



Crypto Currency Partners

~ INVESTOR UPDATE ~

CRYPTO CURRENCY PARTNERS, L.P.

AUGUST 2014

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Crypto Currency Partners

Dear CCP Investors,

The Bitcoin ecosystem is one the most exciting investment landscapes that we have seen in our 20 years as venture capitalists and hedge fund managers. Bitcoin is better, faster, cheaper, programmable money. Bitcoin is simultaneously a digital currency, a computer protocol, a financial transaction processing network, a store of value, and a self-protecting global peer-to-peer network. For the first time in human history, Bitcoin enables the near instantaneous and irreversible utilization of a payment technology (i.e. cash, Visa or Gold) that doesn't require an incumbent financial intermediary such as a bank or a sovereign nation. And it is virtually free. We could send you 1/100 of a penny (1.7 bits) or \$10 million dollars (17,670 Bitcoins) using a smart phone, or a paper-based physical "wallet" containing bitcoins. Hedge fund managers can use crypto currencies like Bitcoin to store value in a liquid, globally available asset that is negatively correlated to traditional financial assets. Yet Bitcoin also enables a migrant farm worker in California to send money back to his family in Mexico and save the 5-10% charged by traditional cash remittance companies like Western Union. Bitcoin allows for cash to be sent world-wide without the high fixed costs associated with credit card transactions. We have all seen the hand written-signs at the checkout register that say "minimum credit card purchase \$5." This is because merchants have to share 2-2.5% of credit card purchases with Visa/MasterCard/American Express. Merchants accepting Bitcoin get to keep that 2.-2.5%. The fixed costs of the Bitcoin ecosystem are orders of magnitude cheaper than legacy payment networks. Extrapolating the inherent low costs of the Bitcoin network on a global basis means that 3 billion of the world's population who are currently "unbanked" could become consumers of financial products and services.

From a global macro perspective, Bitcoin is interesting because it is experiencing rapid user growth and is at the same time transnational and super-sovereign. Like the Internet in the mid-1990s. Gold is also super-sovereign, but it is hard to move physically, and you can't split it and spend it online for goods and services like you can with Bitcoin. Bitcoin can be thought of as a start-up technology company that is competing in the world of global financial institutions and governments. The old adage that "necessity is the mother of invention" applies to Bitcoin. It was invented in the direct aftermath of the global financial crisis of 2008, which showed the world that financial institutions are dangerously interconnected, too big to fail, and over-leveraged. These same financial institutions are still largely unreformed and manage financial assets like stocks, bonds, and currencies. The prices of these financial assets have been massively supported, in a coordinated fashion, by sovereign nations and central banks. The debt and liquidity problems of the global banking system were

“solved” with more debt and liquidity by central bankers. History tells us that currency devaluations and/or inflation will be the result of these policy decisions. A central tenant of our Bitcoin investment thesis is that Bitcoin is structurally designed to be anti-inflationary. Baked into the Bitcoin protocol, a “law of Bitcoin” if you will, is that there will only be 21 million bitcoins ever created by the system (there are approximately 13 million bitcoins in circulation as of August 2014).

The core invention underpinning Bitcoin is a powerful idea and novel technology called The Blockchain. The Blockchain enables two parties to exchange value without knowing, or necessarily trusting each other. This is similar to physically exchanging cash, except the two parties can be located anywhere in the world. The Blockchain technology has many applications and Bitcoin is just the first in the vertical industry of finance. To name a few beyond finance, the Blockchain could be used as an escrow service, for enabling smart contracts and titles, or to manage elections in emerging and/or unstable nation states. It could also be used as a decentralized certificate authority for identification and authorization, or to cheaply manage legal disputes.

We see a massively attractive risk/reward profile for those companies that can leverage Blockchain technology to disrupt bloated legacy systems like financial services, legal services, and government. In the Bitcoin ecosystem, we like companies that are creating the financial infrastructure to connect crypto currencies like Bitcoin to the global capital markets. We see excellent investment opportunities in sub-sectors of Bitcoin like Blockchain based SaaS for enterprises, mobile apps, mining/pools, security, global remittance, gaming, and rest-of-world consumer financial products and services.

Bitcoin is complex, hard to understand, and confusing. As a result, it is often misunderstood and frequently mis-reported... And therein lies the investment opportunity at this nascent stage in the development of this organically growing ecosystem.

We created Crypto Currency Partners, LP (CCP) to bring the discipline of professional investors to the Wild West of crypto currencies, of which Bitcoin is our favorite and primary focus. The limited partners invited into the investment partnership are Bitcoin thought leaders, Bitcoin entrepreneurs, professional VC’s personal accounts, hedge fund managers, and technology company operating executives. The start-up companies that receive capital from CCP are companies that are leaders in their respective Bitcoin sub-sectors. Our mission, as stewards of capital and Bitcoin venture capitalists, is to help CCP companies grow. We speak at Bitcoin conferences around the world and are constantly interacting with operating companies, start-ups, regulators, venture capital firms, and institutional investors. All of whom are learning and getting more exposed to Bitcoin. These are the early days. Stay tuned and strap in.



Deal Flow

We have seen tremendous deal flow throughout the year originating from our founding partners, managing partners and limited partners. Through our partners, we believe we have been able to take a look at nearly every Bitcoin investment opportunity possible, with a few high profile exceptions that pre-date the fund's inception. As interest in the Bitcoin ecosystem from traditional top tier venture capitalists grows, it may become more difficult to maintain access to all deals. However, we are continuing to cultivate relationships with all thought leaders and Bitcoin-interested venture firms. Our goal is to be viewed as a sector specific venture fund, that generalist venture funds will bring into their deals for due diligence, industry expertise, sales leads, and domain expertise.

Our Kieretsu

We have been working hard to cultivate the inter-connected relationships of our portfolio companies. Many of them are utilizing the products or services of other CCP companies. We encourage our companies to work together and to enact best business practices of the Bitcoin ecosystem. This network of companies supporting each other, and enabling best-of-breed specialization, has been very positive for many of our investments. It boosts early revenues and time-to-market.

Nothing frustrates us more than to see a handful of companies waste time and resources, all trying to recreate the same service that is not core to their business. We are very early in the rise of crypto currencies, and speed to market and specialization within targeted markets is paramount to success. The Bitcoin ecosystem is also evolving in an accelerated fashion, thereby magnifying mistakes by start-up companies in the sector. We hope to guide our companies and help them grow by providing capital, assisting them with hiring, bringing customer leads, offering strategic advice, and access to the CCP network of companies and people.

Capital Calls

The stated goal of this fund was to make roughly 20 investments in the Bitcoin ecosystem in 2014. We believe that CCP is the only fund in the world that accepts capital calls in either fiat currency or Bitcoin and that can also fund companies in fiat or Bitcoin.

We have been very active investing in the first six months of the year, investing 61% of the capital in 17 Bitcoin start-ups. Of the remaining 39% of un-invested capital, half of that has been committed to investments that are in-process but not yet closed.

Therefore, instead of another two or three small capital calls, we plan on calling the remainder of the committed capital in August. We believe this should ease the administrative burden on our limited partners. Please expect the final capital call shortly, and as always, feel free to send cash or Bitcoin.



How You Can Help

We will continue to leverage the collective network of the general partners, limited partners and CCP operating company executives to help all of our companies grow and thrive.

A quarter of the portfolio is well capitalized with financing for at least the next year of operations. Another quarter of the portfolio will be raising capital in early to mid-2015. The remaining 50% of portfolio companies will be raising capital in Q3/Q4 2014. In the near term, much of our focus will be on assisting these companies with capital needs. As CCP companies seek funding, we may be reaching out to the limited partners of the fund for specific introductions to venture capital firms if we don't have existing relationships. We endeavor to keep our limited partners informed of ongoing capital raises, and if you believe you can be helpful, please speak up. Also, many of our CCP companies' financings will have opportunities for direct co-investments by CCP limited partners. If this is something you are interested in, please let us know.

We welcome any comments or feedback,

Brad Stephens
Bart Stephens
Brock Pierce



Portfolio Companies

Authy – Two-factor authentication platform

Co-investors: Y Combinator

We first became aware of Authy by virtue of being a customer of Coinbase and BitGo. Its ease of use and elegance as an app providing 2-factor authentication is market leading. We believe that Authy has the chance to become the de facto authentication provider for most businesses in the crypto currency ecosystem.

Bex.io – White label Bitcoin exchange as a service

Co-investors: Plug and Play, BoostVC

Bex.io's initial start was bumpy. Both of its first two beta customers in New Zealand and Australia got shut down when their partners lost their banking relationships. These deals may come back, but securing a Bitcoin-friendly bank relationship has proven to be a major problem for all Bitcoin businesses around the globe. Bex.io provides a "Bitcoin exchange in a box". Their clients can focus on local regulation and marketing, while Bex.io handles the know-your-customer process and payment processing. Their new beta customer, Coinbatch.com, just went live in Mexico, and two more beta customers are expected soon. At that point, the company will begin raising their Series A.

BitGo – Enterprise focused, multi-signature secure wallet platform

Co-investors: Redpoint, Radar Partners, Founders Fund

Marketing itself under the "Secured with BitGo" brand, the company is focused on the enterprise market. Its platform enables Bitcoins to be securely stored, shared and spent with various levels of permissioning. BitGo's product integrates outside audits, proof-of-ownership and outside custodial oversight. The company has lined up a top-tier management team, Board and group of investors.

BitFury – World's largest Bitcoin miner

Co-investors: Binary Financial, Georgian Co-Investment Fund

BitFury manufactures Bitcoin mining computer hardware and operates the world's largest Bitcoin mining operation. BitFury was an early pioneer and has continued to execute and innovate within the Bitcoin mining sub sector. We believe BitFury to be the largest Bitcoin company in the world in terms of revenue. BitFury has evolved from selling hardware to end users to focusing on operating large scale proprietary bitcoin mines. BitFury is showing continued vision as they migrate from selling hardware to selling hashing contracts (paralleling the shift from web-server vendors transitioning to web-hosting providers). We believe these hosted miners will become the core infrastructure of the Bitcoin ecosystem. BitFury will eventually layer applications and services on top of their hardware stack, similar to Amazon Web Services' evolution from simple web hosting.

BitVault – Bank-grade security for developer apps

Co-investors: Amplify.LA, RRE, First Round Capital

Incubated out of Amplify in Los Angeles, BitVault is developing a multi-sig wallet platform for developers. Through open APIs, the company plans to offer "Security in a Box". Their customers should be developers of financial products. BitVault has a differentiated strategy of attracting developers in verticals industries that should lead to strong adoption. We expect see initial deployments in the Fall of 2014.

Blade Financial (fka PayPay)– White-label Bitcoin debit card

Co-investors: Angels

Blade is also tackling the large market opportunity of Bitcoin debit cards but is taking a white-label approach to the market. Their strategy is to build all the infrastructure and banking relationships to enable debit card use and then partnering with as many exchanges or wallets as possible. Their customers will brand the card and market it to their own customer base. The team has relevant credit card backgrounds, and they have already submitted the necessary information to their potential credit card partner. The company hopes to receive approval in the next 30-60 days and then can begin marketing their solution to potential customers.

ChangeTip – Platform for receiving and sending online tips

Co-investors: AngelList

ChangeTip enables a “tipping” feature using Bitcoin on other companies’ websites. It has built a Bitcoin micropayment platform that is currently integrated with Twitter, GitHub, Reddit, Google+, Tumblr, and YouTube. Since launching this year, they have over 20,000 users, and \$40,000+ has been tipped to-date. We believe tipping is the “tip” of the iceberg, as it is a novel and viral way to introduce micropayments within online content websites. Their platform offers new monetization business models by owners of publishers of online content.

Coinsetter – Institutional grade, low latency Bitcoin exchange and ECN

Co-investors: Second Market, Tribeca Venture Fund

The company just launched its institutional trading platform in a closed beta. They are also undergoing regulatory approval by New York state regulators. We expect this process to take 2-4 months and then the company will officially launch their platform. Coinsetter is also in deep partnership discussions with a large Wall Street investment bank. Their platform offers the lowest latency in the industry and they recently announced APIs for financial firms, enabling “plug and play” capability into their clients’ existing systems. Their solution is ideal for anyone who needs access to Bitcoin liquidity, such as ATMs, payment processors, and institutional traders.

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

Co-investors: Bitcoin Shop (OTC: NTCS), Angels

Expresscoin has been one of the early pioneers in enabling the quick purchase or sale of bitcoins. The company began as CashintoCoins over a year ago, filling the void created by banks that have been unwilling to take on Bitcoin customers. From its early start, the company has grown its consumer facing business to nearly 10,000 customers. They have built an API/Agent business, facilitating third parties’ Bitcoin liquidity needs, such as Bitcoin ATM operators. They are also entering into the retail gift card market.

FreshPay – Enabling ease of payments for individuals

Co-investors: Future Perfect Ventures, Angels

FreshPay began the year with what looked like a huge lead by establishing the banking relationships needed to launch Bitcoin’s first debit card. However, in February, their original bank withdrew, and then in July, they lost their back-up banking relationship. They are now meeting with two new potential banks for their debit card, and they have continued to focus on the underlying code and infrastructure needed to grow their business once a new banking relationship is secured. Their platform is exchange agnostic and is being integrated with several leading Bitcoin wallet companies. The company hopes to launch its debt card through a partnership in the fall of 2014.

GoCoin – Multi-currency payment gateway for merchants

Co-investors: Bitcoin Shop (OTC: NTCS), Angels

GoCoin enables merchants to accept Bitcoin as payment for goods and services. A differentiated offering of GoCoin, compared to other payment processors such as BitPay and Coinbase, is that GoCoin allows merchants to accept altcoins such as Litecoin and Dogecoin. Merchants are also able to accept Bitcoin and other altcoins without having to worry about Bitcoin price volatility. The rate of new merchants signing up on the GoCoin platform is growing over 30% month over month, while transaction growth is up 375% month over month. The company has a few unannounced partnerships that they are working to close, which could drastically accelerate already impressive growth statistics.

Kraken – European crypto currency exchange

Co-investors: Hummingbird Ventures, SecondMarket

Kraken is a Bitcoin exchange with a strong presence in the Euro / Bitcoin exchange market. We like Bitcoin exchange business models because of high switching costs once customers are acquired. Exchanges also benefit from the network effect where liquidity begets more liquidity. The big will get bigger, and Kraken is one of the largest exchanges in Europe. They are well led and well capitalized. Their decision to market hard throughout Europe is paying off.

LedgerX – Self-clearing Bitcoin derivatives platform

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

LedgerX is addressing a key, missing component of enabling Bitcoin to be owned and traded by institutional investors: the need for derivatives. Puts, calls, collars and straddles are key tools used by sophisticated investors to create trading strategies. These tools are needed by all types of businesses that utilize Bitcoin and need to hedge their bitcoin exposure. LedgerX is pursuing licenses from the CFTC and will have the ability to self-clear Bitcoin derivatives contracts. They have secured two unannounced banking relationships: a commercial bank and an investment bank. Once past the regulatory hurdles, we believe LedgerX is going to become a critical component of the new financial infrastructure that brings Bitcoin to the next institutional level of ownership.

Sunlot – Financial services focused crypto-exchange

Co-investors: Clearstone Venture Partners, Tally Capital, Angels

Sunlot is one of the major bidders attempting to acquire the defunct exchange Mt Gox out of bankruptcy. Leveraging an institutional caliber trading platform and deep Wall St relationships, the company is positioning itself to be a major international Bitcoin exchange. Utilizing a novel direct to consumer “██████████” campaign, the company is hoping to secure the over one million user accounts of Mt Gox. The plan is to use a portion of its operating profits to pay back customer creditors. Customers would be incented to trade on the Gox 2.0 exchange because revenue from the exchange funds the creditors’ own recovery of bitcoins. We believe this strategy could garner a lot of user loyalty and bring this relatively new exchange the volume it needs to scale.

Texas Bitcoin Conference – Industry trade show

Co-investors: Angels

We made this investment as a way to help raise the profiles of our portfolio companies. We receive multiple free marketing sponsorships from our investment in the conferences.

Xapo – Bitcoin focused consumer financial services

Co-investors: Pantera, Ribbit, Greylock, Benchmark, Fortress



Xapo is the best-capitalized company in the Bitcoin ecosystem having recently raised \$40m in its Series A (in which CCP participated). Xapo is targeting the entire globe as its market. It offers a hosted, secure, cold-storage vault service for storing Bitcoins. Xapo's airtight security practices have enabled them to insure the Bitcoins held in their vault. The company is also about to launch their own proprietary debit card. They are targeting large financial customers, such as family offices, hedge funds, and banks. The company has a world-class management team and group of investors. We are very excited to be both customers and investors in Xapo.

ZipZap – global digital currency payment network

Co-investors: 500 Startups, Triple Point Capital, Blumberg Capital

ZipZap is a global payment network that enables customers to easily buy digital currencies using cash and other payment options. ZipZap is partnering with both cash distribution networks, such as Payzone in the UK and bitcoin exchanges. It bridges physical locations with digital currency exchanges. The company has established relationships with 28,000 retailers in 34 countries where customers can pay for bitcoins ordered online. Their meta-exchange used to acquire the coins, and strategy of partnering locally for physical points of presence, aims to create a Swift-like network for the Bitcoin ecosystem.

