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**IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF UTAH**

In re:

POWER BLOCK COIN, L.L.C.

Debtor

Case No. 24-bk-23041-CDP

Chapter 11

Judge Cathleen D. Parker

EX PARTE MOTION TO CONVERT CASE TO CHAPTER 7

Power Block Coin, LLC, in its capacity as the debtor in possession (the “**Debtor**”), by and through its undersigned counsel, files this Ex Parte Motion to Convert this case under chapter 11 to a case under chapter 7. The Debtor submits this Motion Ex Parte under Rule 1017(a) and Section 1112(a) of the Bankruptcy Code.

AUTHORITY AND REQUEST FOR EX PARTE RELIEF

Under section 1112(a) of the Bankruptcy Code, the debtor in possession may convert a case under chapter 11 to a case under chapter 7 as a matter of course:

The debtor may convert a case under this chapter to a case under chapter 7 of this title unless—

- (a) the debtor is not a debtor in possession;
- (b) the case originally was commenced as an involuntary case under this chapter; or
- (c) the case was converted to a case under this chapter under than on the debtor's request.

Here, the Debtor remains in possession, the case was commenced as a voluntary case under chapter 11, and it has never been converted. The Debtor has a statutory right to convert the case to chapter 7.

Further, the Debtor may move ex parte, and the Court may enter the order immediately and without a hearing. Section 1112(a) does not mention or require notice and a hearing, and Rule 1017(f) of the Federal Rules of Bankruptcy Procedure provides that—

- (1) In General. Rule 9014 governs a proceeding to dismiss or suspend a case or to convert it to another chapter—**except under** § 706(a), § **1112(a)**, § 1208(a) or (b), or § 1307(a) or (b).
- (2) Cases Requiring a Motion. Dismissing or converting a case under § 706(a), § 1112(a), § 1208(b), or § 1307(b) requires a motion filed and served as required by Rule 9013.

Bankruptcy Rule 1017(f) (emphases added).

Since Rule 9014 does not apply, but Rule 9013 does apply, the debtor may make the request and the motion may be granted ex parte.

Even if “cause” was needed, cause exists because the Debtor’s estate in this case is not an operating business and has not been for more than a year, and so there is no “going-concern” value to preserve by continuing operations in chapter 11. There is no hope of reorganization. Further, the remaining assets – cryptocurrency, financial instruments (promissory notes), and certain

potential Chapter 5 causes of action – are ordinary assets that are routinely administered by chapter 7 trustees. Continuing in chapter 11 would only further increase the already out-of-control administrative costs of this case by continuing to fund the Committee, which has already run up a bill 3x-4x the Debtor’s counsel’s fees and adding on top of it a chapter 11 trustee and its counsel and financial advisors. Further, given that there are already likely approximately \$2.0 million in professionals’ administrative expense claims and no funds available to pay them, the estate is grossly insolvent and could not possibly confirm a plan as it would be unable to pay these administrative expense claims on the effective date of a plan. Thus, the Debtor cannot under any circumstances confirm a plan, and continuing in chapter 11 is futile. Conversion is in the best interest of the creditors.

The paramount consideration for the Court is the best interest of the creditors. Conversion to chapter 7 will facilitate the efficient liquidation of assets and ensure that the estate’s resources are directed toward creditor recovery rather than on an unnecessarily costly and protracted dispute between the Debtor and the Committee.

RELEVANT BACKGROUND

A. Events Leading up to the Petition Date

1. Power Block Coin, d/b/a SmartFi, was a Utah limited liability company that provided crypto-based financial services, which historically included cryptocurrency exchange, savings, crypto-based lending, crypto information, token creation and offering, alternative currencies, and cryptocurrency investment. The Debtor operated a platform for its clients through its website portal at (smartfi.com). The Debtor generated revenue through interest on

loans denominated in dollars and cryptocurrencies, trading and hedging, and fees assessed on certain transactions on its platform.

2. The Debtor also engaged in other forms of lending, including lending, through affiliates, on real estate development and other types of financial services.

3. Beginning in 2022, the worldwide cryptocurrency markets experienced a rapid collapse and have been in a period of high instability ever since. However, the Debtor did not do business or had ceased doing business with certain large cryptocurrency exchanges and lending companies that collapsed such as FTX, Genesis Global Capital, Voyager Digital, and Celsius, but was still reliant on certain cryptocurrencies in its portfolio for liquidity.

4. The Debtor had (and still has) significant, although illiquid, loans in its portfolio, including a large real estate loan and outstanding note to Solara Communities, LLC fka SmartFi Toquerville, LLC, (“**Solara**”), an affiliate that is developing real property in Toquerville, Utah (the “**Solar Project**”). This note (the “**Solara Note**”) has an original principal balance of \$17,400,000.00, an interest rate of 5 percent, and a maturity date of March 17, 2032. Following a default by the third-party borrower that owned the real property, Solara foreclosed on the real property, and it is now developing the real property. The Solara Note, which is arguably the Debtor’s largest asset, is illiquid but not in default.

5. The Debtor also loaned money to another affiliate, SmartFi Lending, which then loaned that money out to various individuals and small businesses. None of these loans to insiders and affiliates was secured by any pledge, lien, or security interest in favor of the Debtor.

6. With a significant amount of the Debtor's assets tied up in illiquid, long-term instruments, and the cryptocurrencies it normally relied on for liquidity experiencing collapse or instability, the Debtor struggled to maintain liquidity necessary to continue its operations.

7. On June 20, 2024 (the "**Petition Date**"), the Debtor filed a petition for relief under chapter 11 of the Bankruptcy Code, commencing this Chapter 11 Case. The Debtor remains in possession of its estate. However, it has ceased to operate its cryptocurrency platform, shuttering it after the Court refused to authorize the funds to maintain operations.

B. Debtor's Banking Issues

8. Prior to the Petition Date in approximately December of 2023, the Debtor's banking institutions closed the Debtor's accounts, which complicated the Debtor's ability to manage its cash and payments. While the Debtor continued to hold and exchange cryptocurrencies on its platform, it had to establish new mechanisms to pay its dollar-denominated operational expenses and take payments of dollar-denominated assets such as loans.

9. The Debtor entered into a Services Agreement dated as of December 1, 2023, with Blue Castle Holdings, Inc ("**Blue Castle**"), the Debtor's parent company, whereby Blue Castle, using its own bank accounts, pays for certain of the Debtor's obligations such as professionals' fees and utilities attributable to the Debtor, and third-party payables on behalf of the Debtor whenever U.S. dollars are required. Further, Blue Castle also provides certain goods and services such as management services, utilities, office space, internet server hosting costs for the Debtor's cryptocurrency exchange platform and website, and the like.

10. The Debtor requested, and the Court granted by Motion permission for the Debtor to manage cash needs using its parent Blue Castle Holdings, LLC's bank account under a

Management Services Agreement (the “**Management Services Agreement**”) (the “**Cash Management Order**”). (ECF 181.) The Management Services Agreement authorized the Debtor to use a specially designated Blue Castle bank account (which is held at Hillcrest Bank) to satisfy any of the Debtor’s cash obligations to be funded by Blue Castle in exchange for credit against an existing loan previously extended by the Debtor to Blue Castle, the “Blue Castle Loan.” (*Id.* at ¶¶ 2-3.)

11. The Debtor has no employees; all work necessary for the operation of the Debtor is provided by Blue Castle employees under the Management Services Agreement. Blue Castle manages the Debtor through its employees. Blue Castle likewise pays these employees’ benefits, payroll taxes, workers’ compensation insurance premiums, and other costs of employment.

C. Reporting Disputes with the Committee and US Trustee.

12. On July 4, 2024, the Debtor timely filed its Statements of Financial Affairs and Schedules (“**Statements and Schedules**”), which disclosed all of the Debtor’s cryptocurrency holdings as of the Petition Date along with a detailed breakdown of the type, net book, and current value of cryptocurrency assets held by the Debtor. (ECF 39 at 10.)

13. The Debtor granted the Committee and its financial professionals unrestricted access to its Financial Database (which contains the entirety of the Debtor’s cryptocurrency assets from the Debtor’s inception) and demonstrated how to run queries in the database. The Committee hired Huron Consultants as its financial advisor, who represented that they were familiar with and could operate the Sequel Database program.

14. Throughout the Chapter 11 Case, the Debtor has quickly and completely responded to all requests made by the Committee for information. Not every response was put

on the docket, but rather, information and access were provided directly to the Committee's professionals on numerous occasions both before and after the Committee filed its Motion to Compel Accounting, ECF 353.

15. As recently as three weeks ago, the Committee propounded extensive document requests, and in response, last week, the Debtor provided all requested documents and even provided login information so that Huron Consultants could log in directly to Fireblocks and see anything they wanted themselves.

D. Debtor's Assets and Plan Prospects

16. On the Petition Date and due to the aforementioned banking issues, the Debtor had no cash. The Debtor's assets consisted of (a) a small amount of cryptocurrency; (b) the Debtor's trading platform, which, being defunct at the time of a cryptocurrency trough, is of little value; (c) long term promissory notes from its affiliates, Solara, SmartFi Lending, and Blue Castle; and (d) potential Chapter 5 causes of action against the affiliates relating to the transactions with the affiliates that were documented in the promissory notes. The affiliate promissory notes are as follows:

Affiliate Loan Receivable	Face Balance as of Petition Date	APR	Maturity Date
Solara Note	\$18,302,985.51	5.0	March 17, 2032
Blue Castle Note	1,074,542.93	4.0	August 6, 2028
SmartFi Lending Note	1,786,558.87	4.0	Sept. 29, 2028
Total:	\$21,164,087.31		

17. The Debtor's cryptocurrency assets have not moved since the Petition Date except that their value changes with the value of the cryptocurrency tokens:

Valuation				USD	USD
	Net Book Value	Method	Current	Spot Price	Value

Stable Coins	5,548.1100	FMV	5,548.1100	\$1.0000	\$5,548.11
BTC	0.1701	FMV	0.1701	108,253.0000	18,410.77
ETH	0.1601	FMV	0.1601	4,388.9300	702.69
BCH	4.2836	FMV	4.2836	544.8000	2,333.69
DOGE	17,020.7481	FMV	17,020.7481	0.2138	3,639.24
LINK	99.9193	FMV	99.9193	23.2300	2,321.13
LTC	73.8126	FMV	73.8126	108.9200	8,039.67
					\$40,995.29

(See also Schedule A/B, ECF 39, at p. 10.)

18. While it retained the exclusive right to file a plan, the Debtor filed a plan and later an amended plan pursuant to which the Debtor proposed to reorganize around voluntary accelerated payment by the affiliates of the promissory notes as cash became available from the Solara Project. The total repayment amount was approximately the same as the amounts due under the affiliates' promissory notes ~\$24.5 million. In exchange, the Debtor would release the affiliates from the obligations under the promissory notes and any Debtor causes of action against them.

E. Negotiations and Settlement with Celsius and the Committee on a Joint Plan

19. After the appointment of the Committee, the Court terminated Debtor's exclusivity. The Debtor attempted to engage in settlement discussions with the Committee. The Committee refused and simply filed its own plan to replace the Debtor with its own plan trustee. The Debtor then engaged in settlement negotiations with Celsius, the Debtor's then-largest creditor by filed claim amount.

20. Celsius, the Debtor, and the affiliates negotiated a plan term sheet that for the most part resembled the Debtor's own filed plan in that the estate would receive and distribute to creditors approximately \$24.5 million in payments from the Solara Project plus a percentage

share of profits in the Solara Project in exchange for release of the affiliates. Celsius had negotiated an oversight role for its representative as well as the ability to pursue causes of action on behalf of the estate. Although Celsius, the Debtor, and the affiliates had agreed on the term sheet, Celsius changed course and declined to proceed with the agreed-upon term sheet unless the Committee also supported it.

21. Thus, the Debtor provided the Celsius-negotiated term sheet to the Committee and asked for its comments or to discuss further modifications to gain the Committee's support. The Committee, the Debtor, and the affiliates then agreed to mediate to see if perhaps the plan could gain Committee support.

22. The parties in an all-day mediation with the Honorable Peggy Hunt came to an agreement to support a joint Committee/Debtor plan. The terms of the joint plan were largely the same as the Debtor's and Celsius' plans except that the payments would be administered by a Plan Administrator rather than the Debtor's existing management. The affiliates would be released in exchange for guaranteeing the plan payments. The terms of the agreement were memorialized in two detailed and binding term sheets: one for the Debtor and the other for the affiliates. The Committee narrowly voted to support the joint plan, with some members remaining vehemently opposed to the joint plan.

23. The Debtor and the Committee initially worked together to draft the joint plan and disclosure statement, but the Committee abruptly stopped cooperating, and instead made new and additional demands of the Debtor and affiliates that were not contained in the term sheets, including a demand for the affiliates to pay hundreds of thousands of dollars of additional funds despite having agreed to a complete release in the term sheet. (*See Response*, ECF 261.)

24. The Debtor and the affiliates reached out numerous times requesting that the Committee honor its agreement under the joint plan and continue working towards solicitation and confirmation. The Debtor and affiliates even offered to discuss potential modifications. The Committee refused all discussion. Instead, the Committee has again returned to its now yearlong quest to gain control of the estate and churn litigation.

F. Current State of the Debtor's Estate

25. The Debtor's estate remains precisely as it was on the Petition Date except that the estate's professionals have run up excessive and unpayable professionals' fees. Debtor's counsel and financial advisor have remained conservative in their billing throughout, recognizing the small size and simplicity of the estate. In addition to the fees already approved on an interim basis, Debtor's counsel has approximately \$250,000 in additional fees for the entire duration of the Chapter 11 Case. The Debtor's financial advisor has mostly limited itself to assisting in the preparation of monthly operating reports, and thus has only a few tens of thousands of dollars in fees.

26. The Committee's professionals, in contrast, have billed approximately \$1.5 million¹ in fees, if not more. It is impossible to know the full amount of fees churned by the Committee professionals because they have refused over the course of the entire case to file a single fee application. One of the principal bludgeons used by the Committee in negotiations on the plan throughout this case has been that the Committee's professionals would refuse to

¹ The estimate is based on the representations made almost a year ago when the Debtor requested the information for its monthly operating reports.

consent to payment over time of their professionals' fees, and therefore the Debtor could never confirm its plan or the Celsius plan without Committee consent even if creditors supported it.

27. The Debtor vehemently disagrees with the many pejorative, exaggerated, and simply false characterizations made in the Motion to Compel (*see* Response to Motion to Compel) and the filings by the Committee, the U.S. Trustee, and Mr. Mason Song in their Motion and supporting filings to remove the Debtor and appoint a chapter 11 trustee. While the Debtor could disprove these allegations, the Debtor recognizes that waging an expensive battle to demonstrate to the Court that it is and always has been transparent would, even if successful, not be in the best interest of creditors. It would also be insufficient to move the ball forward at all: the Debtor has to convince the Committee, not the Court, given that the Committee has a hard veto on any plan. And the Committee will not even support its own plan. The Committee has chosen to use its own unpayable bill to veto their own agreement. Now they seek complete control and endless litigation. This does not benefit the Committee's constituency, the unsecured creditors of the estate, who's dwindling recoveries will be paying the Committee's and the Debtor's fees for the fight. It is best not to have such a fight.

28. The Debtor has a duty to do what is best for its creditors. The Committee will not support its own plan that it negotiated. The Committee cannot confirm its plan, either, given that the Debtor's estate is administratively insolvent. Appointment of a chapter 11 trustee would compound, rather than help, the estate's administrative insolvency, and a trustee could not formulate or confirm a plan under the circumstances either. Therefore, the Debtor has concluded that the only viable path forward is to have the estate liquidated by a chapter 7 trustee.

AUTHORITY AND REQUEST FOR RELIEF

Conversion of this case from Chapter 11 to Chapter 7 is in the best interest of creditors. None of the Debtor, Celsius, the Committee, or a potential chapter 11 trustee could confirm a plan given the estate's gross administrative insolvency. The usual reason given to remain in chapter 11 – an operating business with a prospect to reorganize – is not present here. The Debtor's assets are not unusual nor would they be difficult for a chapter 7 trustee to liquidate. They are, rather, ordinary Chapter 5 causes of action and financial instruments. And the continued running up the tab by Committee and Debtor professionals (or adding on a chapter 11 trustee) would only deepen the estate's insolvency. While the Debtor firmly believes that conversion to chapter 7 is a significantly worse outcome than the payout the Committee, Celsius, and the affiliates negotiated under the Committee's own joint plan proposal, the Debtor cannot force the Committee to abide by its prior agreement. A Chapter 7 trustee will be able to efficiently liquidate the estate's assets and pay creditors.

The paramount consideration for the Court is the best interest of the creditors. Conversion to chapter 7 will facilitate the efficient liquidation of assets and ensure that the estate's resources are directed toward creditor recovery rather than on an unnecessarily costly and protracted dispute between the Debtor and the Committee.

The form of Order for Relief is submitted herewith. The Court may enter it forthwith.

Dated this 7th day of November, 2025.

PARSONS BEHLE & LATIMER

/s/ Brian M. Rothschild

Brian M. Rothschild

Attorneys for Power Block Coin L.L.C.

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on this 7th day of November, 2025 I served the foregoing **EX PARTE MOTION TO CONVERT CASE TO CHAPTER 7** to the parties in the manner designated below:

(1) by filing on the Courts' docket, which sent notice by electronic mail to the following:

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