



January 9, 2023

In re BlockFi Inc., No. 22-19361 (MBK)

United States Bankruptcy Court for the District of New Jersey

Judge Michael B. Kaplan

Roadmap

- I. Progress Since the First Day Hearing
- II. Preview of SOFAs and Schedules
- III. Proposed Agenda





Progress Since the First Day Hearing

Initiated Sale Process

Shortly after the First Day Hearing, the Debtors commenced a marketing and sale process, reaching out to **106 domestic and international potential buyers** for some or all of the business.

The Debtors will file a motion seeking approval of bidding procedures at the January 30, 2023 omnibus hearing.

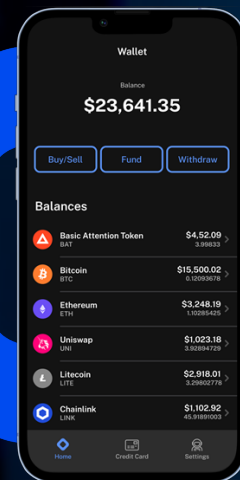


Filed Wallet Withdrawal Motion

As represented at the First Day Hearing, the **Wallet Withdrawal Motion was filed and will be heard as soon as possible in coordination with the Committee.**

The Debtors seek to do right by their clients:

- ✓ **Honor client withdrawals** from their Wallet Accounts as of the Platform Pause Time Stamp,
- ✓ **Update the User Interface** to reflect proper accounting of digital assets in Wallet Accounts as of the Platform Pause Time Stamp, and
- ✓ **Conduct ordinary course reconciliation** of client accounts.



Shortly following First Day Hearing

December 19, 2022

December 19–30, 2022

December 29, 2022–
January 4, 2023

“Second Day” Motions & Retention Applications

The Debtors filed a suite of “**second day motions**” and **professional retention applications**:

Second Day Motions

Rejection Procedures Motion [Docket No. 122]

Motion for Administrative Fee Order [Docket No. 123]

Ordinary Course Professionals Motion [Docket No. 124]

Loan Procedures Motion [Docket No. 125]

Motion to Seal Names of M&A Counterparties [Docket No. 127]

Retention Applications

KIRKLAND & ELLIS LLP

HAYNES BOONE

Cole Schotz P.C.

 **BRG**  **KROLL**
MOELIS & COMPANY

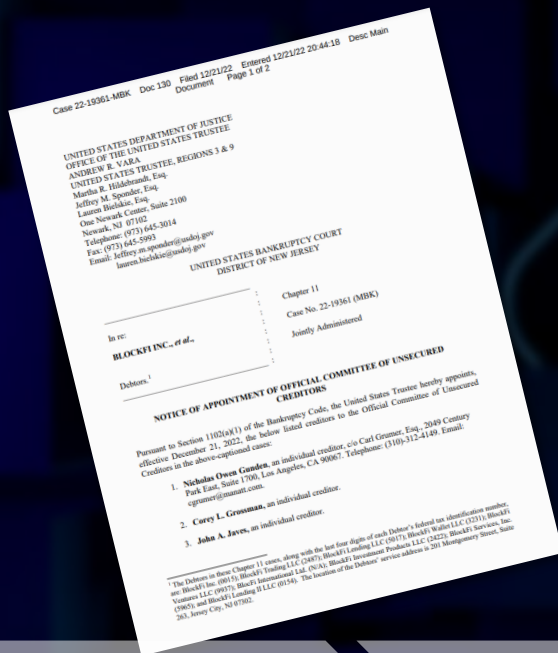
Shortly following First Day
Hearing

December 19, 2022

December 19-30, 2022

December 29, 2022–
January 4, 2023

The U.S. Trustee Appoints the “Clients’ Committee”



On December 21, 2022, the U.S. Trustee appointed the Official Committee of Unsecured Creditors, which is comprised of **9 individual clients**.

Shortly following First Day
Hearing

December 19, 2022

December 19-30, 2022

December 29, 2022–
January 4, 2023

Committee Selects Professionals

brownrudnick



The Debtors and the Committee met on January 6, 2023.

Shortly following First Day
Hearing

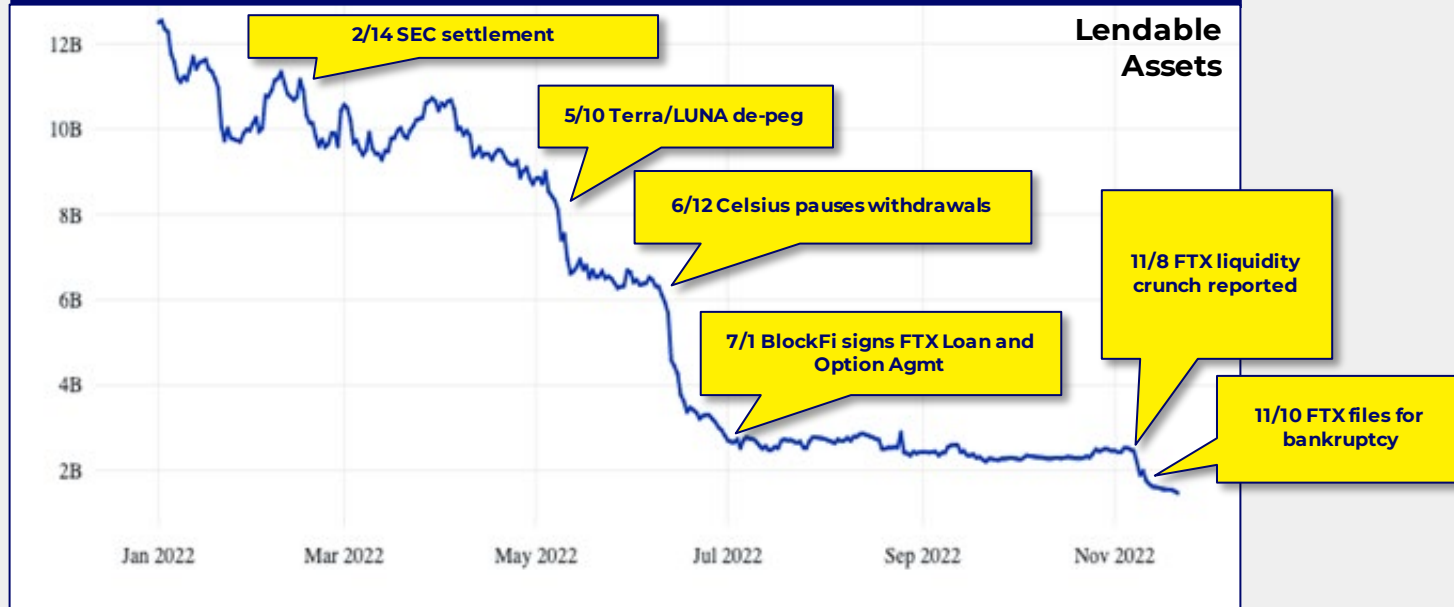
December 19, 2022

December 19–30, 2022

December 29, 2022–
January 4, 2023

Preview of SOFAs and Schedules

January 2022 – November 2022



Preview of SOFAs and Schedules

Similar to many BlockFi clients, BlockFi's management team deployed their personal assets on the platform, to trade, earn interest, and store different cryptocurrencies under the same terms of service as clients.

The below sets forth the balance (in U.S. Dollar equivalent) in cryptocurrency on the BlockFi platform for the members of the BlockFi management team who had BlockFi accounts at the end of each month in 2022 before the Petition Date:⁽¹⁾

Name	1/31/22	2/28/22	3/31/22	4/30/22	5/31/22	6/30/22	7/31/22	8/31/22	9/30/22	10/31/22	11/21/22
BTC price	\$38,480	\$43,169	\$45,514	\$37,640	\$31,798	\$19,921	\$23,302	\$20,050	\$19,423	\$20,496	\$15,779
A. Cheela	\$329k	\$338k	\$346k	\$333k	\$303k	\$291k	\$297k	\$294k	\$295k	\$298k	\$292k
M. Crowell	\$11k	\$12k	\$13k	\$11k	\$10k	\$9k	\$9k	\$9k	\$9k	\$9k	\$8k
A. Grigoryan	\$10k	\$10k	\$10k	\$10k	\$10k	\$9k	\$10k	\$10k	\$10k	\$10k	\$9k
A. Healy	\$254k	\$407k	\$409k	\$410k	\$412k	\$1k	\$1k	\$1k	\$1k	\$1k	\$1k
T. Lauro	\$279k	\$309k	\$330k	\$276k	\$227k	\$146k	\$177k	\$157k	\$150k	\$161k	\$125k
R. Loban	\$245k	\$273k	\$290k	\$241k	\$74k	\$47k	\$60k	\$54k	\$50k	\$55k	\$43k
F. Marquez	\$154k	\$165k	\$170k	\$154k	\$142k	\$117k	\$125k	\$118k	\$117k	\$120k	\$109k
Z. Prince	\$9213k	\$12490k	\$13151k	\$3037k ⁽²⁾	\$2577k	\$2124k	\$2421k	\$1366k	\$1704k	\$1833k	\$1392k
A. Tam	\$222k	\$309k	\$323k	\$227k	\$15k	\$13k	\$14k	\$14k	\$14k	\$14k	\$13k

No member of the BlockFi management team withdrew any cryptocurrency from BlockFi's platform after October 14, 2022, and no member of BlockFi's management team made a withdrawal greater than 0.2 BTC in value at any time after August 17, 2022.

(1) These figures combine balances on BlockFi's retail and institutional platforms (as applicable).

(2) In addition to a material drop in the price of BTC and other cryptocurrency during 2022, which had an impact on these figures for each member of management, Mr. Prince made a significant withdrawal in April 2022 from deposits he had previously made on the BlockFi platform in order to pay U.S. federal and state taxes.

Preview of SOFAs and Schedules (Cont'd)

For context, in 2022, BlockFi completed a total of \$7.7 billion in retail withdrawals, and the management team's withdrawals represent 0.15% of that total volume:

Time Period	1/1/2022-Platform Pause	6/1/2022-Platform Pause
Retail Withdrawals	\$7.7 billion	\$3.3 billion



“Crypto-winter” and FTX

Industry headwinds in the Summer of 2022 caused **contagion across the sector and led to material withdrawals from platforms industry-wide.**

To protect clients' funds, BlockFi executed a transaction in which FTX committed to loan \$400 million in cryptocurrency on a junior basis to BlockFi's obligations to its clients, **enabling BlockFi to process billions of dollars in clients' requested withdrawals and other transactions between June and November 2022.**

FTX Strikes Deal With Option to Buy Crypto Lender BlockFi . . .

The deal also includes a \$400 million credit facility for BlockFi . . .

The Wall Street Journal – July 1, 2022

Impact of the FTX Transaction on BlockFi's Executives, Employees, and Shareholders

- The FTX transaction **stabilized BlockFi and protected clients**. But while the structure of the transaction secured liquidity for BlockFi's clients, it led to BlockFi's executives and employees losing their own equity value.
- BlockFi also reorganized its workforce, reducing headcount by over 20% to **attempt to further protect client value and set a course to return to profitability**.
- At the same time, it became necessary and critical to implement a go-forward compensation structure to retain business-critical capabilities needed to effectuate the FTX transaction.

Thus, in July 2022, BlockFi's then-board of directors approved a multi-pronged strategy . . .



Multi-pronged Strategy

1

First, several members of BlockFi's management team had paid out of pocket for, or otherwise financed, shares or options rendered worthless by the FTX transaction. **BlockFi funded one-time payments to effectively return the funds it had received and make certain employees whole.**

2

Second, the board approved a retention program offering key employees the opportunity to earn cash payments of up to 50% of their base salary **if: (a) they stayed at BlockFi through February 2023; and (b) BlockFi met certain company-wide goals.**

The retention program, however, was discontinued upon BlockFi's chapter 11 filing, and no payments were made (or will be made) to insiders thereunder.

3

Third, BlockFi historically timed compensation raises with material capital markets activity and fundraising.

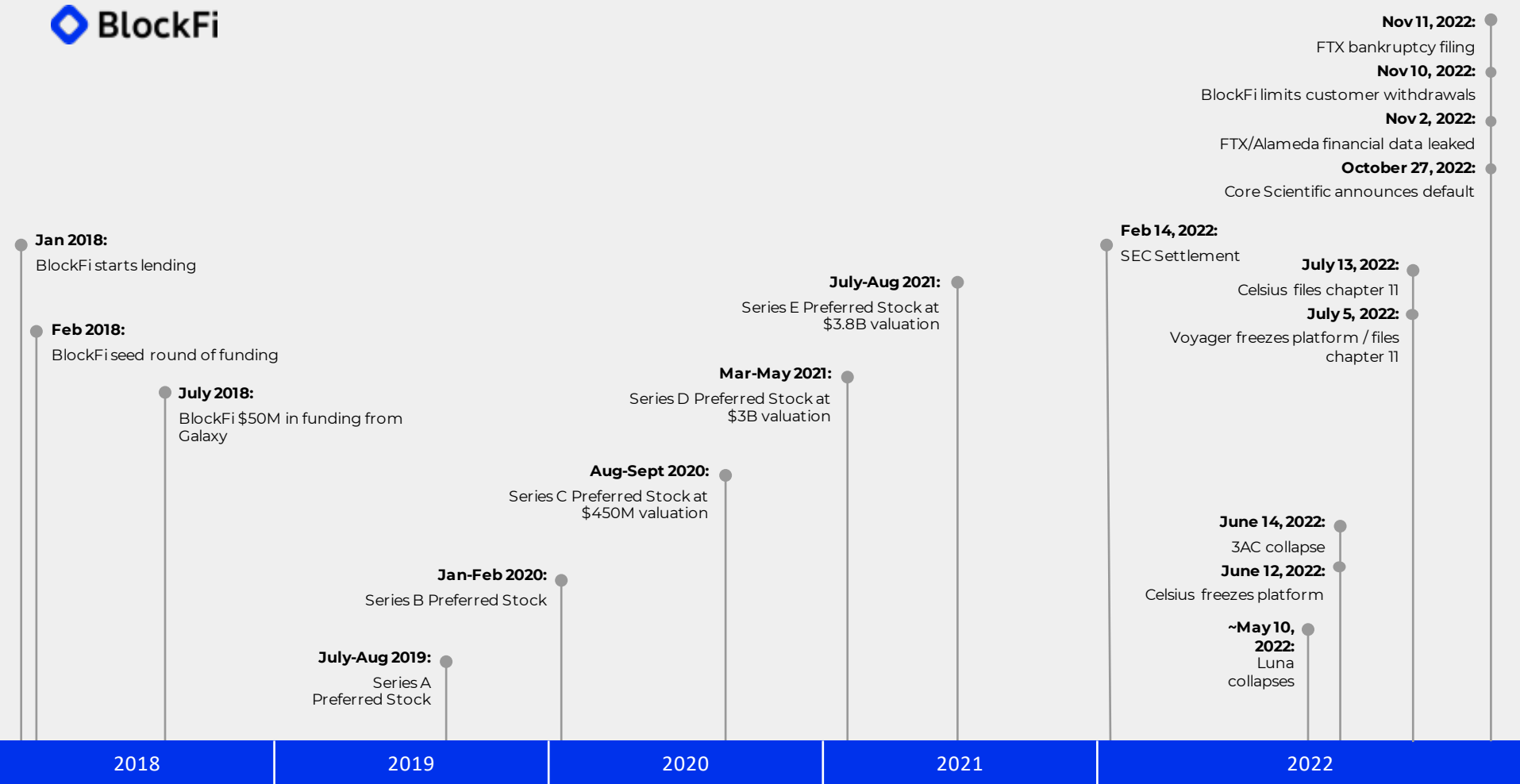
The massive impact of the FTX transaction on management equity led BlockFi's board of directors to, among other things, increase base salaries and make retention payments to ensure business-critical knowledge and capabilities were maintained.

Insider Base Salary Adjustments Following FTX Transaction

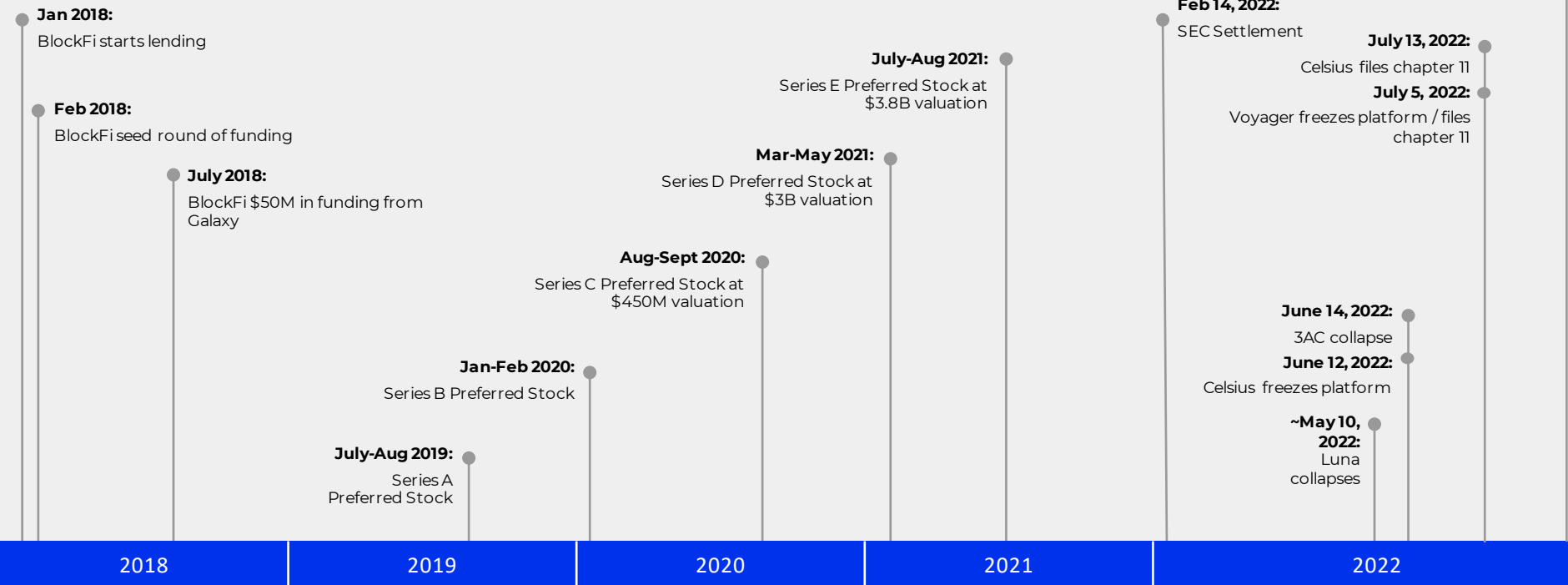
Name	Equity Lost in FTX Transaction ⁽³⁾	2023 Planned Retention Payment That Will Not Be Made	Salary Change Following FTX Transaction	Post-FTX Salary Change For Promotion or Other Reason (if Applicable)
C. Allmon	\$13.13M	\$187.5k	\$300k-\$375k	N/A
A. Cheela	\$19.93M	\$281k	\$282k-\$353.1k	\$562k
M. Crowell	\$5.55M	\$187.5k	\$270k-\$337.5k	\$375k
A. Grigoryan	\$11.25M	\$250k	\$350k-\$437.5k	\$500k
A. Healy	\$19.5M	\$262.5k	\$420k-\$525k	N/A
R. Loban	\$5.25M	\$200k	\$300k-\$375k	\$400k
F. Marquez	\$156.43M	\$250k	\$225k-\$500k	N/A
J. Mayers	\$64.5M	\$281.25k	\$350k-\$562.5k	N/A
Y. Mushkin	\$11.25M	\$275k	\$440k-\$550k	N/A
B. Oliver	\$18.75M	\$250k	\$400-\$500k	N/A
Z. Prince	\$412.82M	\$600k	\$250k-\$400k	N/A
D. Spack	\$34.5M	\$171.9k	\$275k-\$343.8k	N/A
A. Tam	\$34.5M	\$187.5k	\$300k-\$375k	N/A

The Debtors intend to obtain Court approval of a KERP, which **excludes** insiders.

(3) Amounts are measured against the implied valuation of BlockFi from the issuance of Series E preferred stock to investors in July and August 2021.



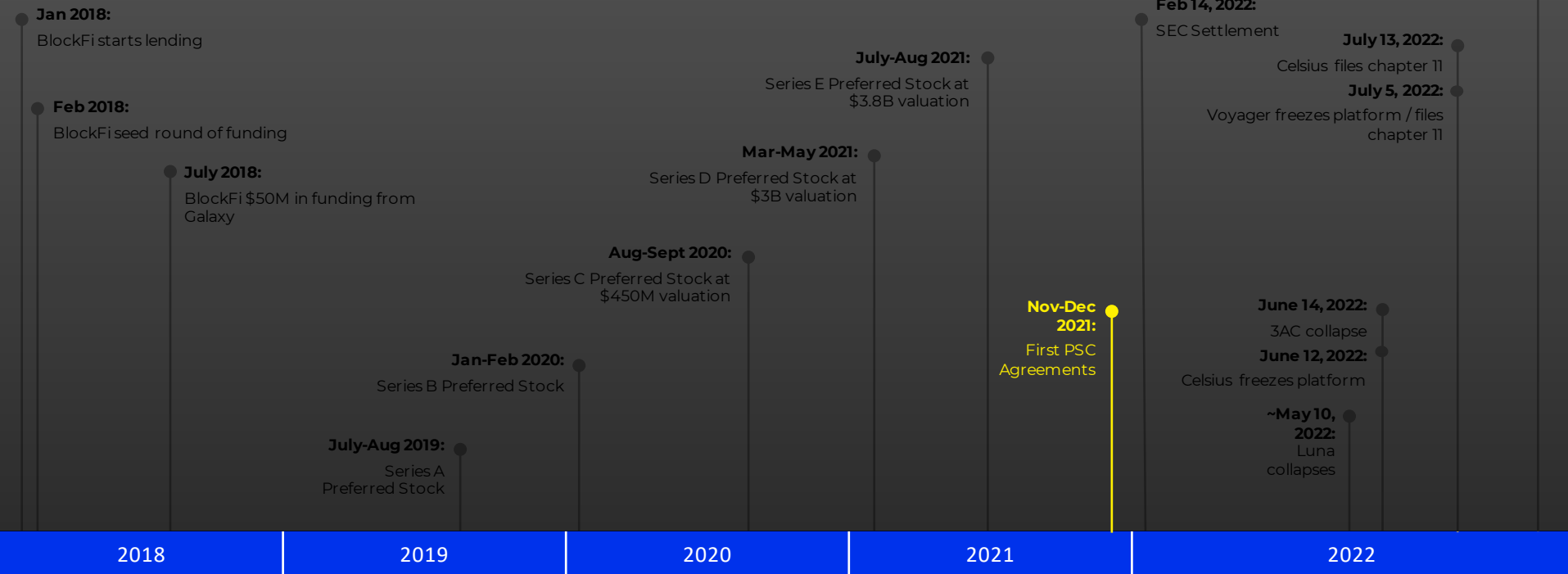
Litigation Settlement Chronology



Litigation Settlement Chronology

Nov-Dec 2021

First PSC Agreements



Litigation Settlement Chronology

Nov–Dec 2021

First PSC Agreements

January 2022

\$6–\$8 Billion Third Party Indicative Valuation

Jan 2018:

BlockFi starts lending

Feb 2018:

BlockFi seed round of funding

July 2018:

BlockFi \$50M in funding from Galaxy

July-Aug 2019:

Series A Preferred Stock

Jan-Feb 2020:

Series B Preferred Stock

Aug-Sept 2020:

Series C Preferred Stock at \$450M valuation

Mar-May 2021:

Series D Preferred Stock at \$3B valuation

July-Aug 2021:

Series E Preferred Stock at \$3.8B valuation

Jan 2022:

\$6–\$8 Billion Third Party Indicative Valuation

Nov-Dec 2021:

First PSC Agreements

Feb 14, 2022:

SEC Settlement

July 13, 2022:

Celsius files chapter 11

July 5, 2022:

Voyager freezes platform / files chapter 11

June 14, 2022:

3AC collapse

June 12, 2022:

Celsius freezes platform

~May 10, 2022:

Luna collapses

Nov 11, 2022:

FTX bankruptcy filing

Nov 10, 2022:

BlockFi limits customer withdrawals

Nov 2, 2022:

FTX/Alameda financial data leaked

October 27, 2022:

Core Scientific announces default

2018

2019

2020

2021

2022

Litigation Settlement Chronology

Nov–Dec 2021 First PSC Agreements

January 2022 \$6–\$8 Billion Third Party Indicative Valuation

March–April 2022 Second PSC Agreements

Jan 2018:
BlockFi starts lending

Feb 2018:
BlockFi seed round of funding

July 2018:
BlockFi \$50M in funding from Galaxy

July-Aug 2019:
Series A Preferred Stock

Jan-Feb 2020:
Series B Preferred Stock

Aug-Sept 2020:
Series C Preferred Stock at \$450M valuation

Mar-May 2021:
Series D Preferred Stock at \$3B valuation

July-Aug 2021:
Series E Preferred Stock at \$3.8B valuation

Jan 2022:
\$6-\$8 Billion Third Party Indicative Valuation

Nov-Dec 2021:
First PSC Agreements

Feb 14, 2022:
SEC Settlement

July 5, 2022:
Voyager freezes platform / files chapter 11

July 13, 2022:
Celsius files chapter 11

Mar and Apr 2022:
Second PSC Agreements

June 12, 2022:
Celsius freezes platform

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2018

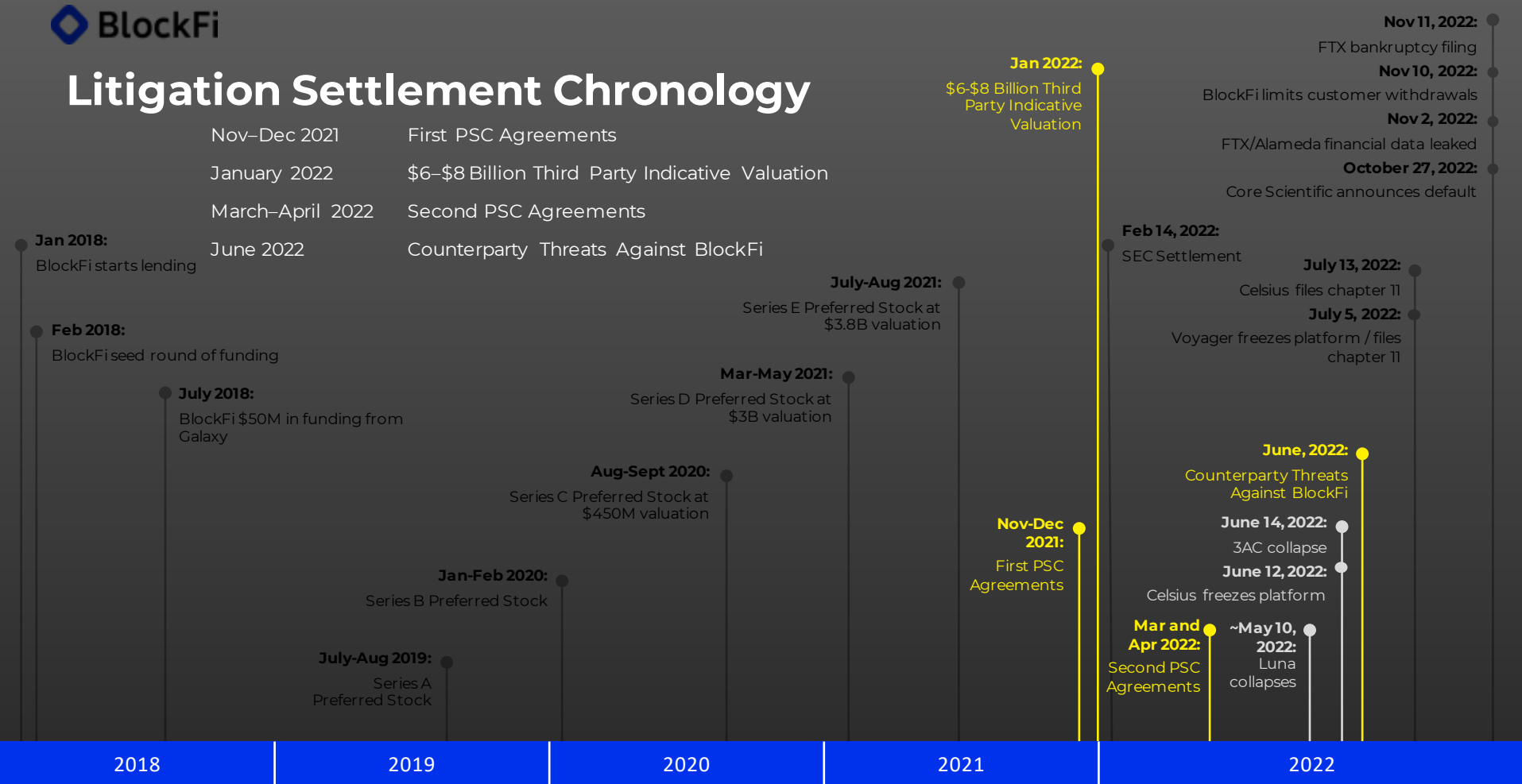
2019

2020

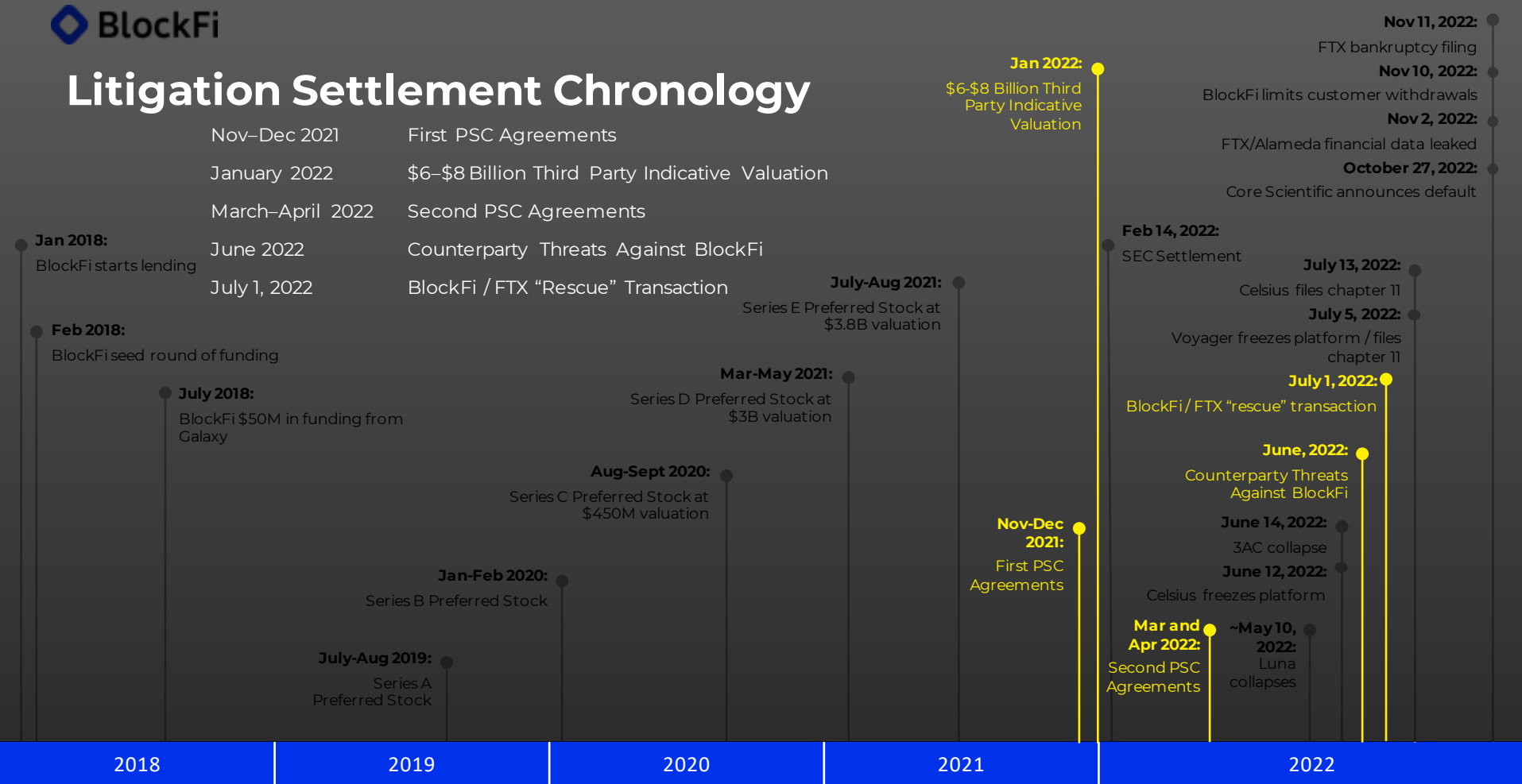
2021

2022

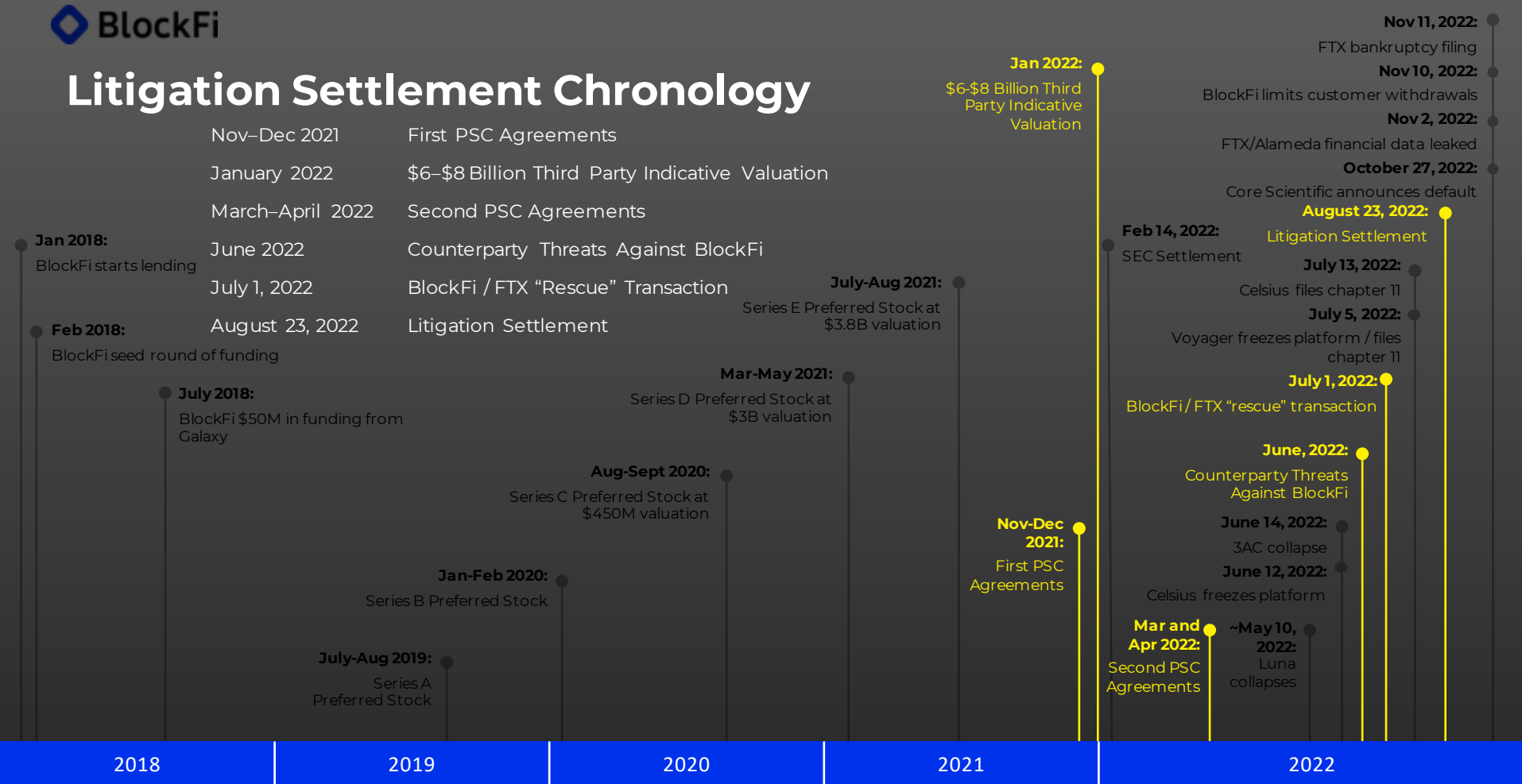
Litigation Settlement Chronology



Litigation Settlement Chronology



Litigation Settlement Chronology



Litigation Settlement

The threatened litigation was resolved in a confidential global settlement agreement and mutual release between the counterparty, BlockFi, and the executives.

- The settlement was brought to, and approved by, BlockFi Inc.'s board of directors. At the time of the settlement, as a result of the FTX transaction, FTX had an appointed observer to the board of directors. FTX's appointed board observer stressed the importance of this settlement—funded by FTX—to BlockFi and its clients' long-term best interests.
- **Due to the structure of the settlement, certain payments from BlockFi were routed through the executives and ultimately made to the counterparty.** The payments also created tax liabilities for the executives even though they did not keep the funds. **Instead, the individuals took the payments received from BlockFi and paid them to the counterparty pursuant to the settlement agreement, appropriate taxing authorities, or both.**

Name	Litigation Settlement Payment Routed Through Insider
T. Lauro	\$2,191,335
R. Loban	\$462,545
F. Marquez	\$4,096,688
Z. Prince	\$6,144,785
D. Spack	\$2,116,139
Total Litigation Settlement	\$15,011,492



Proposed Agenda

Proposed Agenda

Pleading

Docket No.

Turnover Motion

2 (Adversary Proceeding)

Gerro Lift Stay Objection

173

