

Japanese bitcoin exchange files US bankruptcy case (Update)

March 10 2014, by Michael Liedtke

The collapse of Japan's Mt. Gox bitcoin exchange is spilling into U.S. bankruptcy court as the company scrambles for legal cover after losing digital currency valued at \$473 million.

Mt. Gox's bankruptcy filing in Dallas late Sunday supplements a similar petition made in Japan late last month following the exchange's abrupt closure. The U.S. case is being brought under Chapter 15 of the country's bankruptcy code, which provides a haven for foreign companies seeking to reorganize their finances.

Mt. Gox's downfall provided fresh ammunition for bitcoin skeptics who have questioned the security and staying power of a digital currency created six years ago as an alternative to government-controlled monetary systems that rely on banks to process most transactions.

Once the world's largest exchange specializing in bitcoins, Mt. Gox is now mired in a financial mess. The exchange froze its users' accounts last month and then shut down after acknowledging it couldn't account for 850,000 bitcoins. Mt. Gox CEO Robert Karpeles blamed most of the losses on computer hackers who took advantage of the exchange's flawed software.

The missing currency, valued at \$473 million at the time of Mt. Gox's Feb. 28 bankruptcy filing in Japan, represents about 7 percent of all bitcoins in worldwide circulation, according to court documents.

Although it's based in Tokyo, Mt. Gox is opening a U.S. bankruptcy case in an attempt to delay a recent federal lawsuit filed in the state of Illinois on behalf of all U.S. residents burned by the exchange's demise.

The civil complaint brought against Mt. Gox by Illinois resident Gregory Greene alleges the exchange engaged in fraud and other misconduct. The suit is seeking to be certified as a class action that would represent all U.S. residents who had paid fees to Mt. Gox as part of a bitcoin trade or had their accounts frozen.

Steven Woodrow, a Denver attorney representing Greene, estimates hundreds of thousands of people could be represented in the case. In a Monday interview, Woodrow said he still intends to seek a federal court order that would freeze Mt. Gox's computers and other assets in the U.S. A hearing on Woodrow's request for the court order is scheduled for Tuesday in Chicago.

If the Illinois case proceeds, Mt. Gox attorneys contend that it will drain the company's finances and divert management's attention during a critical time.

Mt. Gox's bankruptcy papers list liabilities of about \$64 million and assets of \$38 million.

Mt. Gox also is hoping to use U.S. bankruptcy laws to ward off another lawsuit filed last year in a Seattle federal court by a former U.S. partner, CoinLab Action.

Under an agreement signed in November 2012, CoinLab was supposed to use Mt. Gox's technology to run a bitcoin exchange in the U.S. and Canada. The alliance unraveled within a few months, prompting CoinLab to sue Mt. Gox for alleged breach of contract. CoinLab is seeking \$75 million in damages, according to court documents.

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