Bitcoin Exchange Mt. Gox Files for Bankruptcy After Losing Nearly $500M

By Matt Egan

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In one of the biggest heists in history, Mt. Gox confirmed on Friday it lost nearly $500 million of Bitcoin due to a "system weakness," forcing the former leading exchange to file for bankruptcy protection in Tokyo.

The filing appears to confirm the worst fears about the fate of Mt. Gox and raises questions about the ability of the decentralized, unregulated currency to head off regulation. Authorities in the U.S. and Japan are already swirling around Mt. Gox, with federal prosecutors and the FBI reportedly probing for possible criminal activity.

"This is now the biggest bank heist in history. There were movies and books that arose from the Great Train Robbery in 1963. Expect the same for this drama," said Cam Harvey, a Duke University professor who teaches about crypto currencies.

According to various media reports, Bitcoin CEO Mark Karpeles told reporters in Japan that his company has filed for bankruptcy protection in Tokyo after losing 750,000 Bitcoins held by clients due to a "system weakness."

'Very Sorry'

The exchange said it lost an additional 100,000 Bitcoin it owned as well as 2.8 billion yen ($27.5 million) worth of cash due to improper access to its system. The combined 850,000 of lost Bitcoin equals about $480 million at the currency's current price. It also represents around 7% of the estimated global total of the crypto currency.

"First of all, I'm very sorry," Karpeles told reporters. "The Bitcoin industry is healthy and it is growing. It will continue, and reducing the impact is the most important point."

Mt. Gox filed for a type of bankruptcy that protects it from creditors and gives time to find a potential buyer rather than to liquidate. That suggests the exchange has a plan to survive.

However, Harvey said recovery of the lost Bitcoins "is a long shot" because the giant ledger, known as blockchain, that contains all transactions is "cryptologically sealed and it is impossible to figure out" who conducted the transactions or even where they took place.

"If you are smart enough to pull off the greatest hack in all of history, you will probably cover your tracks," said Harvey.

Bitcoin Prices Hold Steady

Mt. Gox is only one of several exchanges that users buy and sell Bitcoin on. Some observers believe the problems suffered by Mt. Gox are not systemic to the currency overall, though they do point to the downside of not having a safety net to protect customers.

Despite the Mt. Gox bankruptcy, the value of Bitcoin dropped just 1.99% to $571.37 in recent trading on Bitstamp, another leading exchange. However, that represents a steep drop of about 50% from highs north of $1,100 in early December.

Mt. Gox said its outstanding debt is 6.5 billion yen and its liabilities exceed assets by 2.66 billion yen. The exchange is listing about 127,000 people as creditors in its bankruptcy and said just 0.8% of the creditors are Japanese.
It’s not clear precisely how Mt. Gox lost the Bitcoin, but a lawyer representing the exchange said they may have been withdrawn through the system. The lawyer admitted the exchange doesn’t exactly know the circumstances of the situation.

Mt. Gox said it will cooperate with Japanese authorities investigating what happened. The exchange said it opted for a transparent procedure due to the public outcry sparked by the company’s downfall.

“This is the risk you take when you invest really early in a new currency and technology. It’s not surprising but it is absolutely unfortunate,” said Moshe Cohen, a professor at Columbia Business School.