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What Happens in the FTX Bankruptcy?

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As the bankruptcy proceedings for the crypto exchange FTX and its affiliated entities unfold, worst fears are coming true. How much does FTX owe? At this point in accumulating information and accepting court filings it appears that FTX and its affiliates [owe the top fifty creditors](#) at least \$3.1 billion with two of the creditors being owed more than \$200 million each! The list without names ranges from \$21 million to \$226 million owed. These folks are unsecured creditors who will all be in line for FTX assets to redeem at least part of their losses as FTX files for Chapter 11 bankruptcy protection. What happens in the FTX bankruptcy?

How Much Does FTX Owe Versus How Much Does It Have?

What FTX states in its court filings to this point is that it has approximately \$10 billion in assets and about \$10 billion in debts. Since FTX is filing for bankruptcy protection by the court it is hoping to restructure its debt in order to stay in business. This is a Chapter 11 filing. A company like FTX faces liquidation because its debts equal or exceed its capacity to pay. A Chapter 11 bankruptcy gives a company legal protection and time to restructure their debts in order to pay back creditors over a period of time instead of all at once. As a general rule [successful Chapter 11 bankruptcies](#) are limited to larger companies and smaller ones commonly are liquidated. Large or small, a company needs to be able to successfully handle things during its restricting period which is critical. The bottom line is that FTX will need to come up with fundamental, strategic changes in how it runs its business and handles its finances in order to convince the judge handling the bankruptcy petition to provide the company with court protection.

What Will a Successful Bankruptcy Do to FTX?

If FTX and its subsidiaries succeed in their Chapter 11 bankruptcy petition they will be allowed time to pay their debts. Rather than owing everything all at once the company or companies will have to abide by a payment plan similar to paying off a bank loan or mortgage with the business being forfeit if the company is unable over time to comply with the repayment terms. In an ideal situation for the bankrupt company they have a viable business that simply had a major cash flow issue. In such a case the company will weather a business downturn, improve its cash flow, pay off its debts and resume normal business operations. The problem for FTX is that the whole system within which their business operates, cryptocurrency, is being thrown about by tidal changes with values down by a third or more over the last year with [numerous bankruptcies](#). Not all crypto companies will survive.

What Happens to FTX Creditors?

An issue that we have touched on before in regard to [decentralized finance](#) is that loans can be payable in dollars or crypto tokens. If a lender gave dollars to FTX but is to be paid back in FTT tokens they are in tough shape. A year ago a FTT token was worth about \$53 and today an FTT token is worth about \$1.50. FTX will have

an easier time paying back creditors to whom they owe FTT tokens and a much more difficult time paying back creditors to whom they owe dollars. The folks who get tokens back will certainly get paid but at 3% of what they would have if loaned dollars a year ago. Those who are owed dollars will very likely have their debts written down and paid over a period of time and for those folks there is the distinct possibility of not getting anywhere near the loan amount back.

What Happens to FTT Token Holders?

So long as there are FTT tokens those who own them will not lose them. What they have lost in the last year is about 97% of the dollar value of their tokens. Anyone owning FTT tokens is not a creditor of FTX and will not be part of the bankruptcy proceedings. To the extent that FTT tokens regain dollar value these investors will recoup part of their losses. To the extent that crypto winter turns into [crypto ice age](#) they will continue to have substantial losses.

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