



Crypto Currency Partners

~ INVESTOR UPDATE ~

CRYPTO CURRENCY PARTNERS II, [REDACTED].

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Confidential & Proprietary
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Dear CCP II Investors,

The Blockchain economy and the Bitcoin ecosystem are alive and well. Blockchain Capital LLC (the General Partner) and Crypto Currency Partners II, LP (the fund) are at the forefront of a confluence of technology trends that we think will reshape financial services and disrupt multiple legacy industries beyond just financial services. **When you hear the term “Bitcoin,” think “Blockchain.”** Bitcoin, the programmable digital currency, is a profound development in the history of money and finance. It allows for the almost cost free and instantaneous exchange of value between two parties without a financial intermediary like a bank or sovereign nation. But the Blockchain, the core invention of Bitcoin, and its technological backbone, is an even bigger idea. The Blockchain leverages cryptography and a system of decentralized consensus to ensure that two parties can securely exchange value without knowing or trusting each other. Right now, this is primarily being used for the exchange of the Blockchain’s native currency: Bitcoin. In the near future, the Blockchain will be utilized to digitally exchange assets of all types including stocks, bonds, and titles to houses and cars. **The Blockchain itself is the harbinger of a new field of computer science called distributed applications.** Distributed applications like the Blockchain are peer-to-peer based networks that are not owned by anyone, but usable by everyone. These networks are transparent and they are maintained and improved upon by members of the online community. It is a fertile platform for “up the stack” development of distributed applications. This will enable next generation identity management, the low cost resolution of legal disputes, and other novel applications that will emerge in the coming years. We will be exploring the implications of the Blockchain in particular, and distributed applications in general, in future newsletters. Stay tuned.

The Blockchain Venture Capital Landscape

Much has been written about similarities between the early days of the Internet and the early days of Bitcoin. The Internet is enabled by a networking protocol called TCP/IP that allows for the secure and instantaneous exchange of information. Bitcoin is enabled by the Blockchain, which allows for the secure and instantaneous exchange of value. Here in Silicon Valley, venture capitalists are leaning in. We estimate that close to \$500M in venture capital financed **“Blockchain enabled technology companies”** (a phrase we coined) in 2014. This is especially noteworthy considering the spot price of Bitcoin was down almost 70% over the same period. Venture capital interest and investment activity in Bitcoin/Blockchain is outpacing venture investment in the nascent Internet sector in 1995-6. We were there then; we are here now. Venture capitalists are voting with their checkbooks. World-class entrepreneurs are voting with their feet. Over the past eighteen months, we have seen a dramatic increase in the caliber of entrepreneurs and executives that are starting Blockchain enabled technology companies. It is a pleasure to work with these innovators on a daily basis.

The Crypto Currency Partners funds have invested in 33 Blockchain enabled technology companies in the last eighteen months, making us one of the most active Blockchain institutional investors (based on Crunchbase statistics). What makes the CCP funds unique is not just our exclusive focus on the sector and our access to nearly every quality investment opportunity. It is our partners. The CCP funds’ co-founders, advisory board members, and limited partners are start-up

executives in the Blockchain economy, as well as other venture capitalists, hedge fund managers, bankers, and Silicon Valley technology executives. This gives us an unparalleled network of Blockchain expertise to leverage for due diligence, high quality deal referrals, business and corporate development, and recruiting. CCP was the first venture fund to accept capital calls in Bitcoin or fiat currency and also fund companies in either Bitcoins or dollars. We have positioned the CCP funds as specialist funds with domain specific expertise and a leading network of Blockchain operating executives. The partners have a laser focus on helping our portfolio companies grow and thrive. We want to co-invest alongside leading venture capitalists, not compete with them. We continue to see excellent deal flow and have more deal access and investment opportunities than capital.

Portfolio Update

CCP puts its money and time where its mouth is. The general partners of CCP: Bart, Brad and Brock have contributed capital and stock (at cost) to start CCP2. The Stephens family is the largest limited partner of CCP2. We did a first closing in late November and will continue to do rolling closes until we reach our fund-raising target. Or, more likely, one of the existing 15 CCP2 portfolio companies experiences a material valuation increase or is acquired. We will close the fund to new investors if a material valuation event occurs, in order to protect the limited partners of the fund who invested with us early on.

Coinbase

The newest portfolio company of Crypto Currency Partners is Coinbase. Coinbase is the flagship company of the Blockchain economy. Period. It is the leader in merchant processing, helping companies like Dell, Microsoft and ██████████ accept Bitcoin from customers and seamlessly delivering dollars. Merchants love accepting Bitcoin because they don't have to share 3-5% with Visa/MasterCard/Amex/PayPal. Coinbase is also the largest consumer-facing Bitcoin company that allows retail users to buy and use their Bitcoins in an easy to use wallet available on iOS/Android. They allow customers to securely store their coins in an online "wallet" that is 100% insured. The Coinbase management team is incredibly impressive and the company has executed well on new product development. The most recent \$75m financing, in which we participated, is noteworthy because of the mainstream financial institutions and individuals that also participated: The New York Stock Exchange, Vikram Pandit (former CEO, Citigroup), USAA (insurance company), BVAA (Spanish Bank), Andreessen Horowitz, DoCoMo Capital (VC arm of Japan's largest telecom), Union Square Ventures and Ribbit Capital (founder "Micky" Malka and Partner Brock Pierce both serve on the elected Board of the Bitcoin Foundation). Coinbase recently launched the first regulated, US domiciled Bitcoin exchange.

ChangeTip

ChangeTip allows for users of sites like Facebook, YouTube, GitHub, WordPress and Reddit to tip each other small amounts of Bitcoin. Let's say you are a computer programmer working on an open source project and another computer scientist finds a bug in your code. With ChangeTip, you can do more than thank them. You can send them 1/100 of a penny or \$999 in

Bitcoin as a thank you. Remember, **Bitcoin is programmable digital money**. If you like a post on a message board, instead of a Facebook “thumbs up” button, you can tip them any amount of money using ChangeTip. These types of transactions could never happen using a credit card. Minimum credit card purchases (we have all seen the handwritten signs at cash registers) are \$5-10 due to the high fixed costs associated with legacy financial processing technologies.

Tipping user-to-user is just the “Trojan horse” for ChangeTip. The massive opportunity that ChangeTip is addressing is reimagining the economics of content ownership and online publishing. Since the advent of the World Wide Web, content owners and publishers have struggled to monetize their digital assets. Witness the decimation of the newspaper industry. If you own content and want to monetize it, your options before ChangeTip were: 1) Put up a “paywall” and collect a credit card to allow users to read everything you publish. This is similar to paying for bundled cable where users pay for 547 channels and watch only 10. The other option for content owners is to give everything away for free and let Google or other ad networks take a 30% commission and annoy your users with banner ads and pop up videos, etc. ChangeTip will enable content publishers to have a new monetization channel, allowing customers to pay \$.10 per article or \$.50 per 30 min of YouTube content viewed. **Analogs for this pricing model have already happened with enterprise software.** SAP/Oracle/PeopleSoft/Siebel used to charge Fortune 500 clients tens of millions of dollars to allow an entire company access to enterprise software after six months of implementation. Marc Benioff and ██████████ changed all of that with cloud computing and selling pizza by the slice in real time, instead of being forced to buy the whole pizza. **ChangeTip will enable large publishers and small bloggers alike to monetize content on their own terms without sharing their narrow margin with payment processors or ad networks.**

BitPesa

One thing that stinks about living in a developing country is that it is hard to save your way out of poverty when hyperinflation and currency debasements are commonplace. Moreover, if you are one of the world’s 4 billion who don’t have access to financial products like checking accounts and credit cards, your financial options are severely limited. JP Morgan will never care about you. However, almost all of these 4 billion people have cell phones, and with Bitcoin, they have a digital bank in their pocket. **We should all care about financial inclusion.** An interesting experiment happened in Kenya about five years ago. The unbanked started using their cell phone minutes as a digital currency, called M-Pesa, to pay for everyday goods and services. BitPesa is an exchange that allows users of M-Pesa minutes to convert to Bitcoin that can then be used at the corner market or be sent anywhere in the world. **Globalization is a powerful secular trend that will continue for the foreseeable future.** The Blockchain doesn’t just enable financial services to 4 billion of the “unbanked” in developing countries, it connects them to the Globalized online economy. BitPesa is a bridge technology platform that connects users of M-Pesa (which is used only in Africa) to the global financial system via Bitcoin.

Team Update

We are thrilled to announce that Alison Davis has agreed to become Chairman of our Advisory Board. Alison is a veteran financial services executive, Board Director and Investor. After Cambridge, Harvard and Stanford she worked in the financial services practice group at both McKinsey and AT Kearney. She was CFO of Barclays Global Investors, one of the largest fund management firms in the world before its acquisition by Blackrock. She has served on numerous Boards that are highly relevant to our investment focus including: The Royal Bank of Scotland (“RBS”), First Data Corporation, City National Bank, Fiserv, Unisys and XOOM. Alison is an expert in a wide range of banking and regulatory matters, and we are excited to leverage her experience, investment acumen, and extensive industry contacts.

As always, your comments and questions are appreciated.

Sincerely,

Bart, Brad and Brock



← CCP II's Public Key (you can send your Bitcoin capital calls here)

Crypto Currency Partners II, LP Portfolio – February 2015

BitAccess – Bitcoin Teller Machine (BTM)

Co-investors: Y Combinator, Pantera Capital

BitGo – Enterprise focused, multi-signature secure wallet platform

Co-investors: Redpoint, Radar Partners, and Founders Fund

BitNet – Payment gateway for merchants

Co-investors: Highland Capital Partners, Rakuten

BitPesa – M-Pesa to Bitcoin exchange in Africa

Co-investors: Pantera, Future/Perfect Ventures

BlockStream – Enabling the creation of Side-chains

Co-investors: Reid Hoffman, Khosla Ventures, and Ribbit Capital

Bonafide – Centralized identity and reputation tied to wallets

Co-investors: 500 Startups

ChangeTip – Platform for receiving and sending online tips

Co-investors: Pantera, 500 Startups and BOLDstart Ventures

Coinbase – Leading U.S.-based Bitcoin wallet and exchange service

Co-investors: Andreessen Horowitz, Union Square Ventures, Ribbit Capital, and DFJ

Coinsetter – Institutional grade, low latency Bitcoin exchange and ECN

Co-investors: Second Market, Tribeca Venture Fund

Expresscoin – A simple and safe way for consumers to buy Bitcoin

Co-investors: Bitcoin Shop, Angels

GoCoin – Multi-currency payment gateway for merchants

Co-investors: Bitcoin Shop, Angels

itBit – NASDAQ-powered Bitcoin exchange

Co-investors: Liberty City Ventures, RRE Ventures, and Canaan Partners

Kraken – European crypto currency exchange

Co-investors: Hummingbird Ventures, SecondMarket

LedgerX – Self-clearing Bitcoin derivatives platform

Co-investors: Lightspeed Venture Partners, SV Angel, and Google Ventures

PeerNova – Crypto infrastructure-as-a-service and cloud-hashing

Co-investors: Mosaik Partners, Pierre Lamond, Ashar Aziz