and Morrison Foerster, counsel to First Citizens Bank (acquirer of Silicon Valley  
4 Bank). The purpose of these meetings has been to discuss the history of the Case and potential  
5 conditions under which cash collateral may be used in the event the estate is able to obtain funding  
6 arrangements in light of the priority to complete the Initial Bank Reconciliation and unfreeze end user  
7 accounts. To date, no viable funding arrangements have materialized.

8                   **7.       Kroll, Inc.**

9           The Trustee and proposed counsel have met with and maintain open lines of communication  
10 with Kroll, Inc., who was engaged by the Synapse Audit Committee to conduct an audit and  
11 reconciliation of the Synapse ledgers in 2023. The purpose of these meetings and communications has  
12 been to discuss the findings of the audit and reconciliation conducted by the Kroll team as regards  
13 Synapse systems, transaction history and governance.

14                   **8.       Regulatory and Government Bodies**

15           The Trustee and proposed counsel have met with staff from the Federal Reserve, the Federal  
16 Deposit Insurance Corporation (“FDIC”) and the Securities Investor Protection Corporation (“SIPC”).  
17 The purpose of these meetings was to discuss the history of this Case and the Federal Reserve, FDIC  
18 and SIPC’s view of the events that led to the reconciliation issues and freezing of end user accounts.

19                   **9.       Regulatory Counsel**

20           The Trustee and proposed counsel have met with Lowenstein Sandler LLP, regulatory counsel  
21 to the Debtor and Synapse Brokerage. The purpose of these meetings has been to discuss the history  
22 of this Case, ongoing FINRA and SEC exams of Synapse Brokerage and their view of events that led  
23 to the reconciliation issues and freezing of end user accounts.

24                   **10.     Brokerage Subsidiary Constituents**

25           The Trustee and proposed counsel have met with Jeff Stanley, the former president and chief  
26 executive officer of Synapse Brokerage, and Patten Training & Review, which provides financial  
27 services to and serves as an outsourced principal of Synapse Brokerage. The purpose of these meetings  
28 has been to discuss the history of the Synapse Brokerage and its relationship to the Debtor, ongoing

1 FINRA and SEC exams and the events that led to the reconciliation issues and freezing of end user  
2 accounts.

3 **11. *Official Committee of Unsecured Creditors***

4 The Trustee and proposed counsel have had meetings with Saul Ewing LLP and Boies Schiller  
5 Flexner LLP, proposed co-counsel to the Official Committee of Unsecured Creditors (the “UCC”).  
6 The purpose of these meetings has been to discuss the history of the Case, to gain an understanding of  
7 the Committee’s position on the outstanding issues in this Case and to discuss potential coordination  
8 and appropriate cooperation in the pursuit of estate causes of action once the Trustee’s primary  
9 objective of starting the return of end user funds has been accomplished.

10 **12. *Vendors and Suppliers***

11 The Trustee has received numerous in-bound communications from creditors with unpaid  
12 invoices and the like. The Trustee has focused and has instructed proposed counsel to focus on  
13 restoration of end user access as a priority over these inquiries. For certain “critical vendors” such as  
14 Amazon Web Services (“AWS”) and MongoDB, which host or provide database services, the Trustee  
15 has through proposed counsel reached out to implore them to continue to provide services for the time  
16 being because if access were lost, end users whose funds are inaccessible could suffer irreparable  
17 harm.

18 **13. *Potential Asset Purchasers***

19 The Trustee has received several in-bound inquiries from potential purchasers of assets of the  
20 Debtor. As is typical in a chapter 11 context, it is not clear how serious or actionable any of these  
21 inquiries may be, and the Trustee’s primary focus now is on restoring end user access. Accordingly,  
22 the Trustee has had proposed counsel acknowledge receipt of the in-bounds and note that we are  
23 focusing on restoring end user access but will respond in due course as appropriate. The Trustee is  
24 investigating mechanisms by which funding from a purchaser and/or proceeds from a sale may provide  
25 cash collateral that can be used to fund critical Debtor operations to facilitate the Initial Bank  
26 Reconciliation and unfreezing of customer accounts.

27 **E. Obtaining Access to Debtor’s Systems, Accounts and Records**

28 **1. *Synapse Systems Access***



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

6 **2. *Records Collection and Preservation***

7 The Trustee and proposed counsel have had several communications with AWS and  
8 MongoDB, two key service providers that host records and databases of the Debtor. Based on  
9 discussions with former Synapse officers and employees, the Trustee determined that the continuation  
10 of these services is essential to facilitate the Initial Bank Reconciliation and unfreezing of end user  
11 accounts. The Trustee and proposed counsel contacted AWS and MongoDB to make them aware of  
12 the irreparable harm that would result to the Debtor and end users if access to these hosting services  
13 was interrupted or records were deleted. The Trustee appreciates AWS and MongoDB’s recognition  
14 of the urgency to unfreeze end user accounts and assurances of continued service during the  
15 reconciliation process, even in light of the Debtor’s inability to keep current on its payments.

16 **3. *Bank Accounts***

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

22 **F. Retention of Professionals**

23 **1. *General Bankruptcy Counsel***

24 The Trustee plans to file the “Chapter 11 Trustee’s Application for Order Authorizing  
25 Employment of Cravath, Swaine & Moore LLP as General Bankruptcy Counsel” which will seek an  
26 order of this Court authorizing the employment of Cravath, Swaine & Moore LLP, a firm at which the  
27 Trustee is a partner, to act as the Trustee’s general bankruptcy counsel, effective as of May 24, 2024,  
28 the date of appointment.

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

**2. Local Counsel**

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

**3. Financial Advisors**

The Trustee and proposed counsel have had meetings and communications with potential financial advisors to discuss the engagement of forensic accounting services to assist with the ledger reconciliation process in order to unfreeze customer accounts. Due to current estate funding constraints, the Trustee does not plan to engage outside financial advisors at this time. The Trustee is maintaining open lines of communication with several potential financial advisors to determine whether to engage their services pending the timely and accurate outcome of the Initial Bank Reconciliation and funding.

**II.**

**SIGNIFICANT ISSUES**

**A. Cash Collateral and Wind-Down Budget**

The Debtor currently appears to have zero available liquidity and has no arrangement with secured lenders to access cash collateral in the event that the estate obtains funding. The Trustee and proposed counsel are working to identify sources of funding for the estate and developing a winddown plan that minimizes expenses. In the meantime, the Trustee is focused on the priority to restore end user access and funds and is determined to resolve this issue even while the estate lacks funding to hire independent contractors, engage third-party investigative and accounting experts or pay administrative creditors (including the Trustee and proposed counsel). The Trustee appreciates the creative solutions and commitment of resources offered by Partner Banks and Fintech Partners to facilitate the Initial Bank Reconciliation and unfreezing of end user accounts while estate funding remains unclear.

**B. Conversion**

1 The Trustee believes this Case should remain in chapter 11 for the time being, and, as  
2 a result, does not intend to seek immediate conversion today to chapter 7.

3 **III.**

4 **CONCLUSION AND RECOMMENDATION**

5 Partner Banks have been able to reconcile and return funds to some DDA Account end users.  
6 The Trustee has instructed Partner Banks to continue such reconciliation and the return of funds to the  
7 remaining DDA Account end users.

8 With regard to the FBO accounts, under more optimal circumstances, Partner Banks would  
9 fully reconcile balances with each other, with the Synapse ledger and with the individual Fintech  
10 Partners' ledgers, and subsequently have that reconciliation audited and confirmed by an independent  
11 third party. Given that Synapse has no apparent funds for a third-party reconciliation and that a full  
12 reconciliation among the Partner Banks is likely to take weeks to complete, the Trustee believes that  
13 this approach is not feasible and would delay the repayment of funds.

14 Nonetheless, the Trustee believes that providing Fintech Partners and end users access to their  
15 funds before such reconciliation efforts are concluded would likely result in certain end users being  
16 given access to funds in an amount (1) different from the amount they would be due under a fully  
17 reconciled ledger and (2) less than is shown to be owed to them under the Synapse ledgers. In the  
18 interest of restoring end user funds promptly, it is the Trustee's recommendation, as described in more  
19 detail below, that the Reconciled FBO Funds be distributed to end users as promptly as practicable  
20 following the status conference relating to this Report.

21 As such, there are three potential pathways for resolution of outstanding FBO funds for  
22 consideration by the Court and parties in interest.

- 23 1) Full Payment to Reconciled FBO Accounts and No Payment to Unreconciled FBO  
24 Accounts: End user funds held in Reconciled FBO Accounts should be released as soon  
25 as practicable after the status conference. For end user funds held in accounts for which  
26 Partner Banks and Fintech Platforms have not been able to reconcile their respective  
27 accounts against the Synapse ledgers or individual Fintech Platform ledgers, or where  
28

1 there is a current shortfall between end user balances and actual FBO balances, those  
2 funds should not be repaid entirely or partially while reconciliation efforts continue.

3 2) Full Payment to Reconciled FBO and Partial Payment to Unreconciled FBO Accounts:

4 End user funds held in Reconciled FBO Accounts should be released as soon as  
5 practicable after the status conference. For end user funds held in accounts for which  
6 Partner Banks and Fintech Platforms have not been able to reconcile their respective  
7 accounts against the Synapse ledgers or individual Fintech Platform ledgers, or where  
8 there is a current shortfall between end user balances and actual FBO balances, those  
9 funds should be paid partially while reconciliation efforts continue. Any shortfall  
10 should be allocated pro rata among the total end users or Fintech Platforms. Partner  
11 Banks should release pro rata amounts of end user funds immediately and the remaining  
12 balances will not be paid out while reconciliation efforts continue.

13 3) Partial Payment to All FBO Accounts: Reconciled FBO Accounts would not receive

14 full payments. Rather, any shortfall should be allocated pro rata among the total end  
15 users or Fintech Platforms. Partner Banks should release pro rata amounts of end user  
16 funds immediately and the remaining balances will not be paid out while reconciliation  
17 efforts continue.

18 4) No Payment to Any FBO Accounts: No Fintech Platform end user funds would be

19 repaid at this time while reconciliation efforts continue.

20 The Trustee will present the foregoing at the Status Conference scheduled for June 7, 2024, at  
21 1:30 p.m. Pacific Time. Depending on the outcome of the Status Conference and other certain meetings  
22 and communications, the Trustee may respectfully request that Court grant certain relief as the Court  
23 deems appropriate after the Status Conference.

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 7, 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*): \_\_\_\_\_

AMENDED CHAPTER 11 TRUSTEE'S INITIAL 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*) 6/7/2024, 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)* 6/7/2024, 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)* 6/7/2024, 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.

6/7/2024  
Date

Robert N. Greenfield  
Printed Name

/s/ Robert N. Greenfield  
Signature