

**EXHIBIT A**

**UNITED STATES DISTRICT COURT  
EASTERN DISTRICT OF MISSOURI  
EASTERN DIVISION**

SECURITIES AND EXCHANGE COMMISSION,	)	
	)	
Plaintiff,	)	
v.	)	
	)	
BURTON DOUGLAS MORRISS,	)	
ACARTHA GROUP, LLC,	)	
MIC VII, LLC,	)	Case No. 4:12-CV-00080-SNLJ
ACARTHA TECHNOLOGY PARTNERS, LP, and	)	
GRYPHON INVESTMENTS III, LLC,	)	
	)	
Defendants, and	)	
	)	
MORRISS HOLDINGS, LLC,	)	
	)	
Relief Defendant.	)	
	)	

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**TWENTY-THIRD INTERIM STATUS REPORT OF RECEIVER**

Claire M. Schenk (the “Receiver”), the receiver for defendants Acartha Group, LLC (“Acartha Group”); Acartha Technology Partners, LP (“ATP”); MIC VII, LLC (“MIC VII”); and Gryphon Investments III, LLC (“Gryphon Investments”) (collectively, the “Receivership Entities”), submits this **Twenty-Third Interim Status Report** to update the Court on the activities of the Receiver occurring since May 2, 2017. Because this case was recently transferred to Judge Stephen N. Limbaugh, Jr., this Report will provides a high-level summary of the Receivership to date.

**I. Background**

**A. Appointment of the Receiver**

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”), the Receivership Entities, and Morriss Holdings, LLC in the

above-captioned case. *See* Complaint (Dkt. No. 1). As stated in the Complaint, Morriss was the chief executive officer and chairman of Acartha Group's board of directors, the managing member of MIC VII, and the manager of Gryphon Investments, the general partner of ATP. Acartha Group was established as a private equity fund management company. MIC VII and ATP are private equity funds formed to invest in early to mid-stage companies primarily in the financial and technology sectors. Morriss was also the chairman and controlling member of Morriss Holdings, LLC, and a member of its board of directors.

In the Complaint and other papers filed by the SEC on January 17, 2012, the SEC alleged various securities laws violations by the 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' estate, (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* Receivership Order (Dkt. No. 16).

#### **B. Operation of the Receivership**

The overall function of the Receiver as set out in the Receivership Order is to administer and manage the business affairs and assets of the Receivership Entities, act as the managing member or partner of the Receivership Entities, marshal and safeguard all of the assets of the Receivership Entities, and take such actions as are necessary to protect investors. The

Receivership Order directed the Receiver to file with the Court quarterly fee applications and reports detailing the Receiver's actions and results achieved. *See* Receivership Order, ¶ 26.

Following her appointment, the Receiver commenced securing the Receivership Entities' assets and business records. *See First Interim Status Report of Receiver* (Dkt. No. 51-1), at 3. She learned that as of January 23, 2012, the Receivership Entities' cash position was \$59,717. *Id.* at 5. She began providing information to investors via secure sites and subject to execution of a non-disclosure agreement. She also began providing information to the public via a general website hosted by Thompson Coburn LLP (<http://www.thompsoncoburn.com/acartha>) that is linked to the website for the District Court for the Eastern District of Missouri.

Pursuant to the Receivership Order, the Receiver sought to establish a process for the Receiver to evaluate and process claims for purposes of recommending an eventual plan of distribution to the Court. *See Motion to Establish Claims Bar Date, Approve Manner and Form of Notice of Claims Bar Date and Approve Process for Submitting Claims* (Dkt. No. 215). On March 4, 2013, the Court approved the proposed process. Dkt. No. 234.

Through the Court-approved process, the Receiver received 227 claims. She recommended allowing (at least in part) 119 claims and recommended disallowing 108 claims in full. *See Thirteenth Interim Status Report of Receiver* (Dkt. No. 368-1), at 4. Three claimants whose claims had been recommended for disallowance in full or in part filed objections with the Court. *See Sixteenth Interim Status Report of Receiver* (Dkt. No. 416-1), at 6-7. The Receiver later withdrew the recommendation that one of the objector's claims be disallowed. *Id.* at 2. The Court sustained another objection. (Dkt No. 455).

Following multiple planning sessions, the Receiver developed the proposed plan of distribution, submitted it to the SEC, and then filed it with the Court along with the *Motion to*

*Approve the Amended Plan of Distribution, Authorize Distributions of Receivership Assets, and Approve Partial Payment of Holdback Amount Pertaining to the Receivership Professionals.*

The motion was filed on April 20, 2017 and was described in the Receiver's Twenty-Second Interim Status Report (Dkt. No. 520-1).

### **C. Claims and Litigation**

Paragraph 2 of the Receivership Order directed the Receiver to investigate the manner in which the affairs of the Receivership Entities were conducted and to institute such actions and legal proceedings, for the benefit and on behalf of the Receivership Entities, as the Receiver deemed necessary against those individuals and entities that the Receiver claimed directly or indirectly misappropriated or transferred monies. Under paragraph 6 of the Receivership Order, the Receiver may defend, compromise or settle legal actions in which the Receivership Entities are parties, with authorization of the Court. In keeping with the directives of the Court, the Receiver participated in and investigated litigation in various lawsuits and claims. These lawsuits and claims included:

- Receivership lawsuit against Morriss Holdings
- Federal Insurance Co. interpleader action against the Receiver and a number of individuals and law firms making claims against a \$3 million D&O liability policy purchased by the Receivership Entities
- Proof of loss form to Maryland Casualty Company
- The Morriss bankruptcy case
- A state-court lawsuit
- Claims against UHY Advisors MO, Inc.
- Receivership lawsuit against John Wehrle; Gryphon Investments II, LLC; and Cirqit.Com, Inc.

### **D. Business Operations**

The Receivership Entities' investments originally included illiquid interests in Librato, Inc. (cloud management services); Tervela, Inc. (data transfer services); Pollenware (cash flow optimization services); Clearbrook (asset allocation advice services); and Cirqit.com, Inc., which

holds an interest in LogicSource (print/paper procurement processing and outsourcing). *See Fifth Interim Status Report of Receiver* (Dkt. No. 255-1), at 8. Throughout the Receivership, the Receiver participated in board and shareholder calls involving the portfolio concerns, reviewed periodic updates by management as to financials and operations involving the portfolio entities, analyzed information, and handled compliance matters pertaining to potential tax claims and liability.

As the result of funds received through several events of liquidity, subject to the Orders of the Court, the Receiver distributed funds held by special purpose vehicles (the “SPVs”) managed by the Receiver through Acartha Group. These entities included: Integrien Acquisition, LLC; Integrien Acquisition II, LLC; Evergrid Acquisition, LLC; Librato Acquisition II, LLC; and Evergrid/MIC VII, LLC. The SPVs were not subject to the Claims Bar Date process.

#### **E. Tax Matters and Corporate Compliance**

Beginning in 2012, subject to the approval of the Court, the Receiver engaged Segue Equity Group LLC (“Segue”) and CliftonLarsonAllen LLP (“CLA”). Since that time, Segue has provided bookkeeping and other “back office” services while CLA serves as the Receiver’s tax preparer and has also provided valuation and forensics services.

## **II. Update**

### **A. Distributions and Wind Up**

Subsequent to the Receiver filing the *Motion to Approve the Amended Plan of Distribution, Authorize Distributions of Receivership Assets, and Approve Partial Payment of Holdback Amount Pertaining to the Receivership Professionals* on April 20, 2017, the Receiver received several informal inquiries regarding the motion and one late-filed objection, which was allowed with the consent of the Receiver. As a result, the Receiver amended and then updated

the relevant distribution schedules. On June 16, 2017, the Court granted the Receiver's amended motion and entered an order authorizing the Receiver to make one or more distributions to Allowed Claimants based on the distribution schedules and the Receiver's proposed priority and distribution methodologies. (Dkt. No. 537).

Upon receipt of the June 16, 2017 order of the Court ("the Order") the Receiver turned her focus to distribution of the sums as directed by the Court. The Receiver notified all Allowed Claimants receiving a distribution under the Order ("the Distributees") of the impending distribution. In keeping with the Receiver's motion and the Order, funds were consolidated and transferred into the Receiver's checking accounts for Acartha Group, ATP, MIC VII, and Gryphon Investments at East West Bank. Upon receipt of the requested wire transfer instructions, the funds were wired to the Distributees. As of the filing of this report, East West Bank has provided the Receiver with confirmation of outgoing wire transfers for each of the Distributees. Following receipt of the bank statements for the month of July, the Receiver will confirm that the outgoing wires resulted in the receipt of funds by the Distributees. If the Receiver learns of any "bounce backs" due to errors in the wire transfer instructions provided by the Distributees, corrections will be made, and the wire will be reinitiated. Subject to confirmation, the funds that have been distributed are as follows:

<b>Receivership Entity</b>	<b>Amount Distributed</b>	<b>No. of Distributees Receiving Funds</b>
Acartha Group	\$126,951	12
ATP	\$3,871,951	21
MIC VII	\$647,441	21
Gryphon Investments	\$93,187	4

Additionally, in keeping with the Order, the Receiver paid 80 percent of the legal and professional fee holdback incurred and remaining unpaid as of December 31, 2016.<sup>1</sup> Payments were made to Thompson Coburn, Segue, CLA, Pepper Hamilton, and FTL Capital. The Receiver is moving forward on other activity directed by the Order, including the assignment of the unliquidated assets of the Receivership Entities to the Allowed Claimants in those Entities in proportion to the respective interests held by such Allowed Claimants prior to or as part of the wind up of the Receivership. Assets and expenses will continue to be allocated in the approved manner and as directed by the Order. Additionally, pursuant to the Order, given the apparent uncollectability of the debts held by the various Receivership Entities and managed entities, as reflected in many intercompany entries, the Receiver anticipates significant debt forgiveness and cancellation of various receivables currently reflected on the books during calendar year 2017, which will be reflected in the issuance of future K-1s to be issued to the investors. A “theft loss” will be allocated to Allowed Claimants in Classes 1 and 2 (consisting of cash and non-cash investors) as described in the Receiver’s memorandum in support of the Receiver’s motion. This “theft loss” will be shown on the final K-1s issued to each such Allowed Claimant for the 2017 reporting year.

#### **B. Objection of Hany Teylouni**

On June 16, 2017, the Court overruled the objection of claimant Hany Teylouni to the Receiver’s determination to disallow his claim for deferred compensation in the amount of \$352,532.15. The basis of the Court’s ruling is that there are insufficient assets to pay the claims

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<sup>1</sup> In the final portion of the memorandum in support of the Receiver’s motion to approve the distribution plan, the Receiver requested payment of a portion of the administrative expenses that remained unpaid pursuant to the Receiver’s holdback agreement with the SEC. This request was supported by the substantial recoveries and savings described in the memorandum and is in keeping with the applicable authority outlined therein.

of the investors in full, and no funds are available to pay the claims of former employees such as Mr. Teylouni, regardless of the merits of his objection.

### **C. Business Operations**

As directed by the Court, the Receiver continues to oversee the remaining unliquidated holdings of the Receivership Entities in several investments, including Tervela, Inc. (“Tervela”); Cirqit.Com, Inc. (“Cirqit”); and Exigy. The Receiver participated in the most recent Tervela board call, which was held on Friday, July 21, 2017. The call included a discussion of Tervela’s quarterly report, operations, financials, and the timing and future needs for funding. A summary of this information was posted to the secure investor extranet site.

Cirqit provided updates to the Receiver on May 8, 2017 (summarizing LogicSource’s first quarter performance), July 20, 2017 (providing updates to LogicSource’s first half performance and likely outlook for the balance of 2017) and again on July 21, 2017 (regarding various tax issues). The Receiver and her counsel, Chris Reid, participated in a call on Monday, July 31, 2017 regarding these matters. The various updates were posted to the secure investor extranet site for review by the appropriate investors. The Receiver will keep the interested investors updated through the extranet site and direct contact, as appropriate.<sup>2</sup>

### **D. Tax Matters and Corporate Compliance**

On May 25, 2017, taxes were paid to the state of Delaware for fourteen active managed entities: Tervela Acquisition II, Integrien Acquisition; Librato Capital II; ATP; Evergrid MIC VII; Librato Acquisition II; MIC VII; Tervela Capital II; Acartha Group; Acartha Merchant Partners; Tervela Acquisition II; Tervela Acquisition; and Gryphon Investments. As activity is

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<sup>2</sup> As explained *infra*, information is available to the investors on secure sites and subject to execution of a non-disclosure agreement. The specifics pertaining to the information discussed therein is considered confidential by the Receivership portfolio concerns.

completed, the Receiver will ask CT Corporation to resign, payments to Delaware will cease, and the managed entities will be allowed to become inactive.

The required Federal and state tax filings have been made and K-1s prepared for Acartha Group, MIC VII, ATP, Gryphon Investments, Acartha Merchant Partners, Morriss Administration, Tervela Acquisition LLC, Tervela Acquisition II, Tervela Acquisition III, Integrien Acquisition, Evergrid MIC VII, and Librato Acquisition II.<sup>3</sup> Final filings were made for the inactive entities, Evergrid Acquisition and Clearbrook Acquisition.

## **E. Administrative Matters**

### *1. SFAR*

An updated copy of the Standardized Fund Accounting Report (“SFAR”) will be submitted along with the *Receiver’s Twenty-Second Interim Fee Application* for the second quarter of 2017, covering April through June. The SFAR reflects known and current bank balances for the Receivership Entities and the accounts of the SPVs, which are managed by the Receiver. It also reflects expenses and payments during the first quarter of 2017. A final and fully detailed SFAR will be submitted to the Court at the conclusion of the Receivership.

### *2. Interim Applications for Fees and Expenses*

Payment of fees and expenses to the service professionals providing assistance to the Receiver are current in keeping with the Court’s approval of the last Fee Application. As of the date of the filing of this report, there were no pending Fee Applications, and payments were made to the Receiver and her professionals through March 31, 2017 (with the exception of funds subject to the holdback).

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<sup>3</sup> The Receiver anticipates that all K-1s will be transmitted to investors on or before August 4, 2017.

### 3. *Receivership and Secure Investor Websites*

The Receiver continues to update the general website hosted by Thompson Coburn (which is linked to the website for the District Court for the Eastern District of Missouri). Additionally, the Receiver continues to post documents on the extranet sites created for the investors. Each site is periodically updated with information pertinent to business operations, *e.g.*, slide decks or presentations, and transactional documents involving additional financings or other significant events. During this reporting period, information pertaining to Tervela has been added.

The Receiver encourages claimants, investors, and other interested parties to visit the websites that are available to them so that they will have a current understanding of Receivership operations and to avoid unnecessary expense through repeated individualized communications with the Receiver and her advisors.

### **Conclusion**

The Receiver will continue to update this report on a periodic basis to summarize relevant Receivership activities.

Dated: August 3, 2017

Respectfully submitted,

/s/ Claire M. Schenk  
Claire M. Schenk, Receiver