

**OFFICIAL COMMITTEE OF UNSECURED CREDITORS  
OF BLOCKFI INC., ET AL**

**TO: HOLDERS OF UNSECURED NOTES CLAIMS AND GENERAL UNSECURED CLAIMS**

**RE:** Recommendation Of Official Committee Of Unsecured Creditors In Support Of The *Third Amended Joint Chapter 11 Plan Of BlockFi Inc. And Its Debtor Affiliates Pursuant To Chapter 11 Of The Bankruptcy Code* (the “**Plan**”) [Docket No. 1300]<sup>1</sup>

**THE OFFICIAL COMMITTEE OF UNSECURED  
CREDITORS OF BLOCKFI, INC. RECOMMENDS THAT YOU  
*VOTE IN FAVOR* OF THE PLAN, WHICH INCORPORATES  
THE TERMS OF A GLOBAL SETTLEMENT REACHED BY THE COMMITTEE.**

**THE PLAN CONTAINS AN OPT-OUT MECHANISM WHEREBY CREDITORS CAN CHOOSE  
TO RETAIN OR RELEASE INDIVIDUAL CLAIMS AGAINST CERTAIN THIRD PARTIES. THE  
COMMITTEE RECOMMENDS THAT YOU CAREFULLY REVIEW THE PLAN AND ALL  
ASSOCIATED DOCUMENTS WITH RESPECT TO MAKING SUCH ELECTION.**

The Official Committee of Unsecured Creditors (the “**Committee**”) was appointed in the Chapter 11 cases of BlockFi, Inc. and certain of its affiliated entities (collectively, “**BlockFi**” or the “**Debtors**”) on December 21, 2022, by the Office of the United States Trustee, and is comprised of domestic and international customers of BlockFi, and is charged as acting as a fiduciary to the unsecured creditors of the Debtors.

The Committee is advised by Brown Rudnick LLP as counsel, McCarter & English, LLP, as efficiency counsel, Genova Burns LLC, as local counsel, M3 Partners as its financial advisor, and Elementus Inc. as its blockchain intelligence and forensics expert.

You are receiving this letter because you are entitled to vote on BlockFi’s Plan. For the reasons outlined below, the Committee recommends that all unsecured creditors vote to **APPROVE** the Plan.

**The Plan Settlement**

The structure of the Plan is, under the circumstances, the best path forward for creditors. The Committee’s view has always been that the remaining value in BlockFi should be returned to creditors as quickly as possible, in as cost-efficient a manner as possible. The Plan – as modified

<sup>1</sup> The Plan and Disclosure Statement are available online at <https://restructuring.ra.kroll.com/blockfi>. Capitalized terms used but not defined herein shall have the meanings ascribed thereto in the Plan.

by the Plan Settlement – is the best way to do so and the Committee recommends that creditors vote to approve the Plan.

### **In-Kind Distributions**

The Plan Settlement provides that distributions to BlockFi customers will be in cryptocurrency (which is designed to mitigate certain negative tax implications for customers) to the greatest extent practicable as soon as practicable. This was an important aspect of any plan for the Committee due, in part, to potential adverse tax consequences if distributions were made in dollars.

The Committee demanded, and obtained, additional authority to extend the period where “in-kind” distributions could be made, and additional flexibility to make those distributions in the most practical way possible.

### **Creditor Control**

The Plan provides that the wind-down of BlockFi (including litigation against and by FTX, Alameda, 3AC, Core Scientific, and other counterparties, including the United States) is controlled by representatives of BlockFi’s creditors (much like the Committee is representative of your interests).

The Committee believes that creditors – who bear all of the costs of these cases and of any future litigation – are best suited to determine what should be done with their money, and are entitled to determine what should be done with their money. The Plan does so. On the Effective Date, a Wind-Down Trustee selected by the Committee, and reporting to a board with a supermajority of creditors with a personal stake in the success of the Wind-Down Trustee’s efforts, will take control.

### **Preference Waivers**

The Plan Settlement provides that **all** customers will receive a broad waiver of preference claims: all preference claims for withdrawals prior to November 2, 2023 will be waived, and any preference claims that, in the aggregate, amount to less than \$250,000 will be waived.

This aspect of the Plan Settlement ensures that the overwhelming majority of claims that could be asserted against BlockFi customers are waived *regardless* of how they vote on the Plan or if they grant a release of claims they hold in their individual capacity – but preserves potentially valuable avoidance actions against customers which withdrew large amounts (i.e., in excess of \$250,000) off of BlockFi’s platform in the days leading up to its bankruptcy filing.

### **D&O Avoidance Actions**

The Plan Settlement further preserves fraudulent transfer claims against BlockFi’s D&O insurance providers for the return of \$22.5 million in premiums paid on the eve of bankruptcy. The

Committee believes this is a potential source of recovery for BlockFi's creditors that would have, but for the Plan Settlement, been lost.

### **The Committee Investigation**

The Committee understands, and sympathizes with, the creditors who feel wronged by the collapse of BlockFi. The Committee believed BlockFi's collapse required an independent investigation, that would inform creditors of what was discovered and allow the Committee to determine if it believed potential causes of action existed against third parties.

Starting at the outset of these Chapter 11 cases, the Committee and its professionals conducted an intensive investigation on several fronts, comprised of substantial document discovery, informal interviews, depositions, financial analysis, forensic blockchain analysis and associated asset tracing

On behalf of the Committee, we conducted six interviews and eleven depositions of current and former employees and directors of BlockFi. We also reviewed over thirty-four thousand documents produced by BlockFi and other parties. We analyzed the risk factors inherent in BlockFi's business, the promises made to customers, corporate guidelines and oversight functions, interactions with state and federal regulators, and certain investment failures. We also analyzed transactions that occurred just prior to BlockFi's bankruptcy, including the liquidation of BlockFi's cryptocurrency amid the volatility in digital currencies in general; the purchase of D&O insurance; certain withdrawals of digital currency off of BlockFi's platform by insiders; and the payment of settlement consideration on behalf of certain BlockFi insiders.

Our investigation was designed to answer the question: *Why did BlockFi fail?* The Committee's preliminary report on this investigation (the "**Investigative Report**") is available online at: <https://bit.ly/UCC-Report> and was filed on the docket at Docket No. 1202. We encourage creditors to read the Investigative Report.

As set forth in the Committee's Investigative Report, the Committee concluded that there were fundamental flaws with BlockFi's business model, that had led to significant losses prior to the FTX bankruptcy proceedings. These flaws resulted in customers being exposed to risks materially greater than the risks customers appear to have understood they were undertaking. The Committee concluded that BlockFi's risk management department was not fully independent and was subject to override, and that it identified specific risks that should have been addressed, but were not, with the Alameda Research loans due to being overridden.

The Debtors disagree with the above conclusions. The Debtors' Special Committee produced a report which reached conclusions contrary to the Investigative Report. We reviewed, and disagree with, the conclusions reached in the Special Committee Report and did not alter any of our conclusions in response.

Based on the Investigative Report, the Committee feels strongly that the claims that the estate could bring against insiders are strong and would, ultimately, lead to a verdict against those

insiders. The Committee sympathizes with customers who want to see those claims litigated rather than settled.

However, the Committee cannot ignore the economic realities of this case. Customers have waited over half a year to regain access to some of their money. Challenging the Debtors' proposed plan that would release those insiders would cost significant money – paid for out of customer funds – and further delay distributions to creditors. Litigating such claims would also take additional money and time, and come with additional risks. Finally, the Committee obtained information regarding the funds available to satisfy any judgment against the insiders that the Committee believed might be liable.

As a result, following the creation of the Investigative Report, the Committee and its professionals engaged in extensive and hard-fought mediation with the Debtors. The first mediation was conducted by United States Bankruptcy Court Judge Christopher S. Sontchi (retired). After several weeks, this mediation was ultimately unsuccessful. Then, the Honorable Michael B. Kaplan, the Chief Judge of the United States Bankruptcy Court for the District of New Jersey, and the Bankruptcy Court Judge presiding over BlockFi's chapter 11 cases, held in chambers status conferences with counsel for the Debtors and the Committee that led to the Plan Settlement embodied in the Plan.

The Committee believes that, under the circumstances, the Plan Settlement the best resolution available of the causes of action identified in its investigation, in lieu of commencing litigation against the Debtors' Plan to preserve such claims and litigate such claims, with its attendant costs and uncertainty of outcome. In particular, the Committee considered what assets would be available to satisfy the identified causes of action – including the proceeds of D&O insurance and the personal assets of the potential targets. Additionally, the Committee considered the mounting administrative costs of these bankruptcy cases and the savings that could be achieved by pursuing a prompt exit from Chapter 11. Perhaps, above all else, we recognize that BlockFi's customers have been waiting patiently for recoveries on their claims.

As part of the Plan Settlement, all of *BlockFi's* claims against certain third parties (the "**Released Parties**"), including its officers and directors, are being released.

The Plan also includes an **optional** release of the Released Parties by all creditors who do not affirmatively opt-out of providing this release on their ballot or otherwise (with respect to creditors that are not entitled to vote). On this point, the Committee negotiated modifications to the Plan and ballot procedures to enable creditors that vote in favor of the Plan to opt-out of providing releases to certain "third-parties." Note that you will receive the broad preference waiver described above **regardless** of your choice with respect to this release. The Committee has identified no other potential estate causes of action against customers that would be assigned to the Wind-Down Trustee to pursue other than the retained preference actions described above.

*If you do not opt out, you will be deemed to have granted this third-party release. The Committee cannot make a recommendation to any individual creditor with respect to granting this third-party release, and you may wish to consult your own attorney to determine the effects of granting such release and if you should do so.*

Obtaining these concessions from the Debtors was not easy. But, with the modifications to the Plan secured by the Committee, the Committee believes that confirmation of the Plan is in the best interests of all unsecured creditors.

**Summary Of Distributions To Unsecured Creditors**

Claim recovery for unsecured creditors depends on the type of claim and the BlockFi entity against which such claim arises. The amount of recovery (especially at the high end of projected recoveries) will depend on, among other things, the outcome of the litigation described above. For a full description of the treatment of each class of creditors, please review the Disclosure Statement.

**PLEASE NOTE THAT THESE AMOUNTS ARE PROJECTED RECOVERIES IN TOTAL. ANY FIRST INTERIM DISTRIBUTION RECEIVED BASED ON ASSETS ON HAND AT THE DEBTORS IS LIKELY TO BE MEANINGFULLY LOWER THAN THE AMOUNTS SHOWN BELOW, OTHER THAN FOR THE CONVINENCE CLASS.**

Class	Projected Recovery of Claims
3-a BlockFi Lending LLC Private Client Account Claims	93.2%-100.0%
3-b BlockFi Lending LLC Loan Collateral Claims	93.2%-100.0%
3-c BlockFi Int'l Ltd. Private Client and Interest Account Claims	54.6%-100.0%
3-d BlockFi Int'l Ltd. Loan Collateral Claims	54.6%-100.0%
3-e BlockFi Inc. Interest Account Claims	39.5%-100.0%
4-a BlockFi Lending LLC General Unsecured Claims	93.2%-100.0%
4-b BlockFi International Ltd. General Unsecured Claims	54.6%-100.0%
4-c BlockFi Inc. General Unsecured Claims	37.3%-100.0%
4-d BlockFi Services, Inc. General Unsecured Claims	0%
4-e BlockFi Trading LLC General Unsecured Claims	0%
4-f BlockFi Wallet LLC General Unsecured Claims	100.0%
4-g BlockFi Ventures LLC General Unsecured Claims	0%
4-h BlockFi Investment Products LLC General Unsecured Claims	0%
4-i BlockFi Lending II LLC General Unsecured Claims	0%
Class 16 Convenience Claim Class	50%

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***The foregoing description of the settlement and Plan is not intended as a substitute for the Disclosure Statement. The Committee cannot provide you with any investment advice. Please review Article XI of the Disclosure Statement (“Risk Factors”) and Article XII of the Disclosure Statement (“Certain United States Federal Income Tax Consequences Of The Plan”).***

Your vote is important. To have your vote counted, you must complete the ballot previously provided to you in accordance with the procedures set forth therein. **PLEASE READ THE DIRECTIONS ON THE BALLOT CAREFULLY AND COMPLETE YOUR BALLOT IN ITS ENTIRETY THROUGH THE DEBTORS’ ONLINE BALLOTING PORTAL.** Your ballot must be submitted *on or before September 11, 2023 at 4:00 p.m. Eastern Time* to be counted.

Sincerely,

***The Official Committee of  
Unsecured Creditors***