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Another Cryptocurrency Firm Bites the Dust

Cryptocurrency platform BlockFi Inc.—another casualty of the collapse of exchange FTX earlier this month—filed a Chapter 11 bankruptcy petition this morning in the New Jersey Bankruptcy Court (Case No. 22-1936). BlockFi joins the list of crypto bankruptcies attributable to liquidity problems.

BlockFi was one of several crypto companies FTX bailed out earlier this year. This summer, FTX signed a deal with BlockFi to provide it with a \$400 million revolving credit facility in exchange for FTX's option to buy it for \$240 million. FTX's bankruptcy filing earlier in November directly affected BlockFi's access to FTX's revolving credit facility and hence its liquidity. In a letter to customers, BlockFi said that the decision to file bankruptcy and pause most activities on its platform was the direct result of FTX's downfall. "These Chapter 11 cases will enable BlockFi to stabilize the business and provide BlockFi with the opportunity to consummate a reorganization plan that maximizes value for all stakeholders, including our valued clients." BlockFi said in the statement to customers, "Rest assured, we will continue to work on recovering all obligations owed to BlockFi as promptly as practicable."

In addition to FTX, BlockFi's initial bankruptcy schedules list the Ankura Trust Company, LLC and the Securities & Exchange Commission (SEC) as some of its largest unsecured creditors. The schedules also contain dozens of undisclosed clients each owed between \$1 million and \$48 million. The SEC is owed \$30 million pursuant to a settlement with BlockFi earlier this year after the SEC charged BlockFi with failing to register its crypto lending product with the Commission. In February BlockFi settled with the SEC for \$50 million. It also agreed to pay an additional \$50 million fine to more than 30 state regulators.

What this means to you

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BlockFi's bankruptcy filing highlights the current turbulence and risk associated with the crypto industry. If you have assets, trade relationships, or other exposure to crypto firms, examine carefully your legal and operational risk profiles in light of these ongoing bankruptcies.

Contact us

Husch Blackwell's team of blockchain attorneys will continue to monitor industry developments and keep its crypto clients apprised. Should you have bankruptcy, blockchain, or cryptocurrency-related questions, please contact Michael Brandess, Miguel Suazo, Iana Vladimirova or your Husch Blackwell attorney.