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IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF UTAH

In re:	Case No. 24-bk-23041
POWER BLOCK COIN, LLC.,	Chapter 11
Debtor.	Judge Cathleen D. Parker

REPLY IN SUPPORT OF MOTION TO APPOINT CHAPTER 11 TRUSTEE

The Official Committee of Unsecured Creditors (the "Committee") of the debtor and debtor-in-possession, Power Block Coin, LLC (the "Debtor"), respectfully submits this *Reply* ("Reply") in support of its *Motion to Appoint Chapter 11 Trustee* (the "Motion") [Doc. No. 413]. In support thereof, the Committee respectfully states as follows:

INTRODUCTION

In its *Opposition* to the Motion [Doc. No. 421] (the "Opposition"), the Debtor asserts that conversion of this case to a Chapter 7 proceeding is in the best interest of creditors. This, combined with the Debtor's Ex Parte *Motion to Convert Case to Chapter 7* [Doc. No. 422] (the "Conversion

Motion"), is a clear acknowledgement by the Debtor that an independent trustee is needed in this case.

Further, as the Committee filed its Motion to Appoint a Chapter 11 Trustee first, which, if granted, would preclude the Debtor from moving for conversion pursuant to Bankruptcy Code § 1112(a), the Court should both consider the Committee's Motion first and apply the standards of § 1104, including whether "such appointment is in the interest of creditors." All parties in interest having determined that an independent trustee needs to be appointed, the only question before the Court now is whether a Chapter 11 trustee is in the best interest of parties or whether the alternative advanced by the Debtor, but opposed by the Committee, of a Chapter 7 trustee is in the best interest of parties.

The Committee, U.S. Trustee, and the largest creditor have all indicated their support for the appointment of a Chapter 11 Trustee. *See* Doc. Nos. 413, 416, and 418. Furthermore, the Court should not give deference to the Debtor, especially when Judge Marker already found and stated on the record that the Debtor "has not shown that it has the ability to operate this estate in a way that's beneficial to creditors with transparency and good faith." [Doc. No 243], audio file at 21:45.[1] As articulated herein, there are significant benefits to the appointment of a Chapter 11 trustee that would benefit nearly all parties to this case, including (i) a trustee with greater cryptocurrency expertise than a panel Chapter 7 trustee, (ii) less wasted time getting a trustee up to speed with the help of the Committee and its professionals, and (iii) the ability to pursue the Committee's pending

[1] Audio recording of hearing on the Debtor's motion to extend exclusivity period, held before the Honorable Judge Joel T. Marker on December 17, 2024.

plan, including the appointment of a plan trustee who will have more ability to navigate around the *in pari delicto* defense. Therefore, the Committee's Motion should be granted.

REPLY

A. The Decision Before the Court is What Is In the Best Interest of Creditors and Parties.

1. As set forth in the Motion, under 11 U.S.C. § 1104(a),[2] the decision of whether to appoint a Chapter 11 trustee is warranted "for cause" or if "such appointment is in the interests of creditors." The Committee has set forth ample evidence establishing both cause and the best interest of creditors, as set forth in the Motion and further bolstered by the *Joinder* filed by creditor Mason Song and the *Response* in support filed by the U.S. Trustee. [Doc. Nos. 416, and 418, respectively].

2. With its Opposition and Conversion Motion, the Debtor has conceded that an independent trustee is warranted in this case. Now, the question becomes whether a Chapter 11 trustee, advocated for by the creditors, or a Chapter 7 trustee, advocated for by the Debtor, is in the best interest of creditors and parties in interest.

3. In deciding whether to grant a debtor's motion to convert to Chapter 7 (despite creditors having already confirmed a plan), the 10th Circuit B.A.P. found that § 1112(a) does not give debtors an absolute right to convert to chapter 7; rather, "if a bankruptcy court finds that it would immediately dismiss a chapter 7 case or reconvert it to chapter 11 [under Section 706(b)],

[2] Any further references to code sections or rules made herein, unless otherwise noted, shall be to the Bankruptcy Code, 11 U.S.C. § 101 *et seq.*, and to the Federal Rules of Bankruptcy Procedure, respectively.

it need not go through the 'procedural anomaly' of conversion before taking that step, but can instead deny conversion on that basis." *In re Kearney,* 625 B.R. 83, 86, 97 (B.A.P. 10th Cir. 2021).[3]

4. Pursuant to the legislative history of § 706(b), the court in *In re Kearney* found that the best standard for weighing immediate reconversion under § 706(b)—and by extension, whether or not to grant the debtor's Chapter 7 conversion motion—is what will most benefit "all parties in interest." *Id.* at 99.

5. In another case with a factual scenario similar to this proceeding, the committee of unsecured creditors moved for the appointment of a Chapter 11 trustee and the Debtor countered with a motion to covert, followed by a filing consenting to dismissal or seeking conversion in the alternative. *In re Giuliani,* 661 B.R. 493, 496 (Bankr. S.D.N.Y. 2024). The court held that the debtor did not have an absolute right to convert the case from Chapter 11 to Chapter 7. *Id.* at 500. Given the "competing requests for relief" at play, the court then applied the guidance of § 1112(b), which contemplates conversion to Chapter 7, dismissal, and the appointment of a Chapter 11 trustee, and exercised its discretion to determine what was in the best interest of creditors, ultimately settling on dismissal based on the circumstances presented in that case. *Id.* at 500, 507.[4]

6. Under either standard set forth in the cases above, the appointment of a Chapter 11 trustee is the best outcome for parties in interest, and especially creditors. The current dueling

[3] *See also In re Daughtrey*, 896 F.3d 1255, 1276 (11th Cir. 2018) (similarly rejecting Chapter 7 debtor's argument that it had an "absolute right" to convert to Chapter 11 under § 706(a) (which is very similar to § 1112(a)) and confirming denial of debtor's motion to convert based on cause for reconversion or dismissal); *In re With Purpose, Inc.*, 2025 WL 271469, at *12, *18 (Bankr. N.D. Tex. Jan. 22, 2025) (similarly denying debtor's motion to convert from Chapter 7 to 11 because "cause would exist to reconvert the case" and conversion was "not in the best interest of creditors").

[4] Of course, dismissal is not a viable option here. No party in interest has requested dismissal, which would serve only to benefit the Debtor and its insiders and affiliates who conducted and received a series of pre-and post-petition transfers that are best pursued by a Chapter 11 trustee as described further herein.

motions to appoint a Chapter 11 trustee versus convert to Chapter 7 best parallel the facts of *In re Giuliani* and its application of the standard found in § 1112(b), which calls for conversion or dismissal of the case "for cause" unless "the court determines that the appointment under section 1104(a) of a trustee or an examiner is in the best interests of creditors and the estate." One of the enumerated "causes" set forth in § 1112(b)(4) is "gross mismanagement of the estate," which is also grounds for "cause" under § 1104(a)(1) and which the Committee has already established in its Motion. Therefore, with "cause" established under both § 1104 and § 1112(b)(4), the Court may move on to the consideration of what is in the best interest of creditors and the estate.

7. To the extent that the Court finds that the "best interest of all parties" standard in *In re Kearney* under § 706(b) governs, the result is still the same: appointment of a Chapter 11 trustee is in the best interest of creditors under § 1104(a), as well as all other parties to this case. Even if this case were converted to Chapter 7, creditors would still have the option to seek reconversion of the case back to Chapter 11 under § 706(b) to appoint a Chapter 11 trustee and pursue the Committee's pending plan.

8. The Committee, the U.S. Trustee, and Mr. Song, who holds the largest claim in the case, have all communicated their support for the appointment of a Chapter 11 trustee. The preference of the Debtor alone—a Debtor who Judge Marker already found had not shown that it could act in the best interest of creditors—should not govern when nearly all other key parties in this case have expressed a contrary preference. Indeed, the express preference of a creditors' committee for appointment of a Chapter 11 trustee over conversion can be a key factor in determining what is in the best interests of parties. *See In re Sillerman,* 605 B.R. 631, 657 (Bankr.

S.D.N.Y. 2019) (finding cause under both §§ 1104 and 1112(b) and appointing Chapter 11 trustee rather than converting case to Chapter 7 in part because of the preference of creditors' committee).[5]

9. Therefore, the Motion should be granted.

B. Appointment of a Chapter 11 Trustee Is In the Best Interest of All Parties.

10. There are at least three main benefits that can be recognized with a Chapter 11 trustee that make such an appointment superior to a Chapter 7 trustee and in the best interest of all parties.

11. *First*, because the U.S. Trustee has flexibility in whom to appoint as a Chapter 11 trustee, the U.S. Trustee could work with the Committee to appoint a Chapter 11 trustee with significant cryptocurrency experience and expertise, which would be valuable in helping the trustee trace and understand the Debtor's cryptocurrency transactions both pre- and post-petition. This would help all parties, as an experienced trustee could trace and pursue claims more efficiently and bring value back into the estate. A panel Chapter 7 trustee would not necessarily have such expertise in the cryptocurrency industry.[6]

12. The Committee has already vetted experienced candidates who could potentially serve as the Chapter 11 trustee. Before filing its proposed Chapter 11 plan, the Committee interviewed and vetted potential candidates to serve as a liquidating trustee. Each candidate

[5] The committee in *In re Sillerman* brought a motion for appointment of a Chapter 11 trustee or conversion in the alternative but expressed its preference for a Chapter 11 trustee. *In re Sillerman,* 605 B.R. at 657. Here, however, the Committee has asked for only one option—appointment of a Chapter 11 trustee—and has been supported by both the largest creditor and the U.S. Trustee. Thus, there is even greater reason here to give deference to the Committee's preference.

[6] Of course, creditors now serving on the Committee could exercise the right to elect a Chapter 7 trustee under § 702 of the Bankruptcy Code, but that process would serve only to build further delay into a process that already has lingered too long.

possessed substantial bankruptcy and cryptocurrency experience, and certain candidates have still expressed interest in serving in this position.

13. The Debtor argues that the Debtor's assets "are not unusual nor would they be difficult for a chapter 7 trustee to liquidate." Opposition at 10–11. However, this fails to acknowledge the complicated cryptocurrency transactions and tracking that characterize the Debtor's business and estate—not to mention the Debtor's poor records and recordkeeping. As the Committee has stated, the Debtor's records are so convoluted that it is practically impossible to fully understand where and why the Debtor transferred cryptocurrency, let alone verify the appropriateness of those transfers. A trustee with cryptocurrency experience and understanding would have a much better chance at deciphering these transactions and verifying that all value belonging to the estate was properly returned to it.

14. *Second*, conversion to Chapter 7 would effectively be a step backwards in a case that has already dragged on for nearly 18 months, while a Chapter 11 trustee could better press forward without delay. Under a Chapter 7 case, the Committee would be disbanded, and a Chapter 7 trustee would have to learn the nuances of this case alone without the option to pursue a plan. However, a Chapter 11 trustee would benefit from the knowledge and experience of the Committee and its professionals, allowing a Chapter 11 trustee to acclimate to the case faster and help facilitate the Committee's pending plan [Doc. No. 273].

15. As set forth in the Motion, this case was delayed by the Debtor's improper Subchapter V election, which delayed the appointment of a committee for several months. *See* Motion at 3–4. The Debtor should not be permitted to cause any additional delays and further reduce the time available to investigate and make applicable avoidance claims in this case.

16. *Third*, unlike a Chapter 7 trustee, a Chapter 11 trustee could help facilitate the Committee's pending plan, which is likely the quickest way to bring this case to a conclusion. The Debtor tries to argue that the Committee's plan is not confirmable due to the large amount of administrative expenses in this case. *See* Opposition at 10. However, this is exactly why the Committee's counsel has not yet filed a fee application—that is, to give a Chapter 11 trustee the latitude and initial capital they need to pursue claims, bring additional funds into the estate to pay the Debtor's remaining administrative fees, and work out a payment schedule for the Committee's administrative fees over time. Contrary to the Debtor's assertions, the Committee professionals have not "refused" to file a fee application and do not intend to hamstring a reasonable or viable plan or claims process. Quite the opposite—the Committee professionals have not filed fee applications because they want a trustee to have better odds of success in seeking recovery for the estate and bringing value back into the estate.

17. The Debtor also tries to undercut the Committee's position by again claiming that the Committee reneged on a joint plan with the Debtor. Opposition at 8. However, as the Committee has already stated, the parties left the mediation with agreement on only *some* of the many open issues that separated them, conditioned on the negotiation of final terms on which the parties could not ultimately agree. The Committee stepping away from a potential settlement that could not be finalized does not automatically invalidate all other plan options.

18. Finally, a Chapter 11 trustee's facilitation of the Committee's plan would include the appointment of a liquidating trustee who will likely have better grounds and ability to navigate

around the *in pari delicto* defense.[7] Given the known below-market transfers of assets by the Debtor to its affiliates (*see* Motion at 15–16), this greater ability to avoid the *in pari delicto* defense may be important in pursuing claims for the estate and maximizing recovery for creditors.

19. In summary, all these advantages would make it more likely for a Chapter 11 trustee to bring additional value into the estate and increase the recovery available for creditors. An independent trustee with specific cryptocurrency knowledge would also benefit other parties, as such a trustee would be better equipped to administer this case with expertise, experience, and efficiency. Finally, a Chapter 11 trustee's ability to continue pursuing the Committee's plan, with full access to all information held by the Debtor (if in the best interest of creditors), is likely the quickest resolution to this case and brings value to parties as well.

CONCLUSION

WHEREFORE, the Committee respectfully requests that the Court grant the Motion and grant such other and further relief as this Court deems just and necessary.

[*Signature Page Follows*]

[7] The *in pari delicto* defense "may bar an action by a bankruptcy trustee against third parties who participated in or facilitated wrongful conduct of the debtor." *Mosier v. Callister, Nebeker & McCullough*, 546 F.3d 1271, 1276 (10th Cir. 2008). Specifically, Chapter 7 trustees, who stand in the shoes of the debtor, are subject to this defense by non-insider third parties when they act "as successor to the debtor's interests included as property of the estate under 11 U.S.C. § 541." *Sender v. Simon*, 84 F.3d 1299, 1304, 1305 (10th Cir. 1996). A plan trustee or representative, on the other hand, is appointed and derives his/her power under § 1123(b)(3)(B) as a "representative of the estate" and should be primarily focused on the benefit of the debtor's unsecured creditors. *See In re Sweetwater*, 884 F.2d 1323, 1327 (1989). Thus, there is a stronger argument that a plan representative is not subject to the *in pari delicto* defense because he or she is getting authority to act not by stepping into the shoes of the debtor, but by enforcing claims for the benefit of the estate and creditors.

DATED this 13th day of November, 2025.

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CERTIFICATE OF SERVICE – BY NOTICE OF ELECTRONIC FILING (CM/ECF)

I hereby certify that on this 13th of November, 2025, I electronically filed the foregoing along with all attachments, with the United States Bankruptcy Court for the District of Utah by using the CM/ECF system. I further certify that the parties of record in this case, as identified below, are registered CM/ECF users and will be served through the CM/ECF system.

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