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Proposed Counsel to the Official Committee of Unsecured Creditors

**UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK**

In re:

CELSIUS NETWORK LLC, *et al.*,¹

Debtors.

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Chapter 11

Case No. 22-10964 (MG)

(Jointly Administered)

**THE OFFICIAL COMMITTEE OF UNSECURED CREDITORS' STATEMENT
REGARDING THESE CHAPTER 11 CASES**

¹ The Debtors in these chapter 11 cases, along with the last four digits of each Debtor's federal tax identification number, are: Celsius Network LLC (2148); Celsius KeyFi LLC (4414); Celsius Lending LLC (8417); Celsius Mining LLC (1387); Celsius Network Inc. (1219); Celsius Network Limited (8554); Celsius Networks Lending LLC (3390); and Celsius US Holding LLC (7956). The location of Debtor Celsius Network LLC's principal place of business and the Debtors' service address in these chapter 11 cases is 121 River Street, PH05, Hoboken, New Jersey 07030.

The Official Committee of Unsecured Creditors (the “**Committee**”) of the above-captioned debtors and debtors-in-possession (collectively, the “**Debtors**” or “**Celsius**”) submits this statement (the “**Statement**”) regarding the Committee’s objectives for these chapter 11 cases:

Celsius was built on promises that it was safer, and provided its account holders with greater returns than, traditional banks.² Those promises pervaded Celsius’ marketing, much of which came directly from Alex Mashinsky – Celsius’ chief executive officer.

Celsius continued to reassure its account holders, regulators, and the broader market place that it was adequately capitalized, even as the crypto industry experienced a period of turmoil in the spring and summer of 2022. For example, on June 7, 2022, Celsius published, and directly emailed many of its account holders, a Medium blog titled “*Damn the Torpedoes, Full Speed Ahead*”³ where it told customers that:

Celsius continues to process withdrawals without delay. We have not had any issues meeting withdrawal requests. Celsius honors all withdrawals as quickly as possible and works hard to support customers if and when there are delays.

Celsius has the reserves (and more than enough ETH) to meet obligations, as dictated by our comprehensive liquidity risk management framework.

Those claims were echoed by Mashinsky, who repeatedly promised customers in his public videos and messages that their funds were safe, that Celsius had adequate capital reserves and robust risk management protocols, and that users could withdraw their coins at any time.

² See, e.g., Bound to Be Rich, *How Safe Are The Banks?* – Alex Mashinsky, CEO of Celsius, YOUTUBE (June 11, 2021), <https://www.youtube.com/watch?v=MQoAb286-Hs>, at 0:09 – 0:46; CTO Larsson, *Alex Mashinsky Celsius – CON MAN or HERO?*, YOUTUBE (Aug. 2, 2021), <https://www.youtube.com/watch?v=EbnibyhNd6M>, at 3:00.

³ See Celsius, “*Damn the Torpedoes, Full Speed Ahead*,” (June 7, 2022), <https://blog.celsius.network/damn-the-torpedoes-full-speed-ahead-4123847832af>.



Celsius’ assurances turned out to be empty and false promises. On June 12, 2022—less than a week after promising to “damn the torpedoes”—Celsius initiated a “Pause” and halted all account holder withdrawals due to “extreme market conditions.”⁴ Celsius, which had previously championed its transparency, then largely went silent.

One month later, on July 13, 2022 (the “**Petition Date**”), the Debtors filed their chapter 11 cases. As account holders soon found out, the voluntary “Pause” was replaced by the Bankruptcy Code’s automatic stay, which enjoins any action against Celsius or Celsius’ property.⁵ As part of Celsius’ bankruptcy filing, Mashinsky made several alarming admissions, including that “despite the Company’s directive to engage in only market neutral exchange deployments, certain asset deployment decisions were made in the midst of its unexpected growth that in hindsight proved problematic.”⁶ Mashinsky also disclosed for the first time that Celsius’ obligations, which were predominantly owed to account holders, exceeded its assets by nearly \$1.2 billion (an amount that is unverified and may be understated).⁷ He further disclosed that a large amount of the Debtors’ assets, including \$467 million of ETH (a major cryptocurrency) and a \$576 million intercompany

⁴ See Celsius, “A Memo to the Celsius Community,” (June 12, 2022), <https://blog.celsius.network/a-memo-to-the-celsius-community-59532a06ecc6>.

⁵ See 11 U.S.C. § 362.

⁶ See *Declaration of Alex Mashinsky Chief Executive Officer of Celsius Network, LLC, in Support of Chapter 11 Petitions and First Day Motions* [D.I. 23] (“**Mashinsky Decl.**”), ¶ 92.

⁷ Mashinsky Decl. ¶ 16.

loan to fund its cryptocurrency mining operations, were “illiquid.”⁸ The Debtors have not yet publicly disclosed the digital currency that Celsius holds or provided any indication of when the Debtors plan to return their customers’ funds.

Since the Petition Date, hundreds of account holders have written letters to the Court and the Committee expressing their frustration with the situation and, in many circumstances, describing extreme hardship caused by their inability to access their cryptocurrency. The Committee has read those letters and understands the extraordinary impact that Celsius’ conduct has had on people’s lives, including their ability to make mortgage payments and save for their children’s college tuition.

Under section 1102 of the Bankruptcy Code, the U.S. Trustee—an arm of the U.S. Department of Justice charged with overseeing the integrity of the bankruptcy process—is empowered to appoint an official committee of unsecured creditors. The Committee has a fiduciary duty to, and acts as the collective voice for, all unsecured creditors. Under the Bankruptcy Code, a committee is tasked with, among other things, (1) investigating the debtor, (2) participating in the formulation of a plan of reorganization or liquidation, and (3) providing access to information to and receiving comments from the constituents represented by the committee.⁹ To ensure that an official committee of unsecured creditors has the resources to exercise its fiduciary duties, the Bankruptcy Code empowers a committee to engage counsel and other advisors at the debtor’s expense.¹⁰

⁸ *Id.* ¶¶ 68; 77. Mashinsky represented that the reported dollar value of ETH in his declaration is based on market prices as of July 10, 2022.

⁹ *See* 11 U.S.C. §§ 1102(b)(3); 1103.

¹⁰ *See* 11 U.S.C. § 1103.

On July 27, 2022, the U.S. Trustee appointed the Committee. The Committee is comprised of seven members, each of whom holds crypto (or digital) assets through the Celsius platform.¹¹ The members of the Committee include institutions and individuals who participated in each of Celsius' various products and programs. The Committee's goal is to maximize the recoveries of account holders and unsecured creditors. It understands its fiduciary duty and does not take that duty lightly. The Committee intends to be a vigorous participant in the Debtors' bankruptcy and to put the interests of the Debtors' account holders and unsecured creditors first.

Following its appointment, the Committee immediately sprang into action. On July 30, 2022, the Committee hired the international law firm of White & Case LLP as its counsel. Last Monday, the Committee engaged restructuring advisor M3 Partners and the blockchain consultant Elementus—a cutting edge firm that has worked on some of the highest profile forensic investigations of crypto exchanges, including Quadriga CX. The Committee then engaged Perella Weinberg Partners, one of the leading restructuring investment banks, to advise on potential transactions to maximize value for account holders and unsecured creditors. Finally, the Committee is in the process of engaging Kroll Inc. to establish a website and call center to provide information regarding the bankruptcy process to account holders and unsecured creditors, including important deadlines and instructions on how to fill out proof of claim forms.

The Committee's advisors have already rolled up their sleeves. The Committee immediately sent diligence requests to dig into Celsius' current financial position, operations, and other affairs. The Committee has also reviewed, and begun preparing responses to, the various motions filed by Celsius—including the Debtors' request to conduct a process to potentially sell

¹¹ The members of the Committee are Caroline G. Warren, Thomas DiFiore, ICB Solutions, Christopher Coco, Andrew Yoon, Mark Robinson, and Covario AG. *See Notice of Appointment of Official Committee of Unsecured Creditors* [D.I. 241].

mined bitcoin and its GK8 business. Although there remains much to do, those efforts have already borne fruit. Last week, the Debtors decided to withdraw the motion to retain their ex-CFO following input from the Committee.

The Committee is committed to thoroughly investigating Celsius, including potential misconduct by Celsius and its insiders, and to pursuing a resolution that will maximize Celsius' value for the benefit of its account holders and unsecured creditors. There will likely be many novel legal issues involved in this bankruptcy, but the Committee is mindful that the Debtors' restructuring should be achieved as quickly as practicable and will focus on the following objectives.

First, the Committee intends to ensure the Debtors are effectively safeguarding their account holders' assets. One thing is clear from Mashinsky's declaration: the Debtors did not have the necessary internal protocols and risk management controls to avoid costly investment decisions. The Committee intends to investigate whether the Debtors are properly safeguarding account holders' assets. To the extent the Committee believes the Debtors are not doing so, it will move swiftly and take proper actions to remedy any issues.

Second, the Committee intends to oversee the Debtors' efforts to develop a viable business plan that reduces overhead and preserves the Debtors' limited cash reserves. The Debtors have halted many of their operations. They have stopped accepting cryptocurrency, authorizing withdrawals, engaging in exchange deployments, and making loans to institutional investors.¹² At the moment, the Debtors appear prepared to fund these Chapter 11 Cases using their current cash reserves, proceeds generated from their bitcoin mining activities, and the proceeds of other

¹² Mashinsky Decl. ¶¶ 64, 73, 84.

potential asset sales. Committee oversight of the Debtors' business plan is particularly critical, here, where it is essential to quickly provide account holders' a recovery.

Third, the Committee intends to thoroughly investigate the prepetition conduct of Mashinsky and other Celsius insiders, including the problematic asset deployment decisions, prepetition transfers, and other issues. The Committee has already started this investigation and will work to ensure causes of action against Mashinsky and others are preserved and prosecuted for the benefit of the Debtors' estate and the Committee's constituents.

Fourth, the Committee will explore strategic options to reorganize or sell the business (or portions thereof) to maximize value for account holders and unsecured creditors. Critically, the Committee has heard from the community regarding the importance of account holders receiving in-kind payment of the cryptocurrency they transferred to Celsius (rather than USD or other fiat money). The Committee will explore options for an in-kind recovery to provide account holders with an opportunity to participate in a potential future recovery in cryptocurrency prices.

Finally, the Committee understands the importance of open communication with its stakeholders and will work hard to balance the need of transparency with protecting the confidentiality of information received from the Debtors and non-Debtor parties so that it has the information to efficiently protect its constituents' rights. The Debtors have approximately 300,000 active users with an account balance of greater than \$100.¹³ The Committee and its professionals are committed to providing their constituents with access to clear information regarding the status of and key developments in these cases, the claims process, as well as designated points of contact and methods for those constituents to raise and discuss specific concerns. The Committee intends to file a motion shortly to engage Kroll Inc. as its independent information agent, as well as to

¹³ Mashinsky Decl. ¶ 89.

establish procedures consistent with the Bankruptcy Code to achieve appropriate transparency. In the meantime, the Committee's advisors have set up the following email address CelsiusCommitteeInquiries@ra.kroll.com where claimants can send questions or information to add to the Committee's investigation. The Committee has also established the Twitter account @CelsiusUcc to publish updates to the community.

The Committee is prepared to work day and night to protect the rights of its constituents who have been harmed by Celsius' improvident decisions and is up to the task before it.

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Dated: August 8, 2022
New York, New York

Respectfully submitted,

/s/ David M. Turetsky

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