

SPOTLIGHT

Managing the aftermath of the Celsius collapse

When a major name in cryptocurrency failed, the Firm stepped in to represent creditors and find a way forward.



The Firm is representing a committee formed to represent creditors in the aftermath of the collapse of cryptocurrency lender Celsius Group. This groundbreaking work has showcased the depth of our cryptocurrency expertise and a host of other practice areas.

Celsius Group filed for Chapter 11 bankruptcy in July after freezing customer accounts the month before. A committee was created to represent creditors and a competitive tender was launched to find a legal partner.

White & Case won the work because, despite having no previous working relationship with anyone on the committee, our response and experience stood out.

Los Angeles Partner Aaron Colodny explains: "We'd been following the Celsius matter closely prior to the pitch, so we were already familiar with it. This is a highly complex, extremely high-profile case with unique challenges. We are essentially representing hundreds of thousands of ordinary people who had their money tied up in Celsius and who were obviously extremely anxious about the outcome.

"Our role was multi-pronged, because we first needed to take stock of the situation, research thoroughly, process discovery requests relating to multiple misconduct allegations, stabilize the business and establish the committee's position when it came to next steps.

"Ultimately, we needed to come up with a plan that would receive wide acceptance from creditors and help them recover some of their investment."

As the White & Case team began their discovery work it was quickly clear that the Celsius management team had committed several bad acts.

The Firm successfully requested the removal of senior executives involved before starting to work with the new management team to come up with a plan to reorganize Celsius.

A full investigation into misconduct was held to identify causes of action against management culminating in the Firm filing a stipulation with plans to prosecute. The Firm also assisted the independent examiner as she compiled her report.



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AARON COLODNY,
PARTNER, LOS ANGELES



New York Partner David Turetsky says: "When the examiner's report was published, we were pleased to see that they didn't uncover anything we'd missed. We also filed what I believe to be the first-class action that a creditors committee has brought on behalf of creditors to ensure that those creditors had claims against all the entities in the bankruptcy."

Aaron adds: "What we wanted and achieved was to ensure our client had a seat at the table when it came to discussions over the future reorganization of Celsius."

"In my time in restructuring, I've never seen a committee have so much control in these decisions."

Working with the new Celsius board, the Firm's team worked on a plan to get the company out of bankruptcy. The strategy involved holding a competitive auction and creating a new public crypto company that will give 100 percent of its equity back to creditors and distribute as much of its cryptocurrency to creditors as possible.

Aaron says: "We are now a couple of weeks away from potentially signing off the plan, which would be an amazing outcome and the end of a Herculean effort, especially given the amount of mismanagement involved. I believe this would represent a first of its kind – I'm not aware of any other collapsed crypto company that has avoided liquidation."

"The plan is not without its critics and, in a bankruptcy like this, there are never going to be enough assets to go around. It would be impossible to please everyone, but I believe we did everything we could to stop the wrong doing quickly, remove the bad actors, and negotiate a plan that we hope has support and will produce an excellent result given the situation."

According to David, the huge variety of creditors involved in the matter was both a highlight and a challenge.

He says: "What's interesting but challenging is that this constituency is totally different to the clients we're used to working with."

"We're essentially representing people who invested in cryptocurrencies (in some cases their life savings) and who are naturally distressed and angry at the collapse of Celsius and the alleged misconduct of the management board."

Aaron adds: "That comes with pressure, because we know what we're doing is directly impacting peoples' lives and it's rewarding to feel you are helping people."

"For example, members of the committee include a marketing executive from Montana, the manager of a butcher's shop, an employee of a Swiss crypto fund, and the owner of a used car salesroom who got involved in crypto mining in 2010."

"That's a broad cross-section of people and, for that reason, one of our priorities on this matter was to give them as much time, information and access as possible, so they feel that we are doing the right thing."

Another unusual and sometimes unhelpful aspect surrounding the matter is that some creditors are often very vocal in sharing their misgivings about the process and plans for Celsius on social media platforms such as X, formerly known as Twitter.

Chicago Partner Gregory Pesce explains: "We did our best to counter this by heavily engaging with them on the platform with Q&As and updates to try to allay their fears, sell the deal and explain why we believe it is the best outcome possible."

"That's been a challenge, not only because we have to be conscious of confidentiality and the huge media interest in this matter, but also because we appreciate that there will always be loud voices of discontent on social media."



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PARTNER, CHICAGO



The project has also allowed the Firm to showcase its full range of expertise.

Aaron says: "This was a matter with a lot of scrutiny from regulators, the court and from clients, so coordinating all the elements (the investigation, stabilizing the company, the auction, the restructuring plan) often concurrently was a huge undertaking.

"The project included a large amount of tax work, plus regulatory, litigation, white collar and corporate law."

David adds: "The results we've achieved so far were in large part due to the huge amount of work we and the committee put in. So many people have been involved. It's been a real team effort."

The Firm's work on the Celsius matter also stands White & Case in good stead to continue growing its involvement in cryptocurrency-related matters.

Aaron says: "The crypto market is in the middle of an incredible period of distress following the failure of Terra Luna in May 2022 and it's led to a lot of work.

"For example, we're currently representing a creditors committee relating to the collapse of crypto company Genesis and are also representing Bahamian entities following the fall of crypto exchange FTX.

"Our work on the Celsius matter was certainly a factor in us winning the Genesis work and it has only strengthened our profile in the market, but we're also doing a lot of work with clients on the more successful side of the crypto story.

"For instance, we've done plenty of work for crypto companies on the regulatory side, for example advising Meta on their plans to launch the Libra coin.

David adds: "We're one of the few firms with first-class restructuring, FinTech and crypto practices and, by their nature, crypto currencies are a very global phenomenon.

"Celsius alone had creditors in 120 countries, so the Firm's unique cross-border offering, and broad expertise stands us in incredibly good stead to continue growing in this sector."



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DAVID TURETSKY,
PARTNER, NEW YORK

