UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF MISSOURI
EASTERN DIVISION

SECURITIES AND EXCHANGE COMMISSION,	)	
Plaintiff,	)	
v.	)	Case No. 4:12-cv-00080-CEJ
BURTON DOUGLAS MORRISS, et al.,	)	
Defendants, and	)	
MORRISS HOLDINGS, LLC,	)	
Relief Defendant.	)	

MEMORANDUM OF LAW IN SUPPORT OF RECEIVER'S MOTION FOR APPROVAL OF SETTLEMENT AGREEMENT BETWEEN GRYPHON INVESTMENTS III, LLC AND JOHN S. WEHRLE, GRYPHON INVESTMENTS II, LLC, AND CIRQIT.COM, LLC

In keeping with the principal objectives of the Receivership, *i.e.*, to administer and manage the business affairs, funds, assets, choses in action, and other property of the Receivership Entities, to marshal and safeguard the Receivership assets, and to take such actions as are necessary for the protection of the investors, the Receiver respectfully requests that the Court enter an Order[1] approving the Receiver's *Agreement to Compromise, Settle and Release Claims* (the "Agreement") against John S. Wehrle ("Wehrle"), individually and in his capacity as trustee of the John S. Wehrle Revocable Living Trust (the "Trust"), Gryphon Investments II, LLC ("Gryphon II"), and Cirqit.Com, Inc. ("Cirqit" and collectively, the "Wehrle Defendants"). As part of the terms of the Agreement, subject to the approval of the Court, the Receivership estate will receive a cash payment of $125,000 along with a signed and sworn financial statement from Wehrle, a consent judgment of $875,000 against Wehrle, additional Cirqit stock in the

[1] A proposed order is attached hereto as **Exhibit A.**

name of Gryphon Investments III, LLC ("Gryphon III"), and the best efforts of the Wehrle Defendants in assisting the Receiver to redeem the Receivership's interests in Cirqit for the planned purchase price of $1,489,201.

I. Background

A. The Receivership

On January 17, 2012, the United States Securities and Exchange Commission (the "SEC") filed its *Complaint for Injunctive and Other Relief* (the "Complaint") against Burton Douglas Morriss ("Morriss"), Acartha Group, LLC ("Acartha"), Acartha Technology Partners, L.P. ("ATP"), MIC VII, LLC ("MIC"), Gryphon III (collectively, the "Receivership Entities") and Morriss Holdings, LLC ("Morriss Holdings")[2] in this Court as Case No. 4:12-cv-00080-CEJ (the "SEC Case"). (SEC Case, ECF No. 1.) In the Complaint and other papers filed by the SEC on January 17, 2012, the SEC alleged various securities laws violations by the SEC Defendants.

Also, on January 17, 2012, the SEC moved for the immediate appointment of a receiver over the Receivership Entities to (i) administer and manage the business affairs, funds, assets, choses in action and other property of the Receivership Entities, (ii) act as sole and exclusive managing member or partner of the Receivership Entities, (iii) maintain sole authority to administer any and all bankruptcy cases in the manner determined to be in the best interests of the Receivership Entities' estates, (iv) marshal and safeguard all of the assets of the Receivership Entities, and (v) take whatever actions are necessary for the protection of investors. The Court entered the requested relief by order dated January 17, 2012 (the "Receivership Order"). (*See* SEC Case, Receivership Order, ECF No. 16.)

As established in the Receivership Order, the Receiver is charged with

[2] Morriss, Acartha, ATP, MIC, Gryphon III, and Morriss Holdings are collectively referred to as the "SEC Defendants."

> tak[ing] immediate possession of all property, assets and estate of every kind of the [Receivership] Entities whatsoever and wheresoever located, including but not limited to all offices maintained by the [Receivership] Entities'[,] rights of action, books, papers, data processing records, evidence of debt, bank accounts, savings accounts, certificates of deposit, stocks, bonds, debentures and other securities, mortgages, furniture, fixtures, office supplies and equipment, and all real property of the [Receivership] Entities, wherever situated, and to administer such assets as is required in order to comply with the directions contained in this Order, and to hold all other assets pending further Order of this Court…"

(*Id*. at 2.) The Receiver also is "authorized, solely and exclusively, to operate and manage the businesses and financial affairs of [the Receivership Entities] and the Receiver Estates." (*Id*. at 8.)

Furthermore, the Receiver is charged with investigating the manner in which the affairs of the Receivership Entities were conducted and instituting such actions and legal proceedings, for the benefit and on behalf of the Receivership Entities, as the Receiver deems necessary against those individuals and entities that the Receiver may claim have to directly or indirectly misappropriated or transferred monies. (*Id*. at 2-3.) The Receiver may defend, compromise or settle legal actions in which the Receivership Entities are parties, with authorization of the Court. (*Id*. at 4.)

In keeping with the directives of the Court and the authorities granted to the Receiver, the Receiver now seeks to compromise and settle the claims of Gryphon III against the Wehrle Defendants.

B. Claims against the Wehrle Defendants

On March 13, 2015, Gryphon III,[3] by and through the Receiver, filed suit against the Wehrle Defendants. *See Gryphon Investments III, LLC v. John S. Wehrle, et al.*, Case No. 4:15-cv-00464-RWS (E.D. Mo.) ("Wehrle Case"). Pursuant to an amended complaint filed in September 2015, the Receiver asserted claims for breach of contract, breach of fiduciary duty, fraudulent transfers, unjust enrichment/quantum meruit, money had and received, and an accounting against one or more of the Wehrle Defendants. (Wehrle Case, ECF No. 73).

i. Background Relevant to Receiver's Claims

Wehrle served as the manager of Gryphon III and possessed authority and control over its day-to-day affairs. (Wehrle Case, ECF No. 73 at ¶¶ 6, 18-20.) Gryphon III served as the general partner of ATP, a Delaware limited partnership established to provide venture capital financing. Gryphon III's purpose was to fund working capital and other expenditures of Gryphon III as general partner of ATP. Gryphon III's operating agreement was entered into and agreed to by the Trust. (*Id*. at ¶ 17.)

During the same time frame that Wehrle managed Gryphon III, Wehrle also served as managing partner of Gryphon II. (*See id*. at ¶¶ 6, 33) Gryphon II operated as the general partner for Gryphon Holdings II, LLP, a private equity and venture capital fund that Wehrle also founded and managed. (*See id*. at ¶¶ 6, 8.) As manager of Gryphon II, Wehrle had control over the day-to-day affairs of Gryphon II, including its bank account.

Wehrle also serves as the chairman of the board of directors of Cirqit, a Delaware corporation that has as its only asset and sole portfolio holding an interest in LogicSource, Inc., a

[3] Gryphon III, a Receivership Entity, is a Missouri limited liability company formed by Wehrle on March 1, 2008. (Wehrle Case, ECF No. 73 at ¶ 15.)

sourcing and procurement services firm. As chairman of Cirqit's board of directors, Wehrle controls and manages Cirqit. (*Id*. at ¶ 9.)

In March 2008, Wehrle, and others at his direction, began soliciting investor contributions for Gryphon III. Investors were typically given a subscription agreement, a summary of the terms of investment, the Gryphon III operating agreement, and the Gryphon III wire transfer instructions for review. The subscription agreement, summary of terms, and operating agreement made it clear that investor funds were being collected for Gryphon III's working capital and no other entity. The Gryphon III wire transfer instructions stated that investor funds would be deposited into a U.S. Bank account belonging to Gryphon III. (*See id*. at ¶¶ 22-30.)

Upon agreeing to invest in Gryphon III, investors transferred their capital contributions to the U.S. Bank account as directed by the wire transfer instructions. The U.S. Bank account was represented on the wire transfer instructions as belonging to Gryphon III. The listed bank account, however, belonged to Gryphon II, a similarly-named entity that Wehrle also controlled. As a result, investors were depositing their intended Gryphon III capital contributions into a bank account that was neither owned nor utilized by Gryphon III. (*See id*. at ¶ 33.)

In the amended complaint, Gryphon III alleges that by September 2008, Wehrle, and others at his direction, raised $3.425 million from eleven (11) Gryphon III investors under the false representation that their monies would fund the working capital of Gryphon III. (*See id*. at ¶ 37.) Gryphon III further alleges that none of the Gryphon III investor funds were ever utilized by Gryphon III. Instead, Gryphon contends that between March 2008 and December 2008, Wehrle improperly commingled Gryphon III investor contributions with the funds of Gryphon II

and improperly diverted those monies to himself and companies under his control, namely Gryphon II and Cirqit. (*See id*. at ¶¶ 35-37.)

ii. The Nature of the Claims and Defenses

In the original complaint, filed on March 13, 2015, Gryphon III asserted claims for breach of contract and breach of fiduciary duty against Wehrle, in his individual capacity, for his role in diverting investor funds as manager of Gryphon III. Gryphon III also asserted claims against Wehrle, Gryphon II, and Cirqit for fraudulent transfers, unjust enrichment, money had and received, conversion, replevin, and an accounting for their role in fraudulently transferring and/or receiving Gryphon III funds. Gryphon III sought compensatory and punitive damages, immediate payment of any and all fraudulent transfers to or for the benefit of Wehrle, Gryphon II, and/or Cirqit, an accounting of the receipts and disbursements of the transactions at issue, and the imposition of a constructive trust and/or equitable lien against Wehrle, Gryphon II, and Cirqit over and against monies they have that belong to and were diverted from Gryphon III, as well as attorneys' fees and costs. (Wehrle Case, ECF No. 1.)

On April 27, 2015, Wehrle filed a Motion to Dismiss Counts I (breach of contract), III (fraudulent transfers), VI (unjust enrichment), and VII (replevin). (Wehrle Case, ECF Nos. 21, 22.) Gryphon II and Cirqit filed similar motions on May 4, 2015. (Wehrle Case, ECF Nos. 26, 27.) Wehrle, Gryphon II, and Cirqit argued that Count I, the breach of contract claim, should be dismissed because Wehrle, in his individual capacity, was not a party to the Gryphon III operating agreement. According to Wehrle, Gryphon II, and Cirqit, the operating agreement was entered into by Wehrle in his capacity as trustee of the Trust. Wehrle, Gryphon II, and Cirqit also argued that Count III did not meet the heightened pleading requirements of FRCP 9(b) and that Missouri law does not allow claims for conversion or replevin for money. The court granted

the Motions to Dismiss as to Counts I, VI, and VII of the Complaint and denied their Motions to Dismiss as to Count III. (Wehrle Case, ECF Nos. 63, 64.) As a result, Gryphon III filed an amended Complaint adding the Trust as a party and reasserting the breach of contract claim against Wehrle in his capacity as trustee of the Trust. (Wehrle Case, ECF No. 73.)

C. The Agreement

Prior to and since the filing of the claims against the Wehrle Defendants, the Receiver and the Wehrle Defendants engaged in settlement negotiations, including an agreed-upon mediation with Richard Sher of Sher Corwin Winters LLC. Mediation was conducted during three full days, on September 16, October 2, and December 4, 2015. Prior to the mediation, the parties submitted statements describing their respective positions along with relevant documentation. During and following the mediation, the parties explored the strengths and weaknesses of their claims and damages theories with the mediator and negotiated the language of the Agreement. Following these extensive settlement negotiations, the Receiver and the Wehrle Defendants agreed to the terms of the Agreement attached hereto as **Exhibit B**, subject to the approval of this Court.

The principal terms of the Agreement are:

1. A lump sum cash payment in the amount of $125,000;
2. Entry of a consent judgment against Wehrle in the amount of $875,000;
3. The submission of a sworn financial statement by Wehrle with supporting documentation;
4. Retitling of 3,075,174 shares of the Series D preferred stock of Cirqit in the name of Gryphon III;

5. Cirqit's redemption of 214,063,351 shares of the Series D preferred stock of Cirqit held by the Receivership Entities (inclusive of the shares to be retitled in the name of Gryphon III) for the planned purchase price of $1,489,201[4]; and
6. Mutual releases between the Receiver and the Wehrle Defendants.

The Receiver now seeks this Court's approval of the proposed settlement and Agreement. The Receiver believes that effectuation of the Agreement under the terms and conditions stated therein is in the best interests of the Receivership estate. The Agreement avoids the potential for long and protracted litigation, along with the risk that is inherent for both the Receiver and the Wehrle Defendants. In particular, settlement at this juncture in accordance with the Agreement reduces collectability risks for the Receivership estate, given that Wehrle's financial statement reflects a negative net worth and he is a defendant in a federal criminal proceeding that is set for trial in the near future.

Settlement of Gryphon III's claims against the Wehrle Defendants will bring the Receiver one step closer to resolution of the Receivership proceeding and distribution of accumulated funds to investors and other claimants. If the Agreement is approved, the Receivership will avoid additional attorneys' fees, the time and expense of oversight of the Wehrle Case by the Receiver, and expenses associated with litigation of the Wehrle Case, including but not limited to deposition costs, transcripts, travel expenses, copying costs, and expert witness fees.

D. Redemption and Sale of Receivership Interests in Cirqit

As described above, a central component of the Agreement is Cirqit's redemption of 214,063,351 shares of the Series D preferred stock of Cirqit held by the Receivership.[5] The

[4] The purchase price stated above is calculated as of October 31, 2015 and is subject to adjustment based on additional interest accrued on certain capital call notes issued by Cirqit.

[5] Pursuant to the Agreement, the parties acknowledge Cirqit's ability to redeem the Cirqit shares held by the Receivership is dependent upon Cirqit's ability to sell to LogicSource and/or affiliated purchasers an allocable number of Series A preferred shares of LogicSource and that none of the Parties controls the

Receiver believes this redemption to be in the best interests of the Receivership Entities so that the Receiver may: (i) recover significant sums which the Receiver believes to represent a fair value; (ii) avoid further time and expense in monitoring and overseeing this asset; (iii) avoid the risk of future dilution of Receivership interests in Cirqit as additional capital is required; and (iv) gather additional funds for distribution to allowed claimants.

One of the Receiver's primary activities has been the daily work of managing the Receivership's investment assets (illiquid interests in various portfolio concerns). Since the inception of the Receivership proceeding, the Receiver has managed interests in portfolio concerns in varying stages of development. Over time, each of the portfolio companies has continued to require additional venture capital investments or other financing to maintain and sustain growth. The Receiver has engaged in the time-consuming process of monitoring and facilitating the capital calls and financing needs of the portfolio concerns, including Cirqit, since the beginning of the Receivership. The Receiver's responsibilities have included consideration of Cirqit's capital needs due to various liabilities, including those pertaining to ongoing expenses for management and legal fees, a significant and ongoing indemnity obligation which caused Cirqit to fund related litigation, and funding required by Cirqit's portfolio asset, LogicSource.

LogicSource is a developer, marketer, and operator of software products and services to large Fortune 500 companies. The Fortune 500 companies outsource their sourcing and procurement operations to LogicSource. LogicSource provides its cloud-based OneMarket technology, which automates and streamlines workflow of the transactional procurement life cycle. OneMarket provides analytical capabilities that improve and simplify financial

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actions or decisions of LogicSource. However, the Parties will use their best efforts to cause the sale of the LogicSource shares to occur.

management of category spend analysis, comprehensive price benchmarking, and sophisticated spend analytics. LogicSource was founded in 2009 and is based in South Norwalk, Connecticut.

Receivership holdings in Cirqit total 214,063,351 shares of the Series D preferred stock of Cirqit and are as follows:

MIC VII	188,262,093 Series D shares
ATP	22,726,084 Series D shares
Gryphon III	3,075,174 Series D shares[6]
TOTAL	**214,063,351 Series D shares**

Pursuant to the Agreement, the Parties will utilize their best efforts to effectuate a redemption of the Receivership's interest in Cirqit for an aggregate purchase price of $1,489,201 (calculated as of October 31, 2015).[7]

II. Argument

A. The Agreement is Reasonable and Permissible under Existing Authority

Pursuant to the Receivership Order, the Court authorized the Receiver to, among other things, administer and manage the business affairs, funds, assets, choses in action, and other property of the Receivership Entities, marshal and safeguard the assets of the Receivership Entities, and take such actions as are necessary for the protection of investors. (SEC Case, ECF No. 16 at 1.) *See also Scholes v. Lehmann*, 56 F.3d 750, 755 (7th Cir. 1995) (receiver's "object is to maximize the value of the [Receivership assets] for the benefit of their investors and any creditors"). The Court also authorized the Receiver to take immediate possession of all property, assets, and estates of every kind of the Receivership Entities whatsoever and wheresoever located, and hold such assets pending further order of the Court. (*See* SEC Case, ECF No. 16 at 1.)

[6] This figure includes the Cirqit shares that will be retitled in Gryphon III's name under the terms of the proposed Agreement.
[7] *See* n. 4.

Now, in the execution of her sole and exclusive duty to manage the assets of the Receivership Entities and maximize the value of those assets for the benefit of the investors and any creditors, the Receiver seeks this Court's approval of the Agreement. The funds recovered under the terms of the Agreement will increase the liquid assets of the Receivership estate, maximize the possibility of a distribution to investors, avoid the risk of future dilution and diminution of the Receivership's holding in Cirqit, and help fund the Receivership's pursuit of recoveries against third-parties. It also will reduce the cost to the Receivership estate of managing and monitoring ongoing litigation and its holding in Cirqit.

A court's "power to supervise an equity receivership and to determine the appropriate action to be taken in the administration of the receivership is extremely broad." *SEC v. Hardy*, 803 F.2d 1034, 1037 (9th Cir. 1986); *Sec. & Exch. Comm'n v. Goldfarb*, No. C 11-00938 WHA, 2013 WL 4504271, at *2 (N.D. Cal. Aug. 21, 2013). Consequently, "[i]t is a recognized principle of law that a district court has broad powers and wide discretion to determine the appropriate relief in an equity receivership." *Id*. In similar situations, courts have deferred to a Receiver's business and legal judgment, allowing a compromise that is fair and falls within the "range of reasonableness." *S.E.C. v. Ruderman*, No. 2:09-CV-02974-ODW, 2013 WL 153266, at *2 (C.D. Cal. Jan. 15, 2013). This range "recognizes the uncertainties of law and fact in any particular case and the concomitant risks and costs necessarily inherent in taking any litigation to completion." *Id*. While the court may not simply "rubber-stamp" the parties' decision to enter into a settlement agreement, it also need not "conduct an exhaustive investigation, hold a mini-trial on the merits of the claims sought to be compromised, or require that the settlement be the best that could possibly be achieved." *Id*. The trial court "need only find that the settlement was negotiated in good faith and is reasonable, fair and equitable." *Id.; see also S.E.C. v. Arkansas*

Loan & Thrift Corp., 427 F.2d 1171 (8th Cir. 1970) (affirming district court's approval of the Receiver's settlement agreement); *S.E.C. v. Parish*, No. 2:07-CV-00919-DCN, 2010 WL 8347143, at *1 (D.S.C. Apr. 8, 2010) (granting Receiver's motion to approve the settlement agreement); *accord S.E.C. v. Temme*, No. 4:11-CV-655, 2014 WL 1493399, at *1 (E.D. Tex. Apr. 16, 2014).

Under the circumstances, the Receiver believes that the terms and conditions of the Agreement are reasonable, in the best interests of the Receivership, and will be beneficial to the investors and creditors of the Receivership Entities. In preparation for, during, and following the filing of the complaint against the Wehrle Defendants and participation in the mediation, the Receiver closely considered the strength of Gryphon III's claims and the defenses of the Wehrle Defendants. As part of this review and the Agreement, the Receiver agreed to compromise the claims against Wehrle based upon an apparent lack of financial resources, as demonstrated by the financial statement referenced in the Agreement. The Receiver does not believe it to be cost effective under the present circumstances to continue to litigate the claims against Wehrle in light of his agreement to a consent judgment, cash payment of $125,000, and submission of a sworn financial statement demonstrating a negative net worth. Moreover, Wehrle assisted with the retitling of Cirqit shares in the name of Gryphon III and agreed to use his best efforts to effectuate a redemption of the Receivership interests. The redemption and resulting recovery of cash proceeds by the Receiver will increase the amount of funds available for a potential distribution to allowed claimants and provide a source of cash to fund the operations of the Receivership.

B. Sale of the Receivership's Interest in Cirqit

A receiver's sale of personal property is governed by 28 U.S.C. § 2004, which directs that any personalty (personal property) sold under order or decree of a court of the United States be sold in accordance with 28 U.S.C. § 2001, unless the court orders otherwise. Section 2001, in turn, provides that realty (real property) shall be sold either at public sale or private sale, on terms and conditions set by the statute.

Here, the Receiver is proposing to sell the Receivership's interest in Cirqit by private sale. Therefore, pursuant to Section 2004, the Receiver must follow the statutory procedures of Section 2001, unless the Court orders otherwise. Section 2001(b) permits property to be sold in a private sale, provided that three separate appraisals have been conducted, the terms are published in a circulated newspaper ten days prior to sale, and the sale price is not less than two-thirds of the valued price. Because of the circumstances of the proposed sale and the nature of the property being sold, the Receiver requests that the Court use its statutorily-granted discretion to approve the proposed sale even though it does not follow the procedural dictates of Section 2001.

A court's "power to supervise an equity receivership and to determine the appropriate action to be taken in the administration of the receivership is extremely broad. It is a recognized principle of law that the district court has broad powers and wide discretion to determine the appropriate relief in an equity receivership." *SEC v. Hardy,* 803 F.2d 1034, 1037 (9th Cir. 1986); *Sec. & Exch. Comm'n v. Goldfarb*, No. C 11-00938 WHA, 2013 WL 4504271, at *2 (N.D. Cal. Aug. 21, 2013). When dealing with the sale of property, Sections 2001 and 2004 set out a "preferential course to be followed." *Tanzer v. Huffines,* 412 F.2d 221, 222 (3d Cir. 1969). For the sale of personal property, however, Section 2004 gives the receivership court discretion to authorize a sale outside of the statutory scheme. *See* 28 U.S.C. § 2004; *Tanzer*, 412 F.2d at

223 (court's decision to authorize sale of stock outside statutory scheme reviewed for abuse of discretion). Courts have exercised this discretion when the personalty for sale is stock or other similar assets. *See Tanzer*, 412 F.2d 221; *Goldfarb*, 2013 WL 4504271 (selling interest in limited liability company); *U.S. v. Kerner*, No. 00-75370, 2003 WL 22905202 (E.D. Mich. Oct. 24, 2003) (selling stock). When another sale procedure is proposed, the court should consider whether the price for which the asset is proposed to be sold is the "best price under the circumstances." *Goldfarb*, 2013 WL 4504271, at *2, citing *Tanzer*, 412 F.2d at 223.

Here, the Receiver is selling shares in Cirqit, a private company. The Receiver's ability to market the interests is limited. The interests are shares in a privately-held company, whose only material asset is its holding in LogicSource, another privately-held company. A potential (and serious) buyer would require information about both Cirqit and LogicSource, and related diligence on Cirqit and LogicSource that neither company is under any obligation to provide. Thus, the pool of potential buyers consists of those individuals and entities who already have diligence or the right to request information sufficient to make an informed decision about the value of the Receivership interests. It would be very difficult for the Receiver to interest a third party not already a shareholder or otherwise familiar with Cirqit and LogicSource in making an offer. Here, Cirqit plans to redeem the Receiver's interests in Cirqit and to use its best efforts to sell an allocable number of shares of LogicSource. Cirqit and LogicSource are part of limited universe of conceivable buyers for these interests, and as of the filing of this Motion, the Receiver has not received any other offers.

The Receiver engaged an expert, H. Edward Morris, Jr. of CliftonLarsonAllen LLP, to assist the Receiver in determining the reasonableness of the redemption price to be paid by Cirqit. Mr. Morris concluded that the redemption price for the Cirqit Series D preferred shares is

reasonable based on the redemption of LogicSource Series A preferred shares at $2.50 per share. Mr. Morris reached his conclusion after (a) subjecting the proposed redemption of Cirqit Series D shares to reasonableness testing based on a July 2015 redemption of Series D shares by Cirqit and (b) analyzing the LogicSource Series A redemption price using the market approach method. The analysis and conclusions of Mr. Morris can be found in his Valuation Report, which is attached hereto as **Exhibit C** in redacted form and incorporated by reference herein.[8] The Receiver submits that Mr. Morris's conclusions support a finding that the proposed redemption price for the Receivership's Series D preferred shares in Cirqit represents the "best price" for the shares "under the circumstances." *See Goldfarb*, 2013 WL 4504271, at *2, citing *Tanzer*, 412 F.2d at 223.

Given the nature, quality, and value of the Receivership's Series D preferred shares, the Receiver believes that the terms and conditions of the proposed redemption by Cirqit are the best available to the Receivership and will be beneficial to the investors and creditors of the Receivership Entities. The Receiver's expert has opined that the proposed redemption is fair and reasonable. Moreover, the consummation of the redemption will enable the Receiver to obtain cash to fund the operations of the Receivership and make a distribution to allowed claimants. As such, the Receiver respectfully requests that the Court exercise its statutory discretion to exempt the proposed sale from the strictures of Section 2001's private sale requirements and authorize the Receiver to consummate Cirqit's redemption of the Receivership's holdings in Cirqit. For the reasons summarized in the report prepared by Mr. Morris, the redemption is in the best interests of the Receivership estate and will further the objectives of the Receivership.

[8] The Receiver is filing an unredacted version of the Valuation Report with the Court and requesting that the Court maintain the unredacted Valuation Report under seal. The Valuation Report contains sensitive financial and other nonpublic information about LogicSource and Cirqit that may place LogicSource and/or Cirqit at a competitive disadvantage if made public through this filing.

III. Service of the Motion

The Receiver is serving a copy of this motion on all counsel of record. Out of an abundance of caution, the Receiver also is serving certain interested parties (the "Interested Parties") via electronic mail. The Receiver considers the Interested Parties to be those Receivership Entity investors whose filed claims have been recommended for allowance by the Receiver. Furthermore, as she has done with previous motions, the Receiver will post a copy of the motion on the Receivership's website.

IV. Conclusion

For all the foregoing reasons, the Receiver respectfully requests that the Court enter an Order approving the Agreement as reasonable, fair, and equitable, authorizing the Receiver's consummation of the redemption of the Receivership's holdings in Cirqit by Cirqit in accordance with the Agreement, and granting the Receiver such other and further relief as is just and appropriate under the circumstances.

Dated: January 7, 2016

Respectfully Submitted,

THOMPSON COBURN LLP

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CERTIFICATE OF SERVICE

I hereby certify that on January 7, 2016, I electronically filed the foregoing with the Clerk of the Court through the Court's CM/ECF system which will send a notice of electronic filing to all counsel of record receiving electronic service.

I further certify that I served the foregoing document via electronic mail on all Interested Parties (as defined in this Memorandum).

/s/ Kathleen E. Kraft

EXHIBIT A

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF MISSOURI
EASTERN DIVISION

SECURITIES AND EXCHANGE COMMISSION, Plaintiff, v. BURTON DOUGLAS MORRISS, et al., Defendants, and MORRISS HOLDINGS, LLC, Relief Defendant.	)	Case No. 4:12-cv-00080-CEJ

ORDER APPROVING SETTLEMENT AGREEMENT BETWEEN GRYPHON INVESTMENTS III, LLC AND JOHN S. WEHRLE, GRYPHON INVESTMENTS II, LLC, AND CIRQIT.COM, LLC

This matter is before the Court on the *Motion for Approval of Settlement Agreement Between Gryphon Investments III, LLC and John S. Wehrle, Gryphon Investments II, LLC, and Cirquit.com, LLC* and memorandum in support thereof (ECF Nos. __, __; the "Motion") filed by Claire M. Schenk, the court-appointed receiver ("Receiver") for Acartha Group, LLC, Acartha Technology Partners, L.P., MIC VII, LLC, and Gryphon Investments III, LLC (collectively, the "Receivership Entities"). On January 7, 2016, the Receiver filed the Motion, seeking Court approval of the Receiver's *Agreement to Compromise, Settle and Release Claims* (the "Agreement") against John S. Wehrle ("Wehrle"), individually and in his capacity as trustee of the John S. Wehrle Revocable Living Trust (the "Trust"), Gryphon Investments II, LLC ("Gryphon II"), and Cirqit.Com, Inc. ("Cirqit" and collectively, the "Wehrle Defendants"). The Agreement, among other things, contemplates the redemption of the Receivership's 214,063,351 Series D shares in Cirqit for the planned purchase price of $1,489,201, which price is calculated

as of October 31, 2015 and is subject to adjustment based on additional interest accrued on certain capital call notes issued by Cirqit (as finally calculated, the "Receivership shares").

Having fully considered the Motion, any oppositions thereto, and being duly advised as to the merits, the Court hereby finds as follows:

1. The Agreement is reasonable, fair, and equitable. *S.E.C. v. Ruderman*, No. 2:09-CV-02974-ODW, 2013 WL 153266, at *2 (C.D. Cal. Jan. 15, 2013). The funds recovered pursuant to the Agreement will increase the liquid assets of the Receivership estate, maximize the possibility of a distribution to investors, avoid the risk of future dilution and diminution of the Receivership's holding in Cirqit, and help fund the Receivership's pursuit of potential recoveries against third-parties. The Agreement also will reduce the cost to the Receivership estate of managing and monitoring ongoing litigation and the Receivership's holding in Cirqit.

2. Good grounds exist to authorize the proposed redemption of the Receivership shares by Cirqit outside of the statutory scheme set forth in 28 U.S.C. §§ 2001 and 2004. *See Tanzer v. Huffines*, 412 F.2d 221 (3d Cir. 1969); *Sec. & Exch. Comm'n v. Goldfarb*, No. C 11-00938 WHA, 2013 WL 4504271 (N.D. Cal. Aug. 21, 2013); *U.S. v. Kerner*, No. 00-75370, 2003 WL 22905202 (E.D. Mich. Oct. 24, 2003). The Court further finds that the purchase price for redemption of the Receivership shares represents the best price for such shares under the circumstances. Therefore,

IT IS HEREBY ORDERED THAT

1. The Motion is **GRANTED** in its entirety.

2. The Agreement is approved. Furthermore, the Receiver is authorized to enter into the Agreement and to consummate the redemption of the Receivership shares in accordance with the terms of the Agreement.

SO ORDERED this the __ day of _____, 2016.

_____

THE HONORABLE CAROL E. JACKSON
UNITED STATES DISTRICT COURT JUDGE

EXHIBIT B

AGREEMENT TO COMPROMISE, SETTLE AND RELEASE CLAIMS

This Agreement to Compromise, Settle and Release Claims (the "Agreement") is made and entered into by and among Acartha Group, LLC, MIC VII, LLC, Acartha Technology Partners, LP, Gryphon Investments III, LLC ("Gryphon III"), and each of their subsidiaries, successors and assigns (collectively the "Receivership Entities"), by and through Claire M. Schenk as Receiver over the Receivership Entities ("Receiver"); and John S. Wehrle ("Wehrle"), Cirqit.com, Inc. ("Cirqit"), Gryphon Investments II, LLC ("Gryphon II") and the John S. Wehrle Revocable Living Trust (the "Trust") (collectively the "Defendants"). The Receivership Entities and the Defendants together are all hereinafter referred to as the "Parties".

WHEREAS, on January 17, 2012, in the case captioned Securities and Exchange Commission v. Burton Douglas Morriss, et al., Case No. 4:12-cv-00080-CEJ (E.D. Mo. 2012) (the "Receivership Proceedings"), the United States District Court for the Eastern District of Missouri (the "Receivership Court") entered an Order appointing Claire M. Schenk as Receiver over the Receivership Entities (the "Order Appointing Receiver");

WHEREAS, on July 10, 2012, the Receiver and Wehrle executed a "Tolling Agreement" to toll the running of any applicable statutes of limitation or repose so as to afford the parties to the Tolling Agreement an opportunity, through negotiation, to attempt to resolve the Receiver's claims, and the Tolling Agreement was amended and extended through March 16, 2015;

WHEREAS, on March 13, 2015, Gryphon III, by and through the Receiver and consistent with her appointment, filed an eight count Complaint against Wehrle, Gryphon II and Cirqit in the United States District Court for the Eastern District of Missouri asserting a variety of claims against said Defendants;

WHEREAS, on September 23, 2015, Gryphon III, by and through the Receiver and consistent with her appointment, filed a six count Amended Complaint (in Case No. 4:15CV 464 RWS) against Wehrle, Gryphon II and Cirqit in the United States District Court for the Eastern District of Missouri asserting a variety of claims against said Defendants and adding claims against John S. Wehrle in his capacity as Trustee of the John S. Wehrle Revocable Living Trust ("Trust");

WHEREAS, the Parties agreed to and did mediate the Receiver's claims before Richard P. Sher on September 16, 2015, October 2, 2015 and December 4, 2015;

WHEREAS, the Parties have reached agreement on terms and conditions for compromising, settling and releasing the Receiver's Claims, as set forth in this Agreement;

NOW, THEREFORE, in consideration of the mutual promises and undertakings, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by each Party, and intending to be legally bound, it is agreed as follows:

1. **Agreement Submitted to Receivership Court for Approval.** The Parties each acknowledge and agree that this Agreement is subject to approval by the Receivership Court. Accordingly, the Agreement will be submitted to the Receivership Court as part of the Receiver's motion for approval and will be filed within the Receivership Proceedings.

2. **Cash Payment to Receiver.** Concurrently with Cirqit's payment to the Receiver, pursuant to paragraph 5, below, of the redemption price for the Cirqit Series D Preferred shares held by the Receivership, pursuant to paragraph 5, below, Defendants shall pay to the Receiver for the benefit of the Receivership Entities, by wire transfer, the sum of One Hundred Twenty-Five Thousand Dollars and No Cents ($125,000.00) (the "Cash Payment"). The wire transfer shall be accomplished in the manner directed by the Receiver.

3. **Consent to Entry of Judgment.** Wehrle agrees to entry against him of a Consent Judgment in the amount of $875,000, substantially in the form of Exhibit A attached hereto. The Receiver will not execute upon the Consent Judgment unless Wehrle has materially misstated his financial condition in the Financial Statement, as set forth more fully in paragraph 6 of this Agreement. The Consent Judgment will be entered within five (5) days following Cirqit's payment to the Receiver, pursuant to paragraph 5, below, of the redemption price for the Cirqit Series D Preferred Shares held by the Receivership Entities. The Consent Judgment will expire two years from its entry if no material misstatement has been discovered, and the Receiver shall, within five (5) days following expiration of the Consent Judgment, file with the Court a Satisfaction of Judgment showing the Consent Judgment to have been satisfied.

4. **Retitling of Cirqit Stock to Receiver.** In contemplation of the execution of this Agreement, Cirqit represents that 3,075,174 shares of the Series D Preferred Stock of Cirqit currently held by Gryphon Holdings, II, LLLP, representing $119,528 divided by the original Series D Preferred Stock price of $0.0389 per share have been retitled in the name of Gryphon III. Such shares are subject to and part of the process outlined in paragraph 5 of this Agreement, pertaining to redemption and purchase of the Receiver's Cirqit shares.

5. **Redemption and Purchase of Receiver's Cirqit Shares.** Settlement is conditioned upon Cirqit's redemption of 214,063,351 shares of the Series D Preferred Stock of Cirqit held by the Receivership (including Cirqit Series D Preferred shares to be retitled in the name of Gryphon III per paragraph 4 above). The parties hereto acknowledge and understand that Cirqit's ability to redeem the Cirqit shares held by the Receivership is dependent upon Cirqit's ability to sell to LogicSource, Inc. ("LogicSource") and/or affiliated purchasers an allocable number of Series A Preferred Shares of LogicSource (the "LogicSource Shares") and

that none of the Parties controls the actions or decisions of LogicSource. The Parties hereto shall use their best efforts to cause the sale of the LogicSource Shares to occur. In the event the sale of the LogicSource Shares occurs and is consummated, then within three (3) days following Cirqit's receipt of the proceeds from the sale of the LogicSource Shares, Cirqit shall pay to the Receiver by wire transfer of immediately available funds the redemption price for the Cirqit Series D Preferred shares held by the Receivership, which is calculated to be $1,489,201 as of October 31, 2015 but which is subject to adjustment based on additional interest accrued on certain capital call notes issued by Cirqit. The wire transfer of the funds obtained as the result of this transaction shall be paid to the Receivership entities and accomplished in the manner directed by the Receiver. The Parties agree that the Stock Redemption Agreement attached hereto as Exhibit C will be utilized to effectuate the redemption and purchase of the Receiver's shares.

6. **Financial Statement.** Wehrle has completed and delivered to the Receiver (along with copies of Wehrle's 2013 and 2014 federal income tax returns) a financial disclosure in the form the Receiver has provided Wehrle. The Receiver has relied upon the accuracy and completeness of the financial statements ("Financial Statements") provided by Wehrle in reaching this Agreement. Wehrle warrants that the Financial Statements are complete, accurate, and current as of the date of such financial statements. If the Receiver learns of any material misrepresentation or omission in the Financial Statements, and if such nondisclosure or misrepresentation causes the Financial Statements to have understated the estimated net worth set forth in the Financial Statements by $50,000 or more, the Receiver may proceed to enforce the Consent Judgment attached hereto as Exhibit A. A material misstatement shall not result from differences in good faith assumptions or estimates used in customary valuation

methodologies to value illiquid private equity, venture capital partnerships or similar assets. In any proceeding in which the Receiver's right to enforce the Consent Judgment is an issue, the Receiver shall have the burden of proving a material misrepresentation or omission.

7. **Receiver's letter describing Settlement and Relations with Wehrle.** Within five (5) days following Cirqit's payment to the Receiver, pursuant to paragraph 5, above, of the redemption price for Cirqit Series D Preferred Shares held by the Receivership, the Receiver shall deliver, fully executed and in final form, the letter attached hereto as Exhibit B and incorporated herein by reference.

8. **Protection of Wehrle's Personal Information.** Wehrle's Financial Statements and supporting documents will not be filed in open Court by the Receiver at the time that approval of the Agreement is sought from the Court. To the extent that the Court orders the production of this information, the Receiver will seek to file these documents under seal and will give Wehrle the opportunity to object to the production of such information.

9. **Release of Wehrle, Cirqit, Gryphon II and the Trust.** Effective only upon the completion of each of (a) receipt of the Cash Payment by the Receiver, and (b) the redemption of the Receiver's Cirqit shares as set forth in paragraph 5 above, the Receiver, on behalf of herself as Receiver of the Receivership Entities and her successor receiver(s), and also on behalf of the Receivership Entities and the Receivership estate, their successors and assigns and all those claiming under or through them, releases, remises and discharges Wehrle, Cirqit, Gryphon II and the Trust, and each of them, their affiliates, subsidiaries and related companies, and all of their respective owners, directors, officers, partners, members, managers, employees, agents, representatives, trustees, insurers, attorneys and successors, and all of their respective heirs, successors, assigns and personal representatives, and each of them ("the Defendant Releasees"),

from any and all known and unknown claims, actions, causes of action, lawsuits, demands, damages, liabilities, losses, or expenses, of any kind or nature whatsoever, whether legal or equitable, that the Receiver, the Receivership Entities and/or the Receivership estate has or might have against any of the Defendant Releasees, including the Receiver's Claims, excepting any claim for breach of any obligation arising under this Agreement.

10. **Release of Receiver, Receivership Entities and Receivership Estate by Wehrle, Cirqit, Gryphon II and the Trust.** Effective only upon the redemption of the Receiver's Cirqit shares as set forth in paragraph 5 above, Wehrle, Cirqit, Gryphon II and the Trust, on behalf of themselves, their heirs, successors and assigns and all those claiming under or through them, release, remise and discharge the Receiver, the Receivership Entities and the Receivership estate, and each of them, their affiliates, subsidiaries and related companies, and all of their respective owners, directors, officers, partners, members, managers, employees, agents, representatives, insurers, attorneys and successors, and all of their respective heirs, successors, assigns and personal representatives, and each of them ("the Receivership Releasees"), from any and all known and unknown claims, actions, causes of action, lawsuits, demands, damages, liabilities, losses, or expenses, of any kind or nature whatsoever, whether legal or equitable, that they have or might have against any of the Receivership Releasees, excepting any claim for breach of any obligation arising under this Agreement.

11. **The Parties Retain Right to Make Claims or Litigate to Enforce the Terms of this Agreement.** The Parties do not release or waive herein their rights to make claims or litigate specifically to enforce the terms of this Agreement, if breached, after ten (10) days prior written notice to each other, and opportunity to cure the breach during those ten (10) days.

12. **No Admission of Liability or Wrongdoing.** Each Party to this Agreement acknowledges and agrees that the terms and conditions set forth in this Agreement constitute a compromise and settlement of disputed claims and positions. By entering into this Agreement, no Party admits to any liability or wrongdoing by that Party, and no Party makes any concession that the claims and positions asserted by it are not well founded. Instead, this Agreement has been made and entered into as a result of the uncertainties, costs and expenses of litigation. The Parties anticipate that, in the absence of this Agreement at this point, the litigation that was likely to ensue would have involved a highly significant investment of time, resources and money for the fees and expenses of attorneys, expert witnesses, discovery, travel, copying expense, motion practice, trial and possible appeals.

13. **Entire Agreement.** This Agreement constitutes the entire agreement between the Parties regarding the subject matter of this Agreement. There are no other agreements, understandings, promises or undertakings between the Parties regarding that subject matter that are not fully set forth in this Agreement.

14. **Governing Law; Venue for Dispute Resolution.** This Agreement shall be governed by federal law insofar as it is applicable and otherwise by the laws of the State of Missouri without regard to the application of its conflict of law principles. Any dispute arising under or in connection with this Agreement shall be subject to the exclusive jurisdiction of the Receivership Court.

15. **Execution in Counterparts; Exchange of Signed Originals.** This Agreement may be executed simultaneously in counterparts and exchanged via facsimile or electronic transmission, each of which shall be deemed an original, and all of which shall constitute one

instrument. This Agreement shall become effective when it has been executed by an authorized representative of each Party.

16. **No Assignment.** This Agreement may not be assigned in whole or in part by any Party to this Agreement.

17. **Authority.** Each of the Parties represents and warrants that the person executing this Agreement on its, her or his behalf has full and proper authority to do so.

18. **Effect of LogicSource's Failure to Purchase the LogicSource Shares.** In the event that LogicSource fails to purchase the LogicSource Shares in accordance with paragraph 5, above, on or before January 31, 2016 (the "Deadline"), then this Agreement shall be null, void and of no further force or effect except for the provisions of paragraph 4, above, but the parties may mutually agree to extend the Deadline.

19. **Motion for Dismissal with prejudice of Gryphon II and Cirqit.** Concurrently with the filing of the Consent Judgment, the Parties will submit the necessary papers for the dismissal with prejudice of the Amended Complaint against Gryphon II and Cirqit., with each party to pay its own costs.

IN WITNESS WHEREOF, each Party has executed this Agreement as of the date set forth below.

Claire M. Schenk, Receiver

ACARTHA GROUP, LLC

By: Claire M. Schenk
Name: Claire M. Schenk
Title: Receiver

MIC VII, LLC

By: _____
Name: Claire M. Schenk
Title: Receiver

ACARTHA TECHNOLOGY PARTNERS, LP

By: _____
Name: Claire M. Schenk
Title: Receiver

GRYPHON INVESTMENTS III, LLC

By: _____
Name: Claire M. Schenk
Title: Receiver

John S. Wehrle

JOHN S. WEHRLE REVOCABLE LIVING TRUST

By: _____
Name: John S. Wehrle
Title: Trustee

CIRQIT, INC.

By: _____
Name: John S. Wehrle
Title: Chairman of the Board

GRYPHON INVESTMENTS II, LLC

By: _____
Name: John S. Wehrle
Title: Manager
Gryphon Investments II LLC

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF MISSOURI
EASTERN DIVISION

GRYPHON INVESTMENTS III, LLC. By and through its Receiver, Claire M. Schenk, Plaintiff, v. JOHN S. WEHRLE, GRYPHON INVESTMENTS II, LLC, and CIRQIT.COM, INC., Defendants,	)	Case No. 4:15 CV 464 RWS

CONSENT JUDGMENT

This matter is before the Court upon the consent of Plaintiff, Gryphon Investments, III, by and through its Receiver, Claire M. Schenk, and Defendants, John S. Wehrle (collectively the "Parties to this Consent Judgment"). The Parties to this Consent Judgment, through their authorized representatives, have resolved the matters in controversy between them and have consented to the terms of this judgment.

NOW, THEREFORE, based upon the advice and stipulation of the Parties to this Consent Judgment, and good cause appearing,

EXHIBIT
tabbies
A

IT IS HEREBY ORDERED, ADJUDGED and DECREED, AS FOLLOWS:

1. Upon agreement of the Parties, the Court hereby enters this Consent Judgment against Defendant John S. Wehrle in the principal amount of Eight Hundred Seventy Five Thousand Dollars ($875,000), plus post-judgement interest as provided by law. This Consent Judgment is represented as Exhibit A to that Settlement Agreement.

2. Plaintiff shall not execute upon this Consent Judgment except in accordance with the terms of the Settlement Agreement, including but not necessarily limited to Sections 3 and 6 thereof.

3. The Court has subject matter jurisdiction over this action and personal jurisdiction over the Parties. Venue is proper in this District. Defendants waive any argument, claim and defense asserting lack of personal jurisdiction, and lack of venue, improper venue, or inconvenient venue.

4. This Court shall retain jurisdiction to enforce the terms and conditions of this Consent Judgment.

5. The Parties to this Consent Judgment acknowledge that they have read the foregoing Consent Judgment, are aware of their right to a trial in this matter and have waived that right.

6. Subject to the terms of the Settlement Agreement, including but not limited to paragraphs 3 and 6, the Receiver shall have the right to use all available enforcement remedies to satisfy the judgment.

7. By each of the signatures below, the Parties to this Consent Judgment have consented to entry of this Consent Judgment by the Court, as set forth above.

8. The Parties to this Consent Judgment state that no promise of any kind or nature whatsoever (other than the terms of the Consent Judgment) was made to induce them to enter into this Consent Judgment, that they have entered into this Consent Judgment voluntarily and that this Consent Judgment constitutes the entire agreement between the Parties, except as set forth in the Settlement Agreement.

_____

RODNEY W. SIPPEL
UNITED STATES DISTRICT JUDGE

DATED:

Claire M. Schenk
P 314.552.6462
F 314.552.7462
cschenk@thompsoncoburn.com

November 24, 2015

Re: *Securities and Exchange Commission v. Burton Douglas Morriss, et al.*, Case Number 4:12-cv-00080-CEJ (E.D. MO) ("Receivership Proceeding)

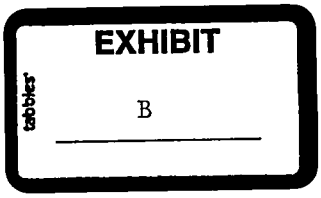
To Whom it May Concern:

On January 17, 2012, I was appointed as Receiver of Acartha Group, LLC, MIC VII, LLC, Acartha Technology Partners, LP and Gryphon Investments, III, LLC (the "Receivership entities") pursuant to the Order of the Court.

Shortly after my appointment as Receiver, Mr. Wehrle reached out to introduce himself to me and volunteered to provide me with background and other information, regarding the Receivership Entities and former management, including Doug Morriss. Since Mr. Morriss had invoked the Fifth Amendment, I was open to alternative sources of information regarding the Receivership entities.

Beginning in the spring of 2012 and continuing for a period of several years, I was in communication with Mr. Wehrle regarding several matters. For one, I was advised that he was the best source of information for all matters pertaining to Gryphon III and I was struggling to find accounting and bank records pertaining to that entity. Two, it was also necessary for me to be in communication with Mr. Wehrle since he served as a Director and Chairman of the Board for Cirqit, a portfolio concern of the Receivership entities. Three, early in the Receivership, I learned that Mr. Wehrle had a close working relationship with and represented a number of investors with significant interests in the Receivership entities.

Given his relationship to these investors, Mr. Wehrle, along with other investors and their representatives, was invited to participate in discussions to evaluate the potential to provide additional financing for various portfolio entities in which the Receivership Entities possessed interests. Mr. Wehrle was allowed to participate in various investor calls so that he might provide financial analysis work product and recommendations with respect to portfolio company financing opportunities to those investors whom he represented. Mr. Wehrle participated in discussions involving both Tervela and Librato.



Mr. Wehrle also shared information with the Receivership in his role as a director of Cirqit, a portfolio company in which several of the Receivership Entities had invested. In his capacity as a director and officer of Cirqit, Mr. Wehrle:

- Took over management and oversight of Cirqit following the resignation of Doug Morriss.
- Led the successful defense in 2013 against a "Pay–To–Play" proposal that, if enforced, would have caused interests allocable to the Receivership Entities to be converted from preferred to common shares, thereby materially reducing the liquidation preference value of the Receivership Entities' interests and causing these interests to be subject to material future dilution.
- Managed Cirqit fund raising efforts, which allowed Cirqit to invest additional amounts in a company known as LogicSource, thereby enhancing the potential for Cirqit, and the Receivership Entities, to realize future gains.

Importantly, and most recently, Mr. Wehrle provided meaningful assistance in connection with the redemption of the Receivership's interest in Cirqit, Inc., and in realizing value for this interest, likely several years in advance of other Cirqit investors.

Very truly yours,

Thompson Coburn LLP

By
Claire M. Schenk
Receiver of Acartha Group, LLC, MIC VII, LLC, Acartha Technology Partners, LP and Gryphon Investments, III, LLC (the "Receivership entities")

STOCK REDEMPTION AGREEMENT

This STOCK REDEMPTION AGREEMENT (this "Agreement") is entered into as of _____, 2015 by and between Claire M. Schenk as Receiver over Acartha Group, LLC, MIC VII, LLC, Acartha Technology Partners, LP, and Gryphon Investments III, LLC, (the "Shareholder" or "Seller"), and Cirqit.com, Inc, a Delaware corporation (the "Company").

WHEREAS, the Seller has asserted claims against the Company in an action filed in the United States District Court for the Eastern District of Missouri;

WHEREAS, the Seller and the Company have entered into a Settlement Agreement related to the settlement of the action referenced above ("Settlement Agreement"), of which this Stock Redemption Agreement is Exhibit C thereto;

WHEREAS, the Seller is the beneficial and record owner of 214,063,351 shares of the Series D Preferred Stock of the Company (including Cirqit Series D Preferred shares to be retitled in the name of Gryphon III per the Settlement Agreement referenced herein) with a total value of $1,489,201 calculated as of October 31, 2015;

WHEREAS, the Company desires to repurchase from the Seller, and the Seller desires to sell to the Company, all of the Seller's ownership interest of Series D Preferred Stock (the "Shares") on the terms and conditions set forth herein; and

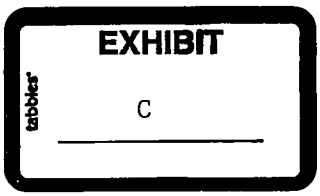
WHEREAS, in contemplation of this transaction, the Company has sold a portion of its Series A Preferred Stock holdings in LogicSource, Inc., a Delaware corporation ("LogicSource") equal to the Seller's prorata holdings in the LogicSource Series A Preferred Stock, based on the Seller's Shares.

NOW THEREFORE, in consideration of the representations, warranties and covenants contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties, intending to be legally bound, hereby agree as follows:

ARTICLE I
PURCHASE AND SALE OF SHARES

1.1 Purchase and Sale of Shares. The Seller hereby sells, assigns, transfers, conveys and delivers to the Company, and the Company hereby accepts and repurchases from the Seller, all right, title and interest in and to the Shares.

1.2 Delivery of Purchase Price. Simultaneous with the execution and delivery hereof, the Company shall deliver to the Seller, by wire transfer of immediately available funds to an account designated by the Seller, the aggregate purchase price of $1,489,201, which is based on the Seller's prorata holdings of Shares in the Company at a purchase price per share of $2.50 (the "Purchase Price") for the LogicSource Series A Preferred Stock. Each of the parties hereto acknowledges and agrees that the Purchase Price is a fully negotiated purchase price, net of reserves for the Company's liabilities.



1.3 Delivery of Shares. Simultaneous with the execution and delivery hereof, the Seller shall deliver to the Company a stock power in the form of Exhibit 1 attached hereto (collectively, the "Seller's Deliverables").

ARTICLE II
REPRESENTATIONS AND WARRANTIES OF THE SELLER

The Seller represents and warrants to the Company that the statements contained in this Article II are true and correct as of the date of this Agreement.

2.1 Ownership of Shares. The Seller is the record owner of the Shares, free and clear of any and all liens, charges, pledges, security interests, claims, mortgages, options and encumbrances of any kind (collectively, "Liens"), except for those Liens that are expressly set forth in the organizational and governance documents of the Company to which the Seller is a party.

2.2 Authorization. The Seller has all requisite corporate power and authority to execute and deliver this Agreement, to perform its obligations hereunder and to consummate the transactions contemplated hereby, subject to the approval of the Receivership Court, as that term is defined in the Agreement to Compromise, Settle and Release Claims by, between and among the Seller, Company, Gryphon Investments II, LLC, John S. Wehrle and The John S. Wehrle Revocable Living Trust. The execution and delivery of this Agreement, the performance of the Seller's obligations hereunder and the consummation of the transactions contemplated hereby, have been duly authorized by all requisite corporate action on the part of the Seller. This Agreement constitutes the legal, valid and binding obligation of the Seller enforceable against the Seller in accordance with its terms.

2.3 Non-Contravention. Neither the execution and delivery by the Seller of this Agreement, nor the consummation by the Seller of the transactions contemplated hereby, will (a) conflict with or violate any provision of the organizational or governance documents of the Seller, (b) require on the part of the Seller any filing with, or permit, authorization, consent or approval of, any person, entity or governmental authority that has not been obtained, (c) conflict with, result in breach of, constitute (with or without due notice or lapse of time or both) a default under, result in the acceleration of obligations under, create in any party any right to terminate, modify or cancel, or require any notice, consent or waiver that has not been obtained under, any contract or instrument to which the Seller is a party or by which it is bound, (d) violate any order, writ, injunction, decree, statute, rule or regulation applicable to the Seller, or (e) result in any Lien on the Shares.

ARTICLE III
REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company represents and warrants to the Seller that the statements contained in this Article III are true and correct as of the date of this Agreement.

3.1 Authorization. The Company has all requisite power and authority to execute and deliver this Agreement, to perform its obligations hereunder and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement, the performance of such

the Company's obligations hereunder and the consummation of the transactions contemplated hereby, have been duly authorized by all requisite action on the part of the Company. This Agreement constitutes the legal, valid and binding obligation of the Company enforceable against the Company in accordance with its terms.

3.2 Non-Contravention. Neither the execution and delivery by the Company of this Agreement, nor the consummation by the Company of the transactions contemplated hereby, will (a) require on the part of the Company any filing with, or permit, authorization, consent or approval of, any person, entity or governmental authority that has not been obtained, (b) conflict with, result in breach of, constitute (with or without due notice or lapse of time or both) a default under, result in the acceleration of obligations under, create in any party any right to terminate, modify or cancel, or require any notice, consent or waiver that has not been obtained under, any contract or instrument to which the Company is a party or by which it is bound, or (c) violate any order, writ, injunction, decree, statute, rule or regulation applicable to the Company.

3.3 No Recommendation. The Company makes no recommendation to the Seller regarding the sale of shares pursuant to this Agreement.

ARTICLE IV
INDEMNIFICATION AND RELEASE

4.1 Indemnification by Seller. The Seller shall indemnify and hold harmless the Company and its successors and assigns, and their respective officers, directors, stockholders, managers, members, employees and agents (collectively, the "Company Indemnified Parties"), from and against, and shall reimburse the same for and in respect of, any and all losses, damages, claims, suits, costs and expenses (including reasonable attorneys' fees and costs of litigation) (collectively, "Losses") incurred by any of the Company Indemnified Parties arising, directly or indirectly, from or in connection with any breach of any representation, warranty or agreement of the Seller contained in this Agreement.

4.2 Indemnification by Company. The Company shall indemnify and hold harmless the Seller and its successors and assigns, and their respective officers, directors, stockholders, managers, members, employees and agents (collectively, the "Seller Indemnified Parties"), from and against, and shall reimburse the same for and in respect of, any and all Losses incurred by any of the Seller Indemnified Parties arising, directly or indirectly, from or in connection with any breach of any representation, warranty or agreement of the Company contained in this Agreement.

4.3 Company's Release. The Company, on behalf of itself, its successors and assigns and all those claiming under or through them, release, remise and discharge the Seller, its affiliates, subsidiaries and related companies, and all of its respective owners, directors, officers, partners, members, managers, employees, agents, representatives, insurers, attorneys and successors, and all of its respective heirs, successors, assigns and personal representatives, and each of them, from any and all known and unknown claims, actions, causes of action, lawsuits, demands, damages, liabilities, losses, or expenses, of any kind or nature whatsoever, whether legal or equitable, that the Company has or might have against the Seller, excepting any claim for breach of any obligation arising under this Agreement.

4.4 Seller's Release. Seller, on behalf of itself, its successors and assigns and all those claiming under or through them, releases, remises and discharges the Company and its affiliates, subsidiaries and related companies, and all of its respective owners, directors, officers, partners, members, managers, employees, agents, representatives, trustees, insurers, attorneys and successors, and all of their respective heirs, successors, assigns and personal representatives, from any and all known and unknown claims, actions, causes of action, lawsuits, demands, damages, liabilities, losses, or expenses, of any kind or nature whatsoever, whether legal or equitable, that the Seller has or might have against any of the Company, excepting any claim for breach of any obligation arising under this Agreement.

ARTICLE V
MISCELLANEOUS

5.1 Further Assurances. The parties hereto agree that, after the date hereof, they will execute and deliver such further documents and instruments as may be reasonably necessary or proper, in the reasonable opinion of counsel to the Seller and/or the Company, to fully effectuate this Agreement and the intent hereof.

5.2 Company Capital Call Notes, LogicSource Series C Preferred Shares. The transactions contemplated by this Agreement do not include and do not affect the Seller's interest, if any, in the Company's Capital Call Notes, as issued from November 2012 and subsequent periods and/or interests in Cirqit Funding, LLC, as issued from April 2013 and subsequent periods, as invested in LogicSource Series C Convertible Preferred Stock.

5.3 Shareholder's Consent. By execution of this Agreement, Cirqit shall be permitted to deem the Shareholder's Consent to this sale and redemption as per the Company's Articles of Incorporation as adopted on March 31, 2010, and as requested from the Company's Preferred Shareholders on October 15, 2015.

5.3 Successors and Assigns. This Agreement and all provisions hereof will be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns; provided, however, that no party hereto may assign, directly or indirectly, by operation of law or otherwise, this Agreement or any of its rights or obligations hereunder without the prior written consent of the other parties.

5.4 Entire Agreement. This Agreement constitutes the entire agreement among the parties hereto with respect to the subject matter hereof and supersedes any prior understandings, agreements or representations by or among the parties, written or oral, respecting same.

5.5 Notices. All notices that are required or permitted hereunder shall be in writing and shall be sufficient if personally delivered or sent by registered or certified mail, or Federal Express or other nationally recognized overnight delivery service. Any notices shall be deemed given upon the earlier of the date when received, or the third day after the date when sent by registered or certified mail or the day after the date when sent by Federal Express to the address set forth below, unless such address is changed by notice to the other parties:

If to the Company:

Cirqit.com, Inc.
16 Indian Rock Road
Warren, NJ 07059
Attn: Jeremiah P. Sullivan, Chief Financial Officer

with a copy to (which shall not constitute notice):

Dechert LLP
1095 Avenue of the Americas
New York, NY 10036
Attn: Charles I. Weissman, Esq.

If to the Seller:

Claire M. Schenk
Thompson Coburn, LLP
One US Bank Plaza
St. Louis, MO 63101

With a copy to (which shall not constitute notice):

Stephen B. Higgins
Thompson Coburn, LLP
One US Bank Plaza
St. Louis, MO 63101

5.6 Governing Law. This Agreement shall be governed by and construed in accordance with federal law.

5.7 Remedies. It is specifically understood and agreed that any breach of the provisions of this Agreement by any party hereto may result in irreparable injury to the other parties hereto, that the remedy at law alone will be an inadequate remedy for such breach, and that, in addition to any other remedies which it may have, such other parties may enforce their rights by actions for specific performance in the Receivership Court, without the necessity of posting any bond or other security. If any action at law or in equity (including arbitration) is necessary to enforce or interpret the terms of this Agreement, the prevailing party or parties shall be entitled to reasonable attorneys' fees, costs and necessary disbursements in addition to any other relief to which such party or parties may be entitled.

5.8 Amendments. This Agreement may be amended, superseded, cancelled, renewed or extended, and the terms hereof may be waived, only by a written instrument signed by the parties hereto or, in the case of a waiver, by the party waiving compliance or its representative. No delay on the part of any party in exercising any right, power or privilege hereunder shall operate as a waiver thereof; nor shall any waiver on the part of any party of any such right, power or privilege, nor any single or partial exercise of any such right, power or privilege, preclude any further exercise thereof or the exercise of any other such right, power or privilege.

5.9 Severability. If any term or provision of this Agreement is invalid, illegal or unenforceable in any jurisdiction, such invalidity, illegality or unenforceability shall not affect any other term or provision of this Agreement or invalidate or render unenforceable such term or provision in any other jurisdiction.

5.10 Third-Party Beneficiaries. Except as expressly contemplated in this Agreement, this Agreement shall be binding upon and inure solely to the benefit of each party hereto and nothing in this Agreement is intended to confer upon any other person any rights or remedies of any nature whatsoever under or by reason of this Agreement.

5.11 Headings. The headings in this Agreement are for reference only and shall not affect the interpretation of this Agreement.

5.12 Expenses. Each of the parties hereto shall bear its own costs and expenses (including legal fees and expenses) incurred in connection with this Agreement and the transactions contemplated hereby.

5.13 WAIVER OF JURY TRIAL. EACH PARTY HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES ANY RIGHT SUCH PARTY MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT, OR THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT. EACH PARTY CERTIFIES AND ACKNOWLEDGES THAT (i) NO REPRESENTATIVE, AGENT OR ATTORNEY OR ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY OR PARTIES WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER, (ii) EACH SUCH PARTY UNDERSTANDS AND HAS CONSIDERED THE IMPLICATIONS OF THIS WAIVER, AND (iii) EACH SUCH PARTY HAS BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION 5.13.

5.14 Counterparts. This Agreement may be executed in two or more counterparts (which may be by facsimile or other electronic signature), each of which shall be deemed an original and all of which together shall be considered one and the same agreement.

5.15 Acknowledgments. The parties hereto acknowledge and agree that (a) each party has reviewed and negotiated the terms and provisions of this Agreement and has had the opportunity to contribute to its revision, and (b) each party has been represented by independent counsel of their choice in reviewing and negotiating such terms and provisions. Accordingly, the rule of construction to the effect that ambiguities are resolved against the drafting party shall not be employed in the interpretation of this Agreement. Any controversy over construction of this Agreement shall be decided without regard to events of authorship or negotiation. The parties hereto further acknowledge and agree that Dechert LLP only represents the Company with respect to this Agreement and the matters contemplated hereby, and such parties hereby waive any actual or potential conflict of interest arising as a result of such representation.

[THE NEXT PAGE IS THE SIGNATURE PAGE]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first written above.

COMPANY:

CIRQIT.COM, INC.

By: _____
Name: John S. Wehrle
Title: Chairman

SELLER:

By: _____
Name: Claire M. Schenk
Title: Receiver over Acartha Group, LLC, MIC VII ,LLC, Acartha Technology Partners, LP, and Gryphon Investments III, LLC,

Exhibit 1

Stock Power

FOR VALUE RECEIVED, Claire M. Schenk, Receiver over Acartha Group, LLC, MIC VII, LLC, Acartha Technology Partners, LP, and Gryphon Investments III, LLC, (the "Seller") hereby sells, assigns and transfers unto Cirqit.com, Inc., a Delaware corporation (the "Company"), 214,063,351 shares of Series D Convertible Preferred Stock, par value $0.001 per share, and does hereby irrevocably constitute and appoint as attorney the Chief Executive Officer of the Company to transfer said stock on the books of said Company with full power of substitution in the premises.

Dated: _____, 2015

By: _____
Name: Claire M. Schenk
Title: Receiver over Acartha Group, LLC, MIC VII, Acartha Technology Partners, LP, and Gryphon Investments III, LLC

REDACTED

CliftonLarsonAllen LLP
1301 West 22nd Street, Suite 1100
Oak Brook, IL 60523
630-573-8600 | fax 630-573-0798
www.claconnect.com

January 5, 2016

Ms. Claire M. Schenk
Receiver for Acartha Group, LLC, et al.
Thompson Coburn LLP
One US Bank Plaza
St. Louis, Missouri 63101

RE: MIC VII, LLC, Acartha Technology Partners, L.P., Gryphon Investments III, LLC and LogicSource, Inc.

Dear Ms. Schenk:

You have engaged CliftonLarsonAllen LLP ("I" or the "Firm"), to comment on:

1) The calculation of the redemption price of the Cirqit.com, Inc. Series D preferred shares held by MIC VII, LLC, Acartha Technology Partners, LP, and Gryphon Investments III, LLC ("Gryphon III") (collectively the "Receivership Entities"), by and through Claire M. Schenk as Receiver over the Receivership Entities ("Receiver"); and
2) The reasonableness of the offer by LogicSource, Inc. ("LogicSource") to redeem LogicSource Series A preferred shares owned by Cirquit.com, Inc. and Cirqit Funding, LLC (collectively "Cirqit") for $2.50 per share.

In summary, it is my opinion that:

1) The calculation of the redemption price of $1,489,201 for 214,063,351[1] for the Cirqit Series D preferred shares held by the MIC VII, LLC, Gryphon Investments III, LLC, and Acartha Technology Partners, L.P. is reasonable based upon the redemption of LogicSource Series A preferred shares at $2.50 per share according to my analysis documented in the attached report.
2) The redemption price of $2.50 per share of LogicSource Series A preferred is reasonable based upon my analysis documented in the attached report.

The purpose of the attached report is to document the basis for my opinions which are based on the available information as of the date of the report, my education, my experience, and my specialized training. I reserve the right to amend, revise, or update my opinions for information or analysis subsequently provided to the Receiver, the Court, and/or me as part of this matter.

[1] This calculation is based on data as of October 31, 2015 which is subject to adjustment based on additional interest accrued on certain capital call notes issued by Cirqit. However, this does not change the basis of my conclusions with respect to the value of LogicSource Series A preferred shares and number of Cirqit Series D shares to be redeemed.

I have performed my engagement in accordance with the Statement on Standards for Consulting Services, No. 1, of the American Institute of Certified Public Accountants. Portions of this report, including the documents cited in the report and/or the attached appendices to this report, may be used to supplement or highlight my testimony, if any, during depositions and/or trial. I may also prepare demonstrative exhibits based on this report for use as necessary in any such testimony.

This report is prepared in connection with the possible redemption by Cirqit of the Series D preferred shares owned by MIC VII, LLC, Gryphon Investments III, LLC, and Acartha Technology Partners, L.P., and was requested by Ms. Claire M. Schenk as Receiver for the Receivership Entities and should not be used for any other purpose.

Respectfully submitted,

H. Edward Morris, Jr.
ASA, CPA/ABV
Director
CliftonLarsonAllen LLP

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1. Qualifications and Other Disclosures

My professional qualifications include:

- I am a Certified Public Accountant (CPA) (1976) licensed in the state of Illinois.
- I have received the following accreditations in the areas of business valuation:
    - Accredited Senior Appraiser (ASA) awarded by the American Society of Appraisers; and
    - Accredited in Business Valuation (ABV) awarded by the American Institute of Certified Public Accountants.

I am a current member of the American Society of Appraisers, the American Institute of Certified Public Accountants, and the Midwest Business Brokers and Intermediaries.

I am an instructor of business valuation principles courses BV201 (Introduction to Business Valuation) and BV202 (The Income Approach to Value) for the American Society of Appraisers and was a contributing author of the BV202 course.

My professional and business experience includes:

- I am currently a Director at CliftonLarsonAllen LLP, a national accounting firm. Immediately prior to joining CliftonLarsonAllen LLP, I was a Director at Grant Thornton, LLP; a Shareholder of Corbett Duncan & Hubly, PC; and a Manager at the Condon Group. Ltd.
- Prior to joining The Condon Group, I was self-employed for approximately 17 years as follows:
    - Founded an international distribution joint venture (1994);
    - Founded an Internet startup (1993) specializing in creating and hosting Internet web sites;
    - Purchased and functioned as the owner/operator of a series of manufacturing companies in the 1980's and early 1990's; and
    - Founded a consulting firm (1986) specializing in Leveraged Buyout (LBOs) transactions involving manufacturing and service companies primarily working with Private Equity Groups.
- I began my career as an auditor at PriceWaterhouse Coopers LLP (eight years) which included auditing large international companies while living in Johannesburg, South Africa (three years).
- I have earned the following college degrees: Associate in Applied Science – Chemical Technology from Purdue University (1973) and Bachelor of Science in Accounting from Indiana University (1975).

My *curriculum vitae* and other disclosures are included in **Appendix A** to this report. My fees are not dependent or contingent in any way upon my opinions or the outcome of this litigation. My fees are rendered on an hourly basis. No final billing has been rendered at this time. My billing rate in this matter is $375 per hour.

2. Background

On January 17, 2012, in the case captioned Securities and Exchange Commission v. Burton Douglas Morriss, et al., Case No. 4:12-cv-00080-CEJ (E.D. Mo. 2012) (the "Receivership Proceedings"), the United States District Court for the Eastern District of Missouri (the "Receivership Court") entered an Order appointing Claire M. Schenk as Receiver over the Receivership Entities (the "Order Appointing Receiver").

On September 23, 2015, Gryphon Investments III, LLC ("Gryphon III"), by and through the Receiver and consistent with her appointment, filed a six count Amended Complaint against John S. Wehrle ("Wehrle") in his individual capacity and in his capacity as trustee of the John S. Wehrle Revocable Living Trust ("Trust"), Cirqit.com ("Cirqit"), and Gryphon Investments II, LLC ("Gryphon II"), asserting a variety of claims against said Defendants and adding claims against Wehrle in his capacity as trustee of the Trust.

Additionally, during 2015 negotiations took place by and among the Receiver, on behalf of the Receivership Entities, and Wehrle, Cirqit, and Gryphon II in an effort to resolve the issues at hand.

3. History of Cirqit Series D Preferred Shares[2]

The following paragraphs were extracted from the March 11, 2010 offering letter to the holders of Cirqit.com, Inc. Series A, B, C-1 and C-2 preferred stock. This document included background and then current operating results as part of offering the conversion of existing Series D notes into Series D preferred shares. The following extract provides a description of the Series D preferred shares and the conversion of the Series D convertible notes.[3]

> *"The terms proposed for the Series D preferred stock are otherwise identical to and pari passu with the previously issued Series C preferred stock (Cirqit Series D preferred stock Term Sheet attached). The Company has issued prospective Series D preferred investors notes convertible into the Series D preferred stock. These notes have economic terms equivalent to the proposed Series D preferred stock, i.e. the notes bear interest accruing at a 10% rate compared to the Series D preferred stock 10% cumulative dividend. The total Series D preferred authorized financing was increased from $5 million to $10 million through 200 and, to date, approximately $10 million has been invested in the notes convertible into Series D preferred stock. The bulk of these funds have been advanced by* [redacted] *and* [redacted] *and affiliated investors.*

[2] March 11, 2010, Offering letter to Holders of Series A, B, C-1 and C-2 preferred stock and Common Stockholders of Cirqit.com, Inc. [redacted]. However, this information is included only as background material with respect to circumstances at the time of the Series D preferred offering.
[3] Ibid.

> *… In this closing, the Company seeks to issue its Series D preferred Shares in exchange for the Series D convertible notes previously issued and all accrued and unpaid interest through March 31, 2010. The notes convertible into Series D preferred stock total $9,778,343.55 and the accrued and unpaid interest totals $3,621,292.28, for a total Series D preferred financing of $13,399,636. Accordingly, the Company intends to issue 344,741,034 shares of Series D preferred stock at a purchase price of $0.0389 per share* ***[calculated by taking $13,399,636 (total convertible notes plus accrued an unpaid interest) divided by 344,741,034 shares to equal $0.0389 per share].***[4]

4. Reasonableness Testing of Proposed Redemption

In July 2015, Cirqit used the proceeds from the sale of LogicSource Series A preferred shares to redeem shares through negotiations with third parties. The resulting redemption of 18,782,812[5] Cirqit Series D preferred shares from the proceeds of the sale of 52,657 shares of LogicSource Series A preferred shares created a ratio of 356.70 Cirqit Series D preferred shares for every 1 share of LogicSource Series A preferred.

It is my understanding that the negotiations between the Receiver and Wehrle, Cirqit, and Gryphon II have resulted in an agreement which provides in part that Cirqit Series D preferred shares totaling 3,075,174 currently held by Gryphon Holdings II, LLP will be retitled to Gryphon III. Then the 188,262,093, 22,726,084 and 3,075,174 (total of 214,063,351) of Cirqit Series D preferred shares held by the Receivership Entities will be redeemed along with 21,670,000 Cirqit Series D preferred shares held by individuals and entities not managed or controlled by the Receiver, for a grand total redemption of 235,733,351 shares of Cirqit Series D preferred shares. See page 2 of **Appendix C** for a copy of the October 15, 2015 letter from John S. Wehrle, Chairman of the Board of Cirqit.com, Inc. It is also my understanding that this negotiated redemption is dependent upon Cirqit receiving the proceeds of a redemption of 655,984 LogicSource Series A preferred shares at a price per share of $2.50 for each LogicSource Series A preferred share redeemed. Accordingly, the effective ratio of Cirqit Series D preferred shares to LogicSource Series A preferred shares of 359.36 (235,733,351 divided by 655,984). The ratio of 359.36 for the redemption of the Receivership Entities ownership interest is less than 1% lower than the ratio of 356.70 paid in the July 2015 Cirqit redemption of 18,782,812[6] Cirqit Series D preferred shares noted in the previous paragraph. The also takes into consideration the "net of liabilities" provisions relating to the shares held by the Receivership Entities which differs from those of the parties to the July 2015 transaction. Additionally, the July 2015 transaction included Series C-1 and C-2 preferred securities in addition to Cirqit Series D preferred shares.

[4] Please see footnote 2 for additional background information.
[5] Redeemed Cirqit Series D preferred shares as follows: 3,001,558 from holder [redacted] 15,005,527 from [redacted]; and 775,726 from [redacted].
[6] Ibid.

Further, it is important to note that there are substantial risks due to the timing of a transaction such as:

1) The risk that Cirqit's various shareholders will splinter into multiple factions and make it difficult if not impossible for the Board to agree on the sale of LogicSource shares and/or approve a redemption agreement for its own shares;
2) The risk that the value of LogicSource securities owned by Cirqit (its primary source of funds), could decline due to operational difficulties [redacted];
3) The risk of a decline in the U.S. economy and stock market that could impact the value of all technology securities including those of LogicSource; and
4) The risk of unforeseen events that could impact the value and/or ability of Cirqit to redeem the securities owned by the Receivership Entities.

Accordingly and taking into consideration the above risks, it is my opinion that redemption of the 214,063,351 of Cirqit Series D preferred shares held by the Receivership Entities for $1,489,201 is reasonable based upon the redemption by LogicSource of its Series A preferred at a price of $2.50 as described in the following paragraphs of this report.

5. LogicSource - Overview

Founded in October of 2009, LogicSource has developed and marketed its software products and services to large Fortune 500 companies whereby they effectively outsource their sourcing and procurement operations to LogicSource. LogicSource's proprietary, cloud-based, OneMarket technology automates and streamlines workflow of the transactional procurement lifecycle. OneMarket provides analytical capabilities that improve and simplify financial management of category spend analysis, comprehensive price benchmarking, and sophisticated spend analytics.[7]

[redacted]

6. Information Relied Upon or Considered

My opinions as set forth herein are based upon the information provided and research performed on or before the date of this report. A list of the information considered and/or relied upon is provided in **Appendix B**.

[7] "LogicSource Future State 2020", page 21.

7. Valuation Considerations

Valuation is not an exact science subject to precise formula, but is based on relevant facts, elements of common sense, informed judgment, and reasonableness. Therefore, precise rules for determining the value of closely held business interests cannot be prescribed.

It is generally agreed that appraisal methods fall into three general categories: 1) Asset Approach, 2) Income Approach, and 3) Market Approach. However, it is not unusual for each of the approaches to use elements of other approaches in order to reach a conclusion of value. Each of these methods will be discussed individually.

The Asset Approach is a method of determining a value of assets and/or equity interests using one or more methods based directly on the value of the assets of the business, less liabilities. It is analogous to the cost approach of other disciplines. This approach can include the value of both tangible and intangible assets. However, this approach is often unnecessary in the valuation of a profitable operating company as a going concern, as the tangible and intangible assets are automatically included, in aggregate, in the Market and Income Approaches to value.

The Income Approach is a general method of determining a value indication of a business, asset, or equity interest using one or more methods wherein a value is determined by converting anticipated benefits. Depending on the nature of the business, asset, or security being appraised, as well as other factors, anticipated benefits may be reasonably represented by such items as net cash flow, dividends, and various forms of earnings. Conversion of those benefits may be accomplished by either capitalization or discounting techniques. A capitalized returns method tends to be the more appropriate valuation method when it appears that current operations are indicative of future operations, assuming a normal growth rate. However, if the earnings of a business, as adjusted for normalized income and expense items, are low or negative, an earnings approach should not be used.

The Market Approach is a general method of determining a value indication of a business or equity interest using one or more methods that compare the subject to similar investments that have been sold. It has its theoretical basis in the principle of substitution, which states that the value of an object tends to be determined by the cost of acquiring an equally desirable substitute. Market transactions in business, business ownership interests, or securities can provide objective, empirical data for developing value measures to apply in business valuation. Such comparisons provide a reasonable basis for estimation to the relative investment characteristics of the asset being valued. Ideal guideline assets are in the same industry and use as the asset being valued, but if there is insufficient transactional evidence available in the same industry or use, it may be necessary to consider assets with an underlying similarity of relevant investment characteristics such as markets, products, growth, cyclical variability, and other salient factors.

It is the valuation analyst's task to analyze the pertinent information regarding the subject interest and apply accepted methodologies, as well as experience and judgment, to reach a supportable conclusion. In this matter, each of the three commonly accepted approaches was considered in this analysis. However, I concluded the Market Approach was the best method as discussed in subsequent paragraphs of this report.

7.1. Market Approach

Methods under the Market Approach were reviewed to determine if third party transactions exist which would provide a meaningful indication of the value of the Subject Interest. The use of comparables requires the appraiser to quantify items of similarity and adjust the indicated prices to provide for a meaningful measurement of the subject entity's worth. The appraiser must show that the transactions are, in fact, comparable to the subject transaction.

7.1.1. Transaction Method

The transaction method is a method that uses multiples of comparable companies found in the marketplace to value the subject company. This method is difficult to use because of the lack of public financial information for closely held companies and the differences that may exist in asset holdings and asset allocations. Factors that are considered in selecting comparative companies include the composition of assets, the dividends or distributions, and the degree of leverage.

I concluded that the Market Approach was the most appropriate and reliable methodology based on the recent (2014) sale of the Series C preferred stock at $4.27 per share. This sale was to both existing and new shareholders and represented a negotiated fair market value, which is the best estimate of fair market value as of January 2014.

To determine if events subsequent to January 2014 would impact the value of the shares owned by Cirqit, I spoke with Mr. David Pennino, LogicSource's CEO, and reviewed his presentation to the Board of Directors of LogicSource entitled "LogicSource Future State 2020" which contained historic financial statements as well as projections through the year 2020 (pages 63-67). I also spoke with John S. Wehrle, Cirqit.com, Inc.'s Chairman of the Board, and reviewed memorandums which he prepared in 2014 and 2015 with respect to the value of Cirqit's LogicSource shares.

Significant events after January 2014 that would affect the value of Cirqit's Series A and Series C preferred shares include:

- [redacted]
- [redacted] and
- [redacted]s.

As discussed in subsequent sections of this report, I have determined that the appropriate discount for lack of control is 10%, which recognizes that Cirqit is a minority shareholder but with a total ownership interest of approximately [redacted] of the fully diluted common shares, it does have some limited influence on the management and direction of LogicSource. The following is a calculation of the Series C preferred share price of $4.27 discounted for its lack of control to be used for the valuation of Cirqit's Series A and Series C preferred shares.

Series C preferred price per share	$ 4.27
Lack of control discount at 10%	(0.43)
	$ 3.84

7.1.2. Publicly Traded Guideline Company Method

Guideline companies are companies that provide a reasonable basis for comparison to the relevant investment characteristics of the company being valued. Guideline companies are most often publicly traded companies in the same or similar business as the subject company. Guideline companies are used as a basis to develop valuation conclusions with respect to a subject company under the presumption that a similar market exists for the company, as exists for the guideline companies.

Ideal guideline companies are in the same business as the subject company being valued. However, if there is insufficient transaction evidence similar to the subject company, it may be necessary to consider companies with an underlying similarity of relevant investment characteristics, such as markets, products, growth, cyclical variability, and other salient factors. In this instance, I have considered those companies that are similar to LogicSource based upon their product line.

In performing our search for publicly traded guideline companies, I followed *Business Valuation Standard-V* of the American Society of Appraisers. Our procedure for deriving group guideline companies involves the following steps:

- Identify the industry in which the Company operates.
- Identify the Standard Industrial Classification Code for the industry in which the Company operates.
- Using Internet search tools, search filings with the Securities and Exchange Commission for businesses that are similar to the Company.
- Screen the initial group of companies to eliminate those that have negative earnings, those with a negative long-term debt to equity ratio, and those companies for which the price of their stock could not be obtained.
- Review in detail the financial and operational aspects of the remaining potential guideline companies, eliminating those with business lines distinctly different from the Company.

Based on the above criteria, our search did not identify any publicly traded companies that are sufficiently similar[8] to the Company. I have, therefore, not included this analysis in arriving at my opinions.

[8] "Similar" in relation to the use of this method refers to publicly held companies that are the closest to the Company. They might not be identical in operations, but they are close enough in identity to allow for a conclusion on how the Company might react in the public market.

8. Discounts for Lack of Control and Lack of Marketability

When an ownership lacks elements of control and marketability, two discounts are generally appropriate. They are commonly referred to as the discount for lack of control ("DLOC") and discount for lack of marketability ("DLOM").

The Series A and Series C preferred shares owned by Cirqit ("Subject Interest"), which are the subject of this report, represent a minority interest in a closely held company. Therefore, the Subject Interest cannot force the sale of the Company's assets in order to recognize a return on assets nor control the management of LogicSource. Therefore, a discount for lack of control ("DLOC") is warranted. Furthermore, it is typically more difficult to market a minority interest in a company than it would be to sell the underlying assets, if owned outright. Accordingly, a discount for lack of control ("DLOM") is also considered appropriate.

8.1. Discount for Lack of Control

A discount for lack of control represents a reduction from the pro rata share of an entire business to reflect the absence of the power of control. The concept of discounts for lack of control and control premiums can be validated by analyzing the transactions on the stock exchanges that involve the purchase of both minority interests and controlling interests of the common stock of various companies. As discussed above, the concept of a discount for lack of control also applies to the Subject Interest.

The value of control depends on the shareholder's ability to exercise any or all of a variety of rights typically associated with control. Listed below are the common prerogatives of control.

Common Prerogatives of Control

- Elect directors and appoint management.
- Determine management compensation and perquisites.
- Set policy and change the course of business.
- Acquire or liquidate assets.
- Select people with whom to do business and award contracts.
- Make acquisitions of other companies.
- Liquidate, dissolve, sell out, or recapitalize the Company.
- Sell or acquire treasury shares.
- Register the company's stock for public offering.
- Declare and pay dividends.
- Change the articles of incorporation or bylaws.
- Block any of the above actions.

Obviously, many factors can impact the degree of control an owner has over the operations of the Company. When any of the control elements are not available to the ownership interest, the value attributable to control must be reduced accordingly. Some of the factors that tend to influence the values of non-controlling shares relative to control shares are listed next.

As reflected in David Laro and Shannon Pratt's book entitled Business Valuation and Taxes, Procedures, Law, and Perspective:

> "For holding companies, the base from which minority discounts are applied is usually net asset value. The most common method for estimating the discount is to identify a group of publicly traded companies (e.g., closed-end mutual funds or real estate investment trusts [REITs]) that hold assets similar to the subject company, and to calculate the average discount at which their securities trade in the market relative to their net asset value. If the subject company has two or more classes of assets (e.g., marketable securities and real estate), two or more groups of publicly traded entities may be used for comparison, and the discount for the subject entity assigned in proportion to the net asset value for each class.
>
> Some analysts also use the secondary market for public limited partnerships as a basis for some holding companies, especially those that hold real estate as their primary asset. (There are more real estate limited partnerships that trade in the secondary market than all those that hold other types of assets, e.g. oil and gas interests, put together.)"[9]

This approach to using several sources for different classes of assets has been accepted by the courts as well (See Lappo v. Comm., T.C. Memo 2003-258, as an example of this approach being utilized and accepted by the Tax Court). The following section addresses our approach to quantifying and applying the appropriate discount for lack of control.

8.1.1. Mergerstat® Review Data

A measure of the difference in value between a controlling interest and a non-controlling interest can be found in public tender offerings where a successful tender offer will give the acquirer a control position. The market value of publicly traded securities reflects non-controlling interests being traded, that lack the ability to control the business, and incorporates a discount for lack of control from the enterprise value of a company. The market price of non-controlling interests in stock transactions prior to the tender is compared to the tender offer price to determine the premium paid for the control position.

The mathematical inverse of the premium paid for control is an indication of the non-controlling interest discount. Mergerstat® Review annually publishes the premium paid over the market price in acquisitions of publicly traded companies. Over the past 10 years, the median premiums paid have generally fallen within the range of 30% to 40%, indicating median lack of control discounts in the range of 25% to 30%.

However, on the date of the sale of the Series C preferred shares, the buyers knew they were buying a minority interest and accordingly would have factored that into the price

[9] David Laro and Shannon Pratt; Business Valuation and Taxes, Procedures, Law, and Perspective, page 315; (Copyright 2005 by John Wiley & Sons, Inc.)

negotiations. Therefore, the DLOC should be less than the Mergerstat range of 25% to 30% but greater than zero.

After giving consideration to the historic DLOC according to Mergerstat® of 25% to 30%, and considering factors specific to the Subject Interest being valued, I concluded that a 10% discount for lack of control is appropriate for the Subject Interest. I believe this is appropriate given the Company's ownership structure and the current economic environment, as compared to the above studies, as well as other factors discussed throughout the report.

The following is a calculation of the adjusted Series C preferred share price based on the original price of $4.27, discounted for its lack of control to be used for the valuation of Cirqit's Series A and Series C shares.

Series C preferred price per share	$ 4.27
Lack of control discount at 10%	(0.43)
	$ 3.84

8.2. Discount for Lack of Marketability

Marketability relates to the liquidity of an investment. Investments such as publicly traded stocks are highly liquid in that an investor can, under normal circumstances, sell their stock and obtain cash proceeds within three working days. Shares of stock in privately held companies are, in comparison to publicly traded securities, highly illiquid and usually warrant large discounts from their stated "marketable" price. According to *Business Valuation Discounts and Premiums*:

> *"Lack of marketability, more often than not, is the largest dollar discount factor in the valuation of a business interest, particularly a minority interest."*[10]

LogicSource is a closely held entity. There is no public market for its shares, as would be the case for a stock listed on the NASDAQ or NYSE. Due to this lack of market, a DLOM is appropriate, and the application of a DLOM is a common and accepted practice within the valuation profession.

The allowance for a DLOM has been allowed consistently in case law as well. The IRS *Valuation Guide for Income, Estate and Gift Taxes, Valuation Training for Appeals Officer* (January 1994 edition) provides a list of over a dozen such cases in its training manual in Exhibit 9-3, pages 9-47 through 9-50. There are many other examples as well.

The DLOM is distinguishable from a discount for lack of control in that the discount for lack of control reflects the inability of a non-controlling shareholder to compel liquidation, force the sale of the business, or to realize a pro rata share of the corporation's net asset value. The discount for lack of marketability also reflects the lack of a ready market for the sale of the shares of a closely held corporation. See Andrew Est. v. Comr., 79 T.C. 938, 952-53 (1982). The

[10] Shannon P. Pratt, CFA, FASA, MCBA; "Business Valuation Discounts and Premiums; John Wiley & Sons, Inc. © 2001

discount for lack of marketability may apply even though the non-controlling interest does not. See Newhouse Est. v. Comr., 94 T.C. 193 (1990), nonacq., 1991-1 C.B. 1.

In determining the value of the LogicSource Series A and Series C shares owned by Cirqit, the DLOM is appropriate, but the magnitude of such a discount may differ depending on the circumstance in each individual case.

With the methods which I used in my analysis, it is assumed that LogicSource will continue on as a going concern. The question to be addressed is what, if any, discount is appropriate from the calculated value after the DLOC to arrive at a value at which a willing buyer and a willing seller would be willing to transfer the interest. To determine this, it is necessary to analyze the particular characteristics of the Company and determine how the unique characteristics of the Company would affect its salability. In determining a discount for lack of marketability, I have relied on the following:

1. Tax Court factors,
2. Fundamental factors, and
3. Empirical studies which comprise (i) Restricted stock studies, and (ii) Pre-IPO studies.

8.2.1. Tax Court on the Discount for Lack of Marketability

In a landmark case before the United States Tax Court, the Court listed the following 10 factors that should be considered by an appraiser when ascertaining the size of the discount for lack of marketability.[11]

1. Private versus public sales of the interest.
2. Financial statement analysis.
3. Entity's distribution policy.
4. Nature of the entity, its history, its position in the industry, and its economic outlook.
5. Amount of control in transferring interests.
6. Restrictions on transferability of interests.
7. Holding period for the interest.
8. Entity's redemption policy.
9. Entity's management.
10. Costs associated with making a public offering.

The Tax Court Factors relate primarily to specific restrictions on transfer, sales, and earnings. Control and transferability enhance the marketability of the interest. From the empirical studies (discussed later in this report), I determined that longer holding periods and lower sales and earnings contributed to higher discounts for lack of marketability. One factor addressed by the Tax Court and not addressed in the empirical studies is distribution capacity and policy. Total return to an investor includes both the capital appreciation of the interest, but also any distributions received during the holding period. All other factors equal, an interest with a

[11] Mandelbaum v. Commissioner, 69 T.C.M. (CCH) 2852 (1995).

greater distribution capacity would be more marketable than an interest with a lower distribution capacity.

8.2.2. Fundamental Factors

In addition to the Tax Court Factors, I considered the factors influencing the lack of marketability discounts in the empirical studies. According to *Business Valuation Discounts and Premiums*, the Fundamental Factors influencing the lack of marketability discounts in the studies are as follows (pp. 152-163):

- **Size of distributions.** Higher, predictable distributions tend to reduce the discount for lack of marketability. The marketplace does not discount privately placed bonds and preferred stock to publicly traded bonds and preferred stock due to the predictable and identical fixed income of these securities. The capacity to potentially make distributions may be a weaker proxy for actual distributions in assessing this factor.
- **Prospects for liquidity (probable length of holding period)**. Longer holding periods tend to increase the discount for lack of marketability. A non-controlling shareholder or non-voting shareholder may have a longer holding period due to the inability to cause the sale of the business and benefit from any capital appreciation. If the entity does not make any distributions, the holding period for realizing capital appreciation takes on greater significance.
- **Pool of potential buyers (also affecting prospects for liquidity)**. Larger pools of potential buyers tend to decrease the discount for lack of marketability. Larger blocks of non-controlling stock tend to have smaller pools of buyers, and therefore, higher discounts for lack of marketability.
- **Risk factors (affecting the investors' required rate of return during the holding period, i.e., the discount rate)**. Higher levels of risk tend to increase the discount for lack of marketability. This influence of risk is not redundant with the risk factors affecting the discount rate in the income approach or multiples in the market approach. High risk also makes an interest more difficult to sell. Primary risk factors influencing the discount for lack of marketability include the level and volatility of earnings – high, stable earnings lower the discount, and size as measured by sales or capitalization – small size raises the discount.
- **Growth prospects (affecting the eventual potential sale price, i.e., terminal value)**. Higher growth prospects may tend to lower the discount for lack of marketability.

8.2.3. Empirical Studies on the Discount for Lack of Marketability

Over the last 25 years, there have been a number of empirical studies to determine, from a market perspective, the discount in value required to induce investors to purchase illiquid stocks. The studies have concentrated on analyzing the stock prices of "restricted" stock (also known as "letter" stock) and the stock prices of companies who underwent an initial public offering ("IPO").

Restricted Stock Studies

The restricted stock studies analyzed the difference in price between a company's restricted stock (i.e., stock held by investors who were precluded from selling the stock for up to two years) and its publicly traded stock. Because the restricted stock and the publicly traded stock

were identical in all aspects except for marketability, the difference in the prices was due solely to marketability.

Rule 144 of the Securities Exchange Act of 1934. Restricted stock is subject to the restrictions under Rule 144 of the Securities Exchange Act of 1934 (SEC Rule 144). Under SEC Rule 144, restrictions generally lasted for two to three years. According to the Rule:

> (d)(1) General rule. A minimum of two years must elapse between the later of the date of the acquisition of the securities from the issuer or from an affiliate of the issuer, and any resale of such securities in reliance on this section for the account of either the acquirer of any subsequent holder of those securities, and if the acquirer takes the securities by purchase, the two-year period shall not begin until the full purchase price or other consideration is paid or given by the person acquiring the securities from the issuer or from an affiliate of the issuer.

In general, a purchaser of restricted shares of a public company had a minimum of a two-year holding period before the restrictions placed by Rule 144 would lapse. Investors in restricted shares must, therefore, consider themselves subject to the risks of equity ownership for at least two years without a practical means of selling those shares. Even when the two-year minimum holding period for restricted shares has elapsed, the shares are generally subject to additional restrictions on the volume of securities that can be sold.

Effective April 29, 1997, the SEC adopted the following new rules that effectively decreased the required holding period from a minimum of two years to a minimum of one year.

> The Commission is amending the holding period requirements contained in Rule 144 to permit the resale of limited amounts of restricted securities by any person after a one-year, rather than a two-year, holding period. Also, the amendments permit unlimited resales of restricted securities held by non-affiliates of the issuer after a holding period of two years, rather than three years.

A summary of the major restricted stock studies is shown in Table 1 on the following page.

TABLE 1
Summary Results of Restricted Stock Studies

Study	# of Observed	Median	Mean	Std. Dev.	Range Low	Range High
Pre-1997 Studies						
1. SEC Institutional Investors Study	398	24%	26%	n.a.	(15%)	80%
2. Gelman Study	89	33%	33%	n.a.	<15%	>40%
3. Moroney Study	146	34%	35%	18%	(30%)	90%
4. Maher Study	34	33%	35%	18%	3%	76%
5. Trout Study	60	n.a.	34%	n.a.	n.a.	n.a.
6. Stryker/Pittock Study	28	45%	n.a.	n.a.	7%	91%
7. Willamette Management Study	33	31%	n.a.	n.a.	n.a.	n.a.
8. Silber Study	69	n.a.	34%	24%	(13%)	84%
9. FMV Opinions - Hall/Polacek Study	100+	n.a.	23%	n.a.	n.a.	n.a.
10. Management Planning Study	49	28%	28%	n.a.	0%	58%
11. Johnson/Park Study	72	n.a.	20%	n.a.	(10%)	60%
12. Columbia Financial Advisors Study						
1996-1997 Study	23	14%	21%	n.a.	1%	68%
Averages		30%	29%			
Post-1997 Study						
1. Columbia Financial Advisors Study						
1997-1998 Study	15	13%	9%	n.a.	0%	30%
Average		13%	9%			

As can be seen in Table 1, the median discount for lack of marketability was in the range of 13-45% with the average median discount being 30% and average mean discount being 29% for studies performed prior to the holding requirement change in 1997. The restricted stock studies indicate that investors in restricted stock demand a substantial discount from the prices of the freely traded stock due to the restricted stocks' lack of marketability.

IPO Studies

The IPO studies (summarized below) analyze the relationship between the prices of companies whose shares were sold in an IPO and their trading prices five months prior to the initial public offering. By comparing the price of the shares at the time the companies were privately held to the price of the shares at their initial public offering, inferences were made as to the size of the discount for lack of marketability required by investors.

TABLE 2
Summary of IPO Studies

Study	Period Reviewed	# of Transactions	Mean of Indicators
1. Baird IPO Studies	1980-2000	543	46%
2. Willamette Management Associates Studies	1975-1995	941	43%
3. Pearson Studies	1999-2000	1,292	55%
Weighted-Average			48%

As shown in the IPO studies (Table 2), the average or median discount for lack of marketability ranged from 43-55% with the weighted average median discount being 48%.

Such as with the restricted stock studies, the IPO studies clearly show that transactions involving closely-held stock, traded at prices substantially discounted from the prices obtained at initial public offerings.

There has been a good deal of information on how the DLOM is derived over the last 10-15 years including **new studies** (Bajaj (2001-2); Ashok Abbott (2006); FMV Restricted Stock Studies (2009)); **case law** (Peracchio (2003); Lappo (2003); McCord (2003)); **new approaches** (Hedging methods), etc.

The IRS issued the "Discount for Lack of Marketability – Job Aid for IRS Valuation Professionals" in September of 2009. The job aid clearly states that "This Job Aid is not Official IRS position and was prepared for reference purposes only; it may not be used or cited as authority for setting any legal position." I will be citing this Job Aid in this report, but understand the IRS's position on being held to the content of that Job Aid.

For many years the main sources of discounts for the DLOM were the Pre-IPO Studies and the Restricted Stock Studies. Both of these sources were readily used by valuation experts and accepted sources in case law. The Pre-IPO studies have been under significant attack recently, but as pointed out in the document entitled Rebuttal to Bajaj: answers to criticisms of pre-IPO studies, Shannon Pratt notes that several Courts "universally have reacted favorably when actual pre-IPO transactions have been presented…" These cases included Estate of Gallo v. Commissioner (1985); Howard v. Shay (1996); Okerlund v. Commissioner (2002); Mandelbaum v. Commissioner (1995); and Davis v. Commissioner (1998). The exact citations for these cases can be found in the article.

One of the first major cases to address the Bajaj work was Gross v. Commissioner (2001 U.S. App. LEXIS 24803 (6th Cir. Nov. 19, 2001)(T.C. Memo 1999-254, 78 T.C.M, (CCH) 201 (July 29, 1999)). In that case, Dr. Bajaj opined a DLOM of 25%. Dr. Bajaj and his discount approach was again front and center in McCord v. Commissioner (120 T.C. No. 13,

2003 U.S. Tax Ct. LEXIS 16 (May 14, 2003), where he concluded the DLOM to be 7% based upon his proprietary data and approach. In that case, the Court ultimately chose a 20% DLOM. As noted below, there has been significant criticism of Dr. Bajaj's findings by the valuation community.

Despite using Dr. Bajaj as an expert in its cases, the IRS has also raised significant issues regarding Dr. Bajaj's approach as noted on pages 51-52 of its "Job Aid for IRS Valuation Professionals – Discount for Lack of Marketability" (published September 25, 2009) (hereinafter also referred to as "Job Aid"):

> Weaknesses
> The potential weaknesses of the Bajaj study have been spotlighted by a number of its critics including Pratt, Hall, Mercer and Mitchell, and Norwalk. These weaknesses are concentrated in the areas of concern over sample choice, the remaining presence of some uncertainty in actual registration status, the relatively low coefficient of determination or R2 factor[37] generated by the regression model used, and the choice of a measurement date of 10 days after the announcement.
>
> - Certain writers have pointed to data errors in the sample and the failure to consider other transactions occurring within the analysis period that are considered to be logical choices with required data available.
> - There is some question among analysts as to what the 7.23% discount amount attributable to lack of marketability by Bajaj really measures and whether, even if it truly measures a pure marketability component of discount, it is the proper level of discount to be considered in a transactional analysis. Bajaj himself has been somewhat inconsistent in how he applies the results of the study using the 7.23% in certain cases and a larger discount that is said to include the effects of assessment and monitoring costs in other cases.
> - Another weakness of the Bajaj study in the view of his critics is it does not explicitly consider the length of the required holding period for an unregistered placement as a factor in the analysis. Not all unregistered placements are subject to the same holding period limitations and, accordingly, the analysis of registered versus unregistered placements should not be treated as a binary variable as Bajaj has proposed.
> - Finally, critics argue that simply because some private placement shares are registered, that does not automatically make them freely tradable such that no DLOM should apply to them.
>
> [37] *The coefficient of determination is a measure of how well a regression model fits the data by indicating how much of the total data variation is explained by the model. If all the data were to fall directly on the model line then the coefficient would be 1.00. The lower the coefficient the less of the variability of the data is explained by the model.*

The Job Aid discusses the Courts' acceptance of Dr. Bajaj's methods (page 53):

> View of the Courts
> To date, only Bajaj and his colleague Dr. Shapiro have gone to Court with the analytical approach as their main support for a DLOM selection. Bajaj has testified in the *Estate of Gross* [39], *Litman and Diener v. USA* [40], *McCord et ux v. Commissioner*[41] and *Richie* C. *Heck v. Commissioner* [42] among others. Shapiro utilized the same approach in his testimony in *Lappo v. Commissioner* [43].
>
> In general, the Courts have given favorable treatment to Bajaj's general approach to DLOM citing the conceptual basis and the use of mathematical techniques to separate out contributing factors. However, no Court has accepted his 7.23% estimate as the proper DLOM at face value. In *McCord,* the Court instead chose to look at all of the Bajaj data and to select a DLOM based on the summary results from his middle strata of discount transactions arriving at a number of 20%. A similar approach has been taken in other cases where the 20% discount has been accepted as a starting point and then adjusted up to 23% or 25% based on factors which the Court thought were important. In *Gross,* Bajaj did not propose a strict DLOM based on his study but instead argued for *25%* which included a 20% original amount plus 5% to account for the S corp. effects on marketability. This total discount was accepted by the Court.
>
> [39] *Estate o/Gross,* T.C. Memo 1999-254, 78 T.C.M. (CCH) 201, T.C.M. (RIA) 99254, 1999 Tax Ct. Memo LEXIS 290
> [40] *David* S. *and Malia A. Litman* v. *The United States,* United States Court of Federal Claims, 2007 U.S. Claims LEXIS 273, August 22, 2007
> [41] *McCord* v. *Comr.,* 120 T.C. 358 (2003)
> [42] *Heck v. Comr.,* T.C. Memo 2002-34
> [43] *Clarisa W Lappo* v. *Comr.,* T.C. Memo 2003-258, Tax Ct. Memo LEXIS 257, 86 T.C.M. (CCH) 333

I cite these sources to provide the reader perspective on how the sources available at the date of valuation are currently viewed.

As noted below, I believe the IPO studies are a better source of this DLOM information than the restricted stock studies and I will rely on the IPO studies as a source of our DLOM conclusion, citing the restricted stock studies as additional evidence of the DLOM in the market place.

There are other studies that were available as of the date of valuation including the Karen Hopper Wruck study (1989) and the Hertzel & Smith study (1993). These studies are classified as "analytical approaches" because they take an analytical approach to analyzing

data. As noted in the Job Aid for IRS Valuation Professionals – Discount for Lack of Marketability the authors take data sets and "These data sets are analyzed statistically and through regression analyses to both determine the total amount of the discount and the breakdown of that discount across various postulated causal factors" (page 41). As noted in the IRS Job Aid, "The Wruck study has been cited by a number of practitioners but is basically utilized as background material to introduce the subject of investigating marketability discounts analytically" (page 45). The same conclusion is reached for the Hertzel & Smith study (page 48). The job aid also indicates that the discounts arrived at in these studies are "not offered as actual discount proposals" (pages 45 and 48). I have not relied upon these studies in the past and have not seen them widely accepted or relied upon in the business valuation community as of the date of the valuation. As a result, I will not be utilizing these studies in our analysis.

Further Analysis of FMV Opinions, Inc. Restricted Stock Study

While the above referenced restricted stock study performed by FMV Opinions, Inc. ("FMV") included transactions from 1979 through April 1992, FMV has continued to collect data regarding restricted stock transactions. The FMV Restricted Stock Study currently contains more than 430 total restricted stock transactions that occurred from 1980 through 2011 and includes transactions in manufacturing, business services, finance, insurance and real estate, transportation, communication, electric, gas and sanitary services, etc.

The IRS has been very critical of the FMV study and included a Review of this study as an Exhibit of its job aid. The conclusion was that the study was not to be relied upon, citing a number of concerns. Lance Hall vigorously defended his study and attempted to answer the IRS's criticisms point by point and presented a Webinar (hosted by Business Valuation Resources, LLC on October 12, 2011). As with the restricted stock studies in general, I believe the FMV Opinions study has merit and does provide guidance on the DLOM issue. As with the other studies and methods, there are weaknesses and strengths as compared to other methods.

Establishing a base line discount for application to the Subject Interest

The discounts generated by the IPO data generally indicate a discount of 48%. I believe the IPO studies are a better indicator of the DLOM in this case. In arriving at a DLOM for the LogicSource, Inc. Series A preferred shares owned by Cirqit, I also took into consideration the following information:

8.2.4. Discount for Lack of Marketability Conclusion

Recognizing the above, I have summarized the impact of the DLOM on the per share value of Cirqit's Series A and Series C preferred shares as follows:

	Range of marketability discounts		
	30%	35%	40%
Value after lack of control discount	$ 3.84	$ 3.84	$ 3.84
	(1.15)	(1.35)	(1.54)
Estimated per share value of Cirqit shares	$ 2.69	$ 2.50	$ 2.31

9. LogicSource Series A Preferred Value Conclusion

Based upon information provided and giving due consideration to the results of my analysis as described in this report, it is my opinion that the offer price of $2.50 per share for the LogicSource, Inc. Series A preferred shares owned by Cirqit is reasonable based upon my calculated range of values per share from $2.31 to $2.69.

10. Engagement Limitations

No portion of my report or work should be understood to contain legal opinions or advice. The scope of my work is limited and does not include an audit, examination, review, or compilation of financial statements as those terms are defined in standards promulgated by the American Institute of Certified Public Accountants and, accordingly, I express no such opinion on the financial information used or other information I received during the course of my work.

Other than the work documented in this report, I have not independently verified the accuracy of the information I considered or the underlying data.

Additional information may become available to me and/or I may be asked to consider additional report(s) of other expert(s) and comment on those reports relating to this matter. Consequently, I reserve the right to revise my opinions after consideration of any such additional information.

Respectfully submitted,

H. Edward Morris, Jr.
ASA, CPA/ABV
Director
CliftonLarsonAllen LLP

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APPENDIX A

H. Edward Morris, Jr., ASA, CPA/ABV

CliftonLarsonAllen LLP

Director
Oak Brook, IL

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Profile

Ed is the National Director of Transfer Pricing Group at CliftonLarsonAllen. He is a CPA in the State of Illinois, ABV – Accredited in Business Valuation, a CFF – Certified in Financial Forensics, and an ASA – Accredited Senior Appraiser. Ed is a former small-business owner, and has over 20 years of experience providing transfer pricing and business valuation services. He serves clients in a variety of industries, including: manufacturing; distribution; insurance; technology (Internet & software); construction; children's toys; and professional services.

Testimony experience

- 2015, Thomas Neuhengen, Plaintiff v. Global Experience Specialists, Inc. et al., Defendants
  - Circuit Court of Cook County Illinois, Law Division
  - Defendant – Personal injury
- 2014, Mary S. Hannah vs. Estate of Arthur Wondrasek, Jr., et all
  - Circuit Court of the Eighteenth Judicial Circuit, Dupage County, Illinois
  - Plaintiff – Post divorce dispute regarding value of a business
- 2014, Tracy Davis vs. Iowa Pacific Holdings, LLC
  - Circuit Court of Cook County Illinois, Chancery Division
  - Defendant – Shareholder dispute
- 2013, Phillip Kile, Sr. Plaintiff, v. International Truck and Engine Corporation, Defendant
  - Circuit Court of the Eighteenth Judicial Circuit, Dupage County, Illinois
  - Defendant – purchase price dispute
- 2011, Lana Radakovic vs. Dusan Radakovic
  - Circuit Court of Cook County, Illinois
  - Defendant – divorce related valuation of a business
- 2010, Tracy Davis vs. Iowa Pacific Holdings, LLC
  - Circuit Court of Cook County Illinois, Chancery Division
  - Defendant – Shareholder dispute
- 2010, Gold Canyon Mining and Construction, et al. vs. American Asphalt & Grading Company, et al.,
  - Arbitration hearing testimony
  - Defendant – post acquisition dispute
- 2008, Marcia Roubik, et al. vs. V. Clint Mellen, et al.
  - Circuit Court of the 18th Judicial Circuit, Dupage County, Illinois
  - Plaintiff – lost profits and economic damages
- 2008, Michael R. Conners, vs. Wolverine Trading, LLC
  - Circuit Court of Cook County, Illinois
  - Plaintiff – employment compensation
- 2008, Thomas Bloom vs. Michelle Bloom
  - Circuit Court of Dupage County, Illinois
  - Defendant – divorce related valuation of a business

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- 2004, Louis B. Williams, et al. vs. Edward G. Gardner, et al.
  - Circuit Court of Cook County, Illinois
  - Plaintiff – compensation for professional services
- 2004, Insure One Independent Insurance Agency, LLC, et al. vs. James P. Hallberg, et al.
  - Circuit Court of Cook County, Illinois
  - Defendant – lost profits and economic damages
- 2004, Collision Revision of Plainfield, Inc., et al., vs. International Refinishing Products, Inc.
  - Circuit Court of the 12th Judicial Circuit, Will County, Illinois
  - Defendant – lost profits
- 2004, Emery Associates, Inc. vs. Alexeter Technologies, LLC
  - Circuit Court for the 19th Judicial Circuit, Lake County, Illinois
  - Defendant – lost profits and economic damages
- 2003, Chicago District Council of Carpenters Pension Fund, et al., vs. Reinke Insulation Company
  - Northern District of Illinois, Eastern Division
  - Defendant (Counter Plaintiff) – lost business value and lost profits

Education/professional involvement

- Bachelor of Science in Accounting, magna cum laude, Indiana University
- Associate Degree in Chemical Technology, Purdue University.
- The American Society of Appraisers
- Midwest Business Brokers & Intermediaries
- American Institute of Certified Public Accountants
- Illinois CPA Society

Civic organizations

- Seven Bridges Courts Association, Board Member
- ACCION Chicago – Audit Committee Member

APPENDIX B

INFORMATION CONSIDERED AND/OR RELIED UPON

"LogicSource Future State 2020" 2015 presentation to LogicSource Board of Directors by David Pennino
October 15, 2015 letter to Cirqit.com, Inc. Preferred and Common Stock and Cirqit Funding, LLC Shareholders prepared by John C. Wehrle
January 21, 2015 letter to Cirqit.com, Inc. Preferred and Common Stock and Cirqit Funding, LLC Shareholders prepared by John C. Wehrle
July 3, 2014 letter to Cirqit.com, Inc. Preferred and Common Stock and Cirqit Funding, LLC Shareholders prepared by John C. Wehrle
March 31, 2014 letter to Cirqit.com, Inc. Preferred and Common Stock and Cirqit Funding, LLC Shareholders prepared by John C. Wehrle
October 28, 2013 letter to Cirqit.com, Inc. Preferred and Common Stock and Cirqit Funding, LLC Shareholders prepared by John C. Wehrle
July 1, 2013 letter to Cirqit.com, Inc. Preferred and Common Stock and Cirqit Funding, LLC Shareholders prepared by John C. Wehrle
April 2, 2013 letter to Cirqit Funding , LLC Shareholder prepared by John C. Wehrle
March 18, 2013 letter to Cirqit.com, Inc. Preferred and Common Stock and Cirqit Funding, LLC Shareholders prepared by John C. Wehrle
November 9, 2012 letter to Cirqit.com, Inc. Preferred and Common Stock and Cirqit Funding, LLC Shareholders prepared by John C. Wehrle
Operating Agreement of Cirqit Funding, LLC dated as of April 11, 2013
Subscription Agreement dated April 2013 of Cirqit Funding, LLC, Limited Liability Company Interests
LogicSource, Inc. Fourth Amended and Restated Certificate of Incorporation
LogicSource, Inc. Second Amended and Restated Investors' Rights Agreement
LogicSource, Inc. Second Amended and Restated Stockholders' Agreement
Series C Preferred Stock Purchase Agreement, March 2013
Contribution Agreement dated October 13, 2009 between LogicSource, Inc. and Cirqit.com, Inc.
February 17, 2012 Memorandum from Eric J. Dale to Claire M. Schenk
Draft Term Sheet – LogicSource, Inc. Series C Preferred Stock
LogicSource Business Review PowerPoint presentation

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APPENDIX C

October 15, 2015

To the Cirqit.com, Inc. Preferred and Common Stock and
Cirqit Funding, LLC Shareholders

This letter is written to solicit the consent of the Cirqit.com, Inc. Series D, C-2, C-1, B and A Preferred shareholders to approve the redemption of certain Cirqit Preferred shareholders' interests, as described herein. We refer to our shareholders' letters of April 27, May 14, June 3 and June 15 that provide additional detail regarding LogicSource's offer to purchase its Series A Preferred shares, the source of funds to redeem Cirqit Preferred shareholder interests.

Cirqit – July 2015 Redemption

Following the distribution of our June 15th letter, Cirqit received the affirmative vote of 784,377,336 out of a total of 1,170,712,442 shares, or 67.73% of the total number of Preferred shares outstanding. In July 2015, the allocable LogicSource Series A Preferred shares were sold, with proceeds used to redeem Cirqit Preferred shares as noted below.[1]

Class	Total Shares	Cirqit Shares Redeemed	Allocable LogicSource Series A Shares
Series D	415,294,866	18,782,812	52,657
Series C-2	250,000,000	26,104,167	73,182
Series C-1	469,677,286	94,827,923	265,845
Series B	23,571,790		
Series A	12,168,500		

A copy of the Cirqit post-redemption cap table is attached. Following the July redemption, Cirqit owns approximately [redacted] LogicSource Series A Preferred shares, or [redacted] of LogicSource.

Cirqit – LogicSource Offer

A summary of the LogicSource offer to purchase its Series A Preferred shares and Cirqit's process follows below.

- LogicSource has offered **$2.50** for each of its Series A Preferred shares held by Cirqit. This offer represents an implied LogicSource valuation of approximately $50.1 million. This is a "discount" of approximately 36% from most recent LogicSource Series C Preferred financing round post-money valuation. We are informed that this offer remains open following the July redemption described above.

- Since the July redemption Cirqit shareholders holding an allocable interest in approximately [redacted] of Cirqit's LogicSource Series A Preferred, or [redacted] shares, have indicated an

[1] As noted in our June 15th letter, Cirqit sold additional LogicSource Series A Preferred Shares to satisfy accrued liabilities and expenses. Note also that the final redemption transaction, completed on July 27, required minor adjustments to the number of shares redeemed due to additional Capital Call Note interest accruals and other interclass share adjustments.

interest in redeeming their positions. If fully executed, these transactions would reduce Cirqit's holding in LogicSource from [redacted] Series A Preferred shares. On a percentage basis, Cirqit's holding in LogicSource would be reduced from [redacted].

- This transaction will be executed using documentation similar to that used in the July 2015 redemption.

- This letter constitutes a request for the required consent, totaling 67% of the Series A, B, C and D Preferred Stock, to apply the assets of the company to the redemption of certain Cirqit shareholders' Series D Preferred interests, that is, a distribution on a non-prorata basis to the requesting shareholder in complete exchange for the underlying stock. [2]

- The consent requested in this letter is limited to the redemption of 235,733,351 shares of Cirqit Series D Preferred shares representing, in total, 655,984 LogicSource Series A Preferred shares[3].

Cirqit Articles of Incorporation – Redemption

Cirqit's most recent Articles of Incorporation were adopted on March 31, 2010, at the time the Company closed the Series D Preferred Stock funding round. The Articles of Incorporation, as amended, were circulated to Cirqit shareholders in a letter dated March 11, 2010. We are pleased to provide additional copies of these documents to shareholders upon request.

Cirqit's Articles of Incorporation do not include a provision allowing for the redemption of its Preferred or Common Stock. Article C.3(c)(iii) provides that the affirmative vote or written consent of holders of at least 67% of the then outstanding Series A, B, C and D Preferred Stock, voting together as a single class, is required to "apply any of its assets to the redemption…of any shares of its capital stock…".

As of the date of this letter, which shall serve as the date of record for purposes of the proposed redemption, Cirqit has issued and has outstanding 1,030,998,169 shares of Preferred Stock, in the following classes.

Class	Total Shares	Redemption Requested	Allocable LogicSource Series A Shares
Series D	396,512,054	235,733,351	655,984
Series C-2	223,895,833		
Series C-1	374,849,992		
Series B	23,571,790		
Series A	12,168,500		

[2] In our May 14 letter, we noted the Receiver's litigation against Cirqit. The parties have reached a tentative settlement of this matter, without financial impact to Cirqit, other than legal fees and expenses.

[3] Cirqit is selling LogicSource Series A Preferred Stock in this transaction in order to pay estimated transactional expenses. Cirqit's sale of assets to satisfy expenses does not involve redemption of Cirqit stock and is therefore not included in the consent requested in this letter.

As per the provisions described above, the affirmative vote of 67% of the total Preferred shares, or 690,768,773 shares, is required to approve the sale of LogicSource shares and use of the proceeds to redeem the Cirqit Series D shares as described above. As of the date of this letter, Cirqit believes that there is sufficient preferred shareholder support for this proposal.

Written Consent

Cirqit Preferred stock shareholders are asked to execute the attached Written Consent. This consent, which, to be effective and binding on the Company and all shareholders, requires the consent of holders of 67% of all outstanding shares of the Company's A, B, C and D Preferred Stock, voting together as a single class (assuming the conversion of all shares of Preferred Stock into Common Stock). The Written Consent approves the sale of 655,984 shares of LogicSource Series A Preferred Stock and the use of the proceeds from this sale to redeem 235,733,351 Cirqit Preferred shares, as described above. The Written Consent also waives certain timing and date of record provisions.

To indicate your approval of the proposed transaction, please sign the attached Written Consent and return a signed copy (pdf acceptable) to Jerry Sullivan at jsullivan@cirqit.com or John Wehrle at jsw@dticapital.com.

* * *

For further information and/or discussion regarding this transaction, please contact John Wehrle at jsw@dticapital.com or 314 324 1498.

Thank you for your consideration and participation.

Sincerely,

John S. Wehrle
Chairman of the Board

Attachment: Cirqit Post July 2015 Redemption Cap Table

REDACTED

CIRQIT.COM, INC.

Action by Written Consent of Stockholders
In Lieu of a Special Meeting

October 15, 2015

Pursuant to Section 228 of the General
Corporation Law of the State of Delaware

The undersigned, being the holders of at least 67%, by voting power, of the outstanding shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock and Series D Preferred Stock of Cirqit.com, Inc. (the "Corporation"), voting together as a single class, DO HEREBY ADOPT the resolutions hereinafter set forth as the action of the stockholders pursuant to Section 228 of the General Corporation Law of the State of Delaware and as authorized by the By-Laws of the Corporation with the same force and effect as if such resolutions had been duly adopted at a special meeting of stockholders:

WHEREAS, certain of the Corporation's Series D Preferred stockholders have asked the Corporation to allocate and sell their prorata interests in 655,984 LogicSource Series A Preferred shares held by the Corporation (the "Selling Shareholders");

WHEREAS, the Selling Shareholders have asked the Corporation to use the proceeds from the sale of the LogicSource Series A Preferred shares to redeem their Series D Preferred Stock in the Corporation; and

WHEREAS, the Corporation's currently effective Second Restated Certificate of Incorporation provides that the affirmative vote of 67% of the Series A, B, C and D Preferred Stock, voting as a single class, is required to apply the assets of the Corporation to the redemption of any of its Capital Stock.

NOW, THEREFORE,

RESOLVED: That the Corporation shall allocate the LogicSource Series A Preferred Stock held by the Corporation to the Selling Shareholders' Series D shares, net of the Corporation's liabilities;

RESOLVED: The officers and directors of the Corporation are hereby authorized to sell the allocated LogicSource Series A Preferred Stock pursuant to an appropriate agreement for the sale of such assets;

RESOLVED: That the Corporation is authorized to apply the proceeds of such sale in complete redemption of the Series D Preferred Stock as held by the Selling Shareholders;

RESOLVED: That the timing requirements in the Second Restated Certificate of Incorporation, Article C.4 (k) are hereby irrevocably waived with respect to the transactions described herein; and

RESOLVED: That this resolution may be executed in several counterparts, each of which shall constitute an original and all of which, when taken together, shall constitute one and the same instrument.

[Remainder of page intentionally left blank.]

REDACTED

SIGNATURE PAGE TO THE ACTION BY WRITTEN CONSENT OF STOCKHOLDERS OF CIRQIT.COM, INC.

The undersigned stockholder of Cirqit.com, Inc., a Delaware corporation, hereby executes and delivers the Action by Written Consent of the Stockholders in Lieu of a Special Meeting of the Corporation to which this signature page is attached, effective as of the date of this Action by Written Consent.

_____
Name:
Title:

As holder of _____ shares of Series A Preferred Stock

As holder of _____ shares of Series B Preferred Stock

As holder of _____ shares of Series C-1 Preferred Stock

As holder of _____ shares of Series C-2 Preferred Stock

As holder of _____ shares of Series D Preferred Stock