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FTX Says It Is Owed Billions. It Has Filed About a Dozen Lawsuits to Realize Its Claims.

Bankrupt crypto exchange, which collapsed a little over a year ago, said more litigation could be coming in its second year of restructuring

By Becky Yerak

FTX is on the hunt for billions of dollars that the cryptocurrency exchange says it is owed. Since filing for bankruptcy in November 2022, the company—through a dozen or so lawsuits—has been trying to claw back the money. FTX is expected to file more such lawsuits in 2024.

"There are many more actions coming as a result of our comprehensive investigation," an FTX spokesperson said.

U.S. bankruptcy code generally allows reorganizing businesses to try to unwind certain transactions that occurred before their filings. In a September presentation to creditors, FTX said it had identified $16.6 billion in such potential actions.

"We are highly confident there will be significant recoveries for creditors from these new actions," as well as from pending cases and other investigative efforts, the FTX spokesperson said.

The company faces 36,075 customer claims for a total of $16 billion. FTX has said customers would get as much as 90% of whatever is recovered during the bankruptcy. Roughly $9 billion of customer deposits remain unaccounted for.

At least one settlement occurred in March before the parties faced off in a lawsuit. Bahamas-based hedge fund Modulo Capital, which had received $475 million in funding from FTX's Alameda Research, agreed to pay back $404 million in cash and drop $56 million in claims on assets held in accounts at FTX.com and FTX U.S.

Brook Gotberg, a Brigham Young University law professor who has written about clawback lawsuits in bankruptcy, said settlements often occur, and it is rare that the plaintiff gets the requested amount.

Below are 10 cases through which FTX is trying to recover money.

Voyager Digital: $453.1 million

FTX in January last year filed a lawsuit against bankrupt cryptocurrency broker Voyager Digital in one of its earliest attempts to claw back funds through litigation in its bankruptcy. FTX is seeking to recover $453.1 million, related to a loan payment and withdrawn money.

In 2021 and 2022, Voyager lent Alameda cryptocurrency valued at hundreds of millions of dollars at the time. FTX said it repaid the loan shortly before it filed for chapter 11 and is entitled to claw back the funds. It is also seeking to get back money that Voyager withdrew from its FTX account in the months before FTX's bankruptcy.

Voyager, which also sought protection from creditors in July 2022, has filed $583.1 million in claims against FTX. The two parties are in mediation. “If mediation is unsuccessful,” then Voyager and FTX “will proceed to litigate their respective claims against each other in the appropriate forums,” Voyager said in an October court filing. Voyager got its bankruptcy plan approved last year.

Gotberg, the BYU professor, said she is particularly intrigued by the FTX lawsuit against Voyager because it involves two bankrupt entities negotiating with each other. “The incentives to settle are enormous, but so are the dollar amounts,” she said.

Embed: $240 million

In May, FTX filed three lawsuits over its acquisition of stock trading platform Embed. In a December court filing, FTX said it was seeking to recover roughly $240 million. FTX said in the lawsuits that Embed, considered a pet project of FTX insiders at the time, turned out to be virtually worthless.

Defendants include former Embed investors and employees who received or were in line to receive retention bonuses.

In October, the defendants filed a motion to dismiss the complaint. They said they did the transaction in good faith, and that they believed that FTX did the deal for legitimate business purposes.

FTX, which has been under new management during its bankruptcy, on Dec. 22 said it has reached a settlement with FTX founder Sam Bankman-Fried and two other former top executives to recover the value of the assets that the three executives might have gotten from the deal.

K5 Global: $700 million

Bankman-Fried invested $700 million of FTX money in the venture-capital firm K5 Global in 2022. Two K5 co-founders—former Hollywood talent agent Michael Kives and Bryan Baum—each received $125 million payments, according to court filings.

he June lawsuit accused the defendants of aiding and abetting breach of fiduciary duty. Bankman-Fried had “gushed about Kives’s access to celebrities and politicians, describing him as ‘probably, the most connected person I’ve ever met,’” the lawsuit said.

K5 defendants are trying to dismiss the lawsuit, saying the transactions were legitimate because Bankman-Fried negotiated an arm’s-length deal to become their business partner.

Former FTX Europe owners: $323.5 million

FTX in July sued former owners of a Swiss business that it had acquired, alleging it had overpaid for the company that later became FTX Europe. FTX said the sellers knew that their company “had limited business and no intellectual property beyond a business plan.”

The defendants say they are still owed $95.4 million and are seeking to dismiss the FTX complaint. Among other things, they say the claims against them are meritless, that they did the arm’s-length deal in good faith, and that their business had valuable assets for FTX’s European expansion.

Life-science companies: $71.6 million

FTX in July sued several life-science companies to try to get back monies they received for what FTX says was the “personal aggrandizement” of Bankman-Fried. FTX said it received nothing in exchange for the donations or investments.

One of the defendants, Platform Life Sciences, sought to dismiss the case, but the motion was rejected on Dec. 20 by Judge John Dorsey in the U.S. Bankruptcy Court in Wilmington, Del. Platform Life said that, as a Canadian company that struck a deal with a foreign affiliate of FTX, the U.S. court had no jurisdiction. The lawsuit against other life-science defendants has been put on hold as they work to reach a settlement, according to a court filing.

Bankman-Fried, other former executives: More than $1 billion

FTX in July sued Bankman-Fried and other former executives over monies that they allegedly misappropriated before the bankruptcy. The payments included more than $725 million in equity issued to Bankman-Fried and others, for which FTX received nothing of value, the lawsuit said. The defendants are supposed to respond to the complaint by the end of January.

In November, Bankman-Fried was convicted of stealing billions of dollars from customers of the doomed crypto exchange, in what prosecutors say is one of the biggest financial frauds in U.S. history. Three other members of his inner circle have pleaded guilty to fraud and other offenses.

Saul Ewing bankruptcy lawyer Candice Kline said prospects for asset recovery from Bankman-Fried and other insiders with criminal liability seem low. "Cash is spent and wasted, and assets are worth less than paid for, leaving debtors chasing ghosts of Christmas past," she said.

LayerZero Labs and others: More than $40 million

In September, FTX sued its former lender LayerZero Labs and two other parties to try to recover assets transferred to LayerZero through "fire-sales transactions" as FTX foundered. FTX also sought to get back $44 million in payments to the parties, nearly half of which was withdrawn by LayerZero.

In response to the lawsuit, LayerZero and others defended their withdrawals and the transactions that FTX had approved at the time.

Kleinberg Kaplan Wolff & Cohen bankruptcy lawyer Dov Kleiner, who represents creditors and investors in crypto bankruptcies, said the timeline laid out in the LayerZero lawsuit shows that cases in bankruptcy can go on for a while. "The mediation won't really get underway until February or March, and, if it ever goes to trial, that would be sometime in 2025," he said.

Former employees of affiliate Salameda: $157 million

The employees used their connections to ensure that their withdrawals would be prioritized over other customers as FTX collapsed, the September lawsuit alleged.

The defendants want the lawsuit dismissed. They dispute the allegations by FTX, saying the FTX terms of service clearly state that each FTX user owned the digital assets they held on the platform at all times. They said they themselves suffered substantial losses on the FTX platform, and were either ordinary employees or former employees and weren't given priority over other customers.

Parents of Bankman-Fried: At least $26 million

Bankman-Fried's father Allan Joseph Bankman allegedly received a $10 million gift in early 2022 from funds originating from Alameda, according to a lawsuit filed in September.

The lawsuit also said Bankman-Fried helped his parents obtain a $16 million luxury property in the Bahamas with FTX money.

The parents have until mid-January to respond to the lawsuit. Their lawyers have called the claims "completely false."

Bybit: $953 million

FTX alleged in November that cryptocurrency exchange Bybit's investment arm Mirana "leveraged its VIP connections to pressure FTX group employees to fulfill its withdrawal requests as soon as assets became available."

A pretrial conference is scheduled for January 2024.