

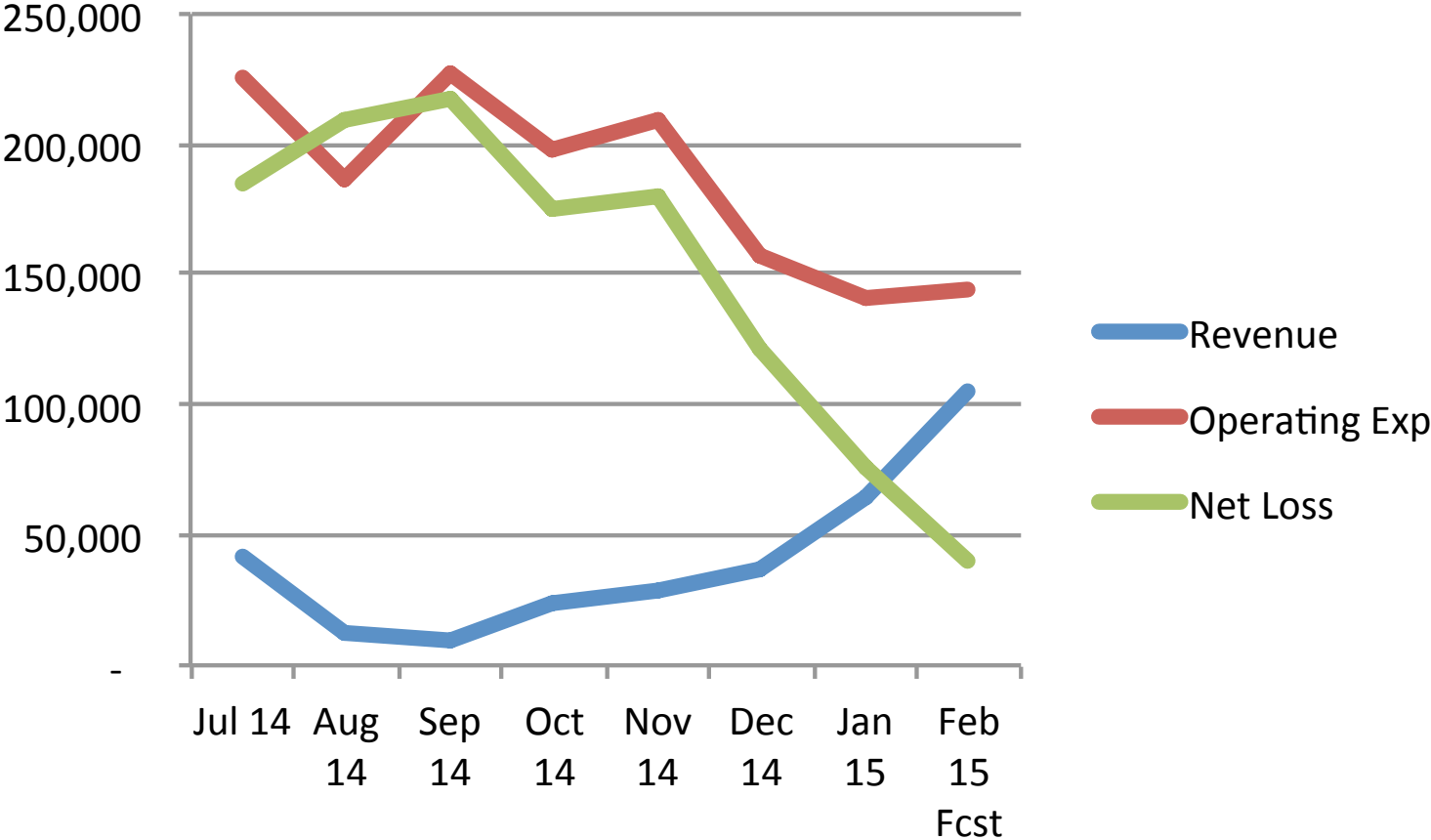


Strategic Proposal
March 5, 2015

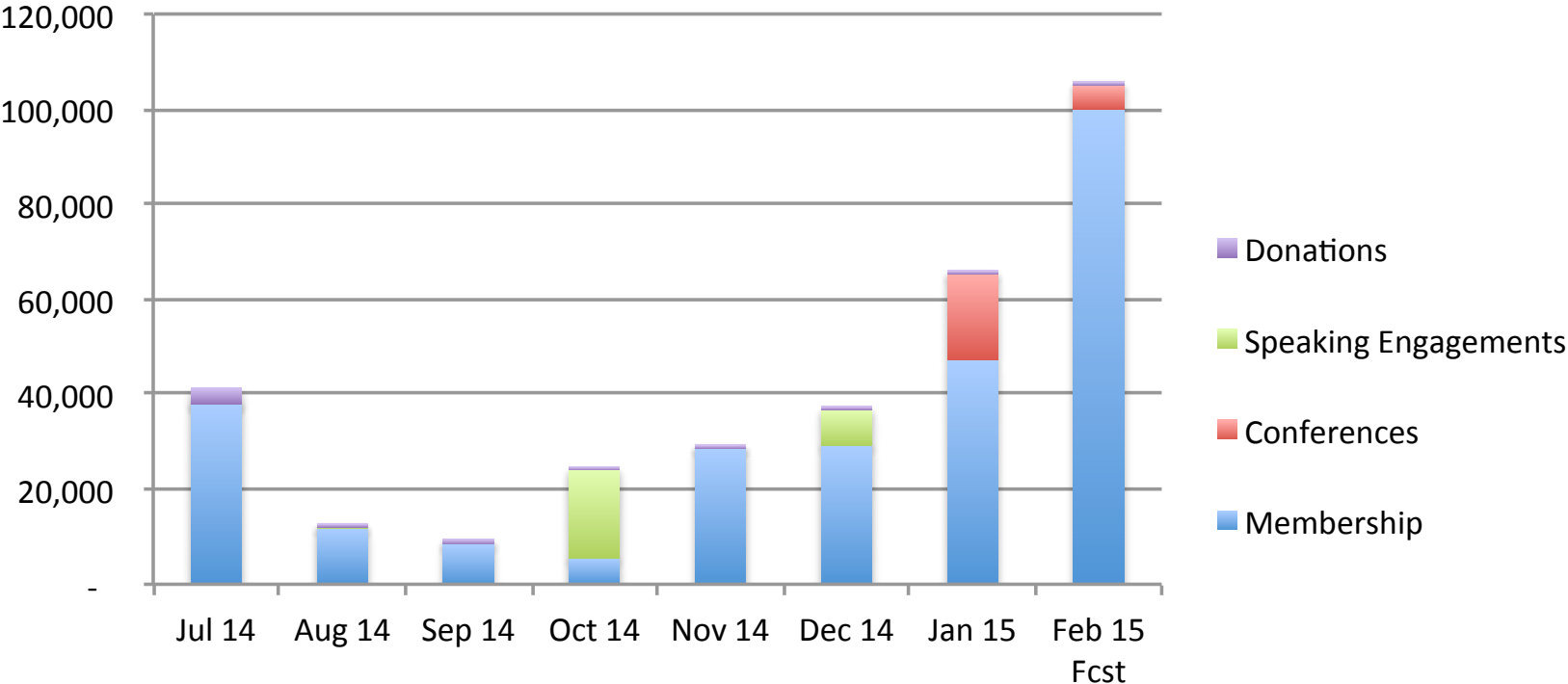
Current situation

- At the end of the year the Foundation faced some significant challenges:
 - Poor reputation
 - Declining membership
 - Falling bitcoin prices
 - Very bad balance sheet
 - January 2014 close – \$5.2mm
 - January 2015 close – \$463k
- In spite of this we have made significant progress in turning around the financial situation with consistent month/month revenue growth and declines in operating loss
 - There is an outside chance that March could be the Foundation's first cash-flow positive month since the earliest days of the Foundation
 - The Foundation's reputation has been steadily improving in the business community although some uncertainty remains due to Board elections
- However, despite improvement in the business processes and functioning of the organization there are some remaining structural challenges that may prove insurmountable without some fundamental changes to the organization

Summary Trendline

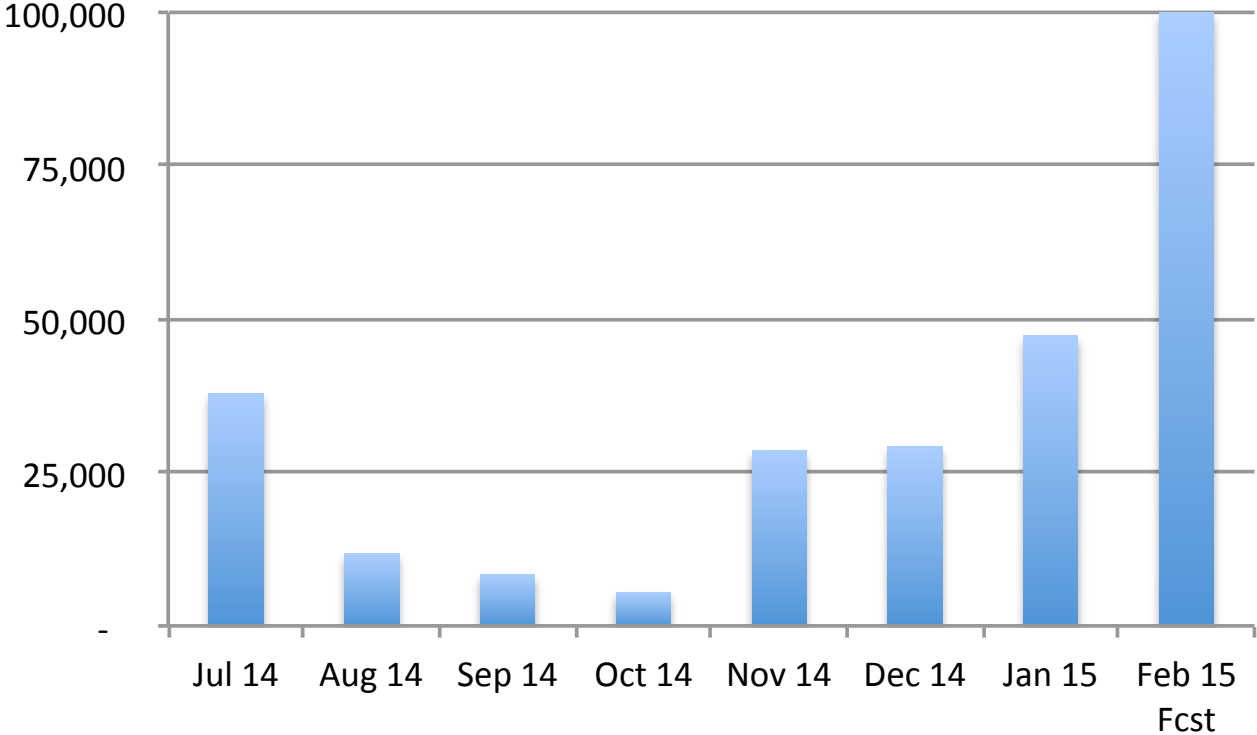


Total Revenue Trend by Category



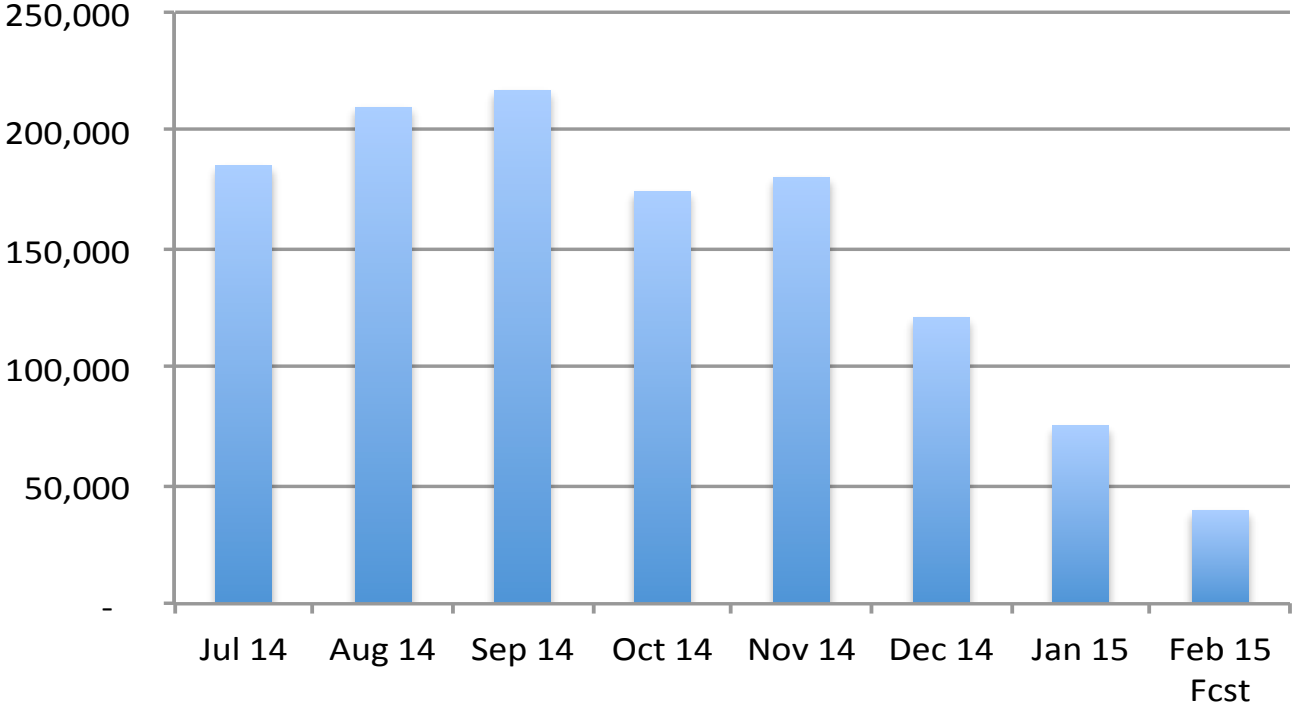
December 2014 does not include in kind membership from Perkins Coie

Membership Revenue Trend



December 2014 does not include in kind membership from Perkins Coie

Net Operating Loss Trend



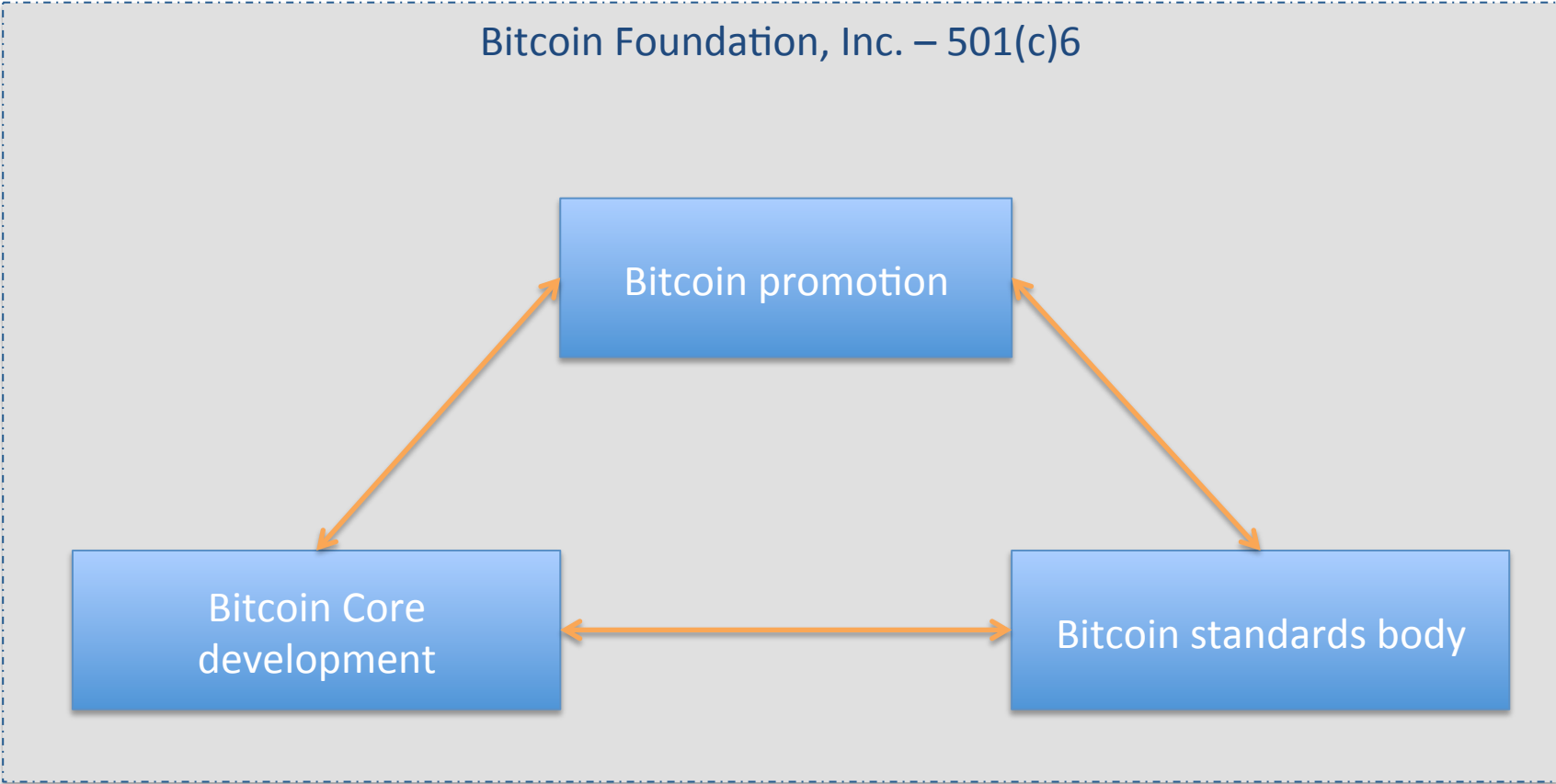
December 2014 does not include in kind membership or credit in legal expense from Perkins Coie

Challenges and opportunity

- The organization as currently structured is better suited to a 501(c)4 promotional organization and not an engineering team. People willing to invest the large amounts needed to fund engineering want the ability to direct funding without the reputational or management risk of an elected board. Large donors don't want to commit significant capital to an org where they must share 50% control of their funds with members who pay as little as \$25.
- The IRS has indicated that our 501(c)6 status may be in jeopardy if we are directly funding software development and advancing a specific product (Bitcoin Core). We can transition to a 501(c)4 without penalty if focus is purely promotion, education and community development.
- To continue funding an engineering team within the Foundation we will need a significant infusion of cash or potentially be insolvent in ~8 weeks. The total addressable market for fundraising in the current configuration appears to be \$500-750k or \$1.25-1.5mm short of our current minimum operating budget. Therefore, significant restructuring is required to best align funders interests with Foundation goals and needs.
- To best position the Foundation for success and ensure adequate funding is available to support Core Development, we recommend splitting the organization into two separate entities:
 - The Bitcoin Foundation v2.0 - 501(c)4
 - New Co. for Bitcoin Core engineering team

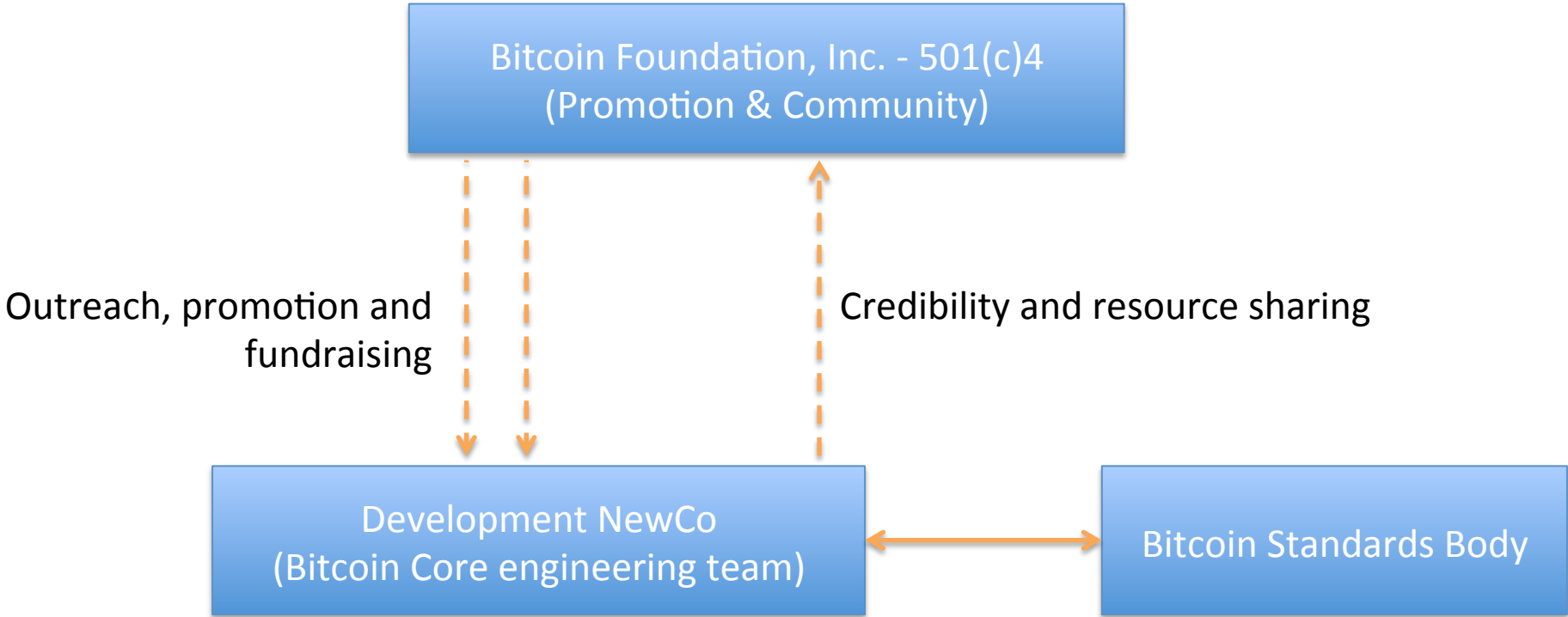
Bitcoin Foundation roles

Linux Foundation approach



Dividing up the roles

Mozilla approach



Bitcoin Foundation v2.0

- Promotional org supported by membership base
 - Continue DevCore conference series with projected net income of ~\$150K in 2015
 - Partner for big tent event “Bitcoin 2015” - no expense outlay required and revenue share potential is ~\$75K
 - Audience agreement would remain in place providing free PR and participation in the first major positive image branding effort for bitcoin
 - Foundation can still lead ongoing funding efforts for NewCo through issuance of technical grants via Lighthouse and traditional efforts
 - Minimal staffing required:
 - ED/Outreach Director responsible for overall org and running DevCore
 - Part-time bookkeeper
 - Outsourced web/technical support
 - Gavin and Patrick would remain engaged

New Co. for Core Development

➤ New Co. for Core Development

- Form new entity focused on engineering resources for Bitcoin Core software project
- Fundraising led by Patrick and Gavin would target to bring in at least \$2M
- NewCo will be structured to specifically meet the needs of highest value contributors in terms of oversight of their funds, must likely through direct board representation
- Existing technical development team would move to new org (Gavin, Wladimir, Cory) with additional hires planned
- NewCo would continue to support DevCore and other promotional and community efforts
- Lead Standards efforts – continue engagement with Alliances

Bitcoin Foundation v2.0

Forecast Statement of Operations

	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	FY 2015
	Actual	Fcst	Fcst	Fcst	Fcst	Fcst	Fcst	Fcst	Fcst	Fcst	Fcst	Fcst	Fcst
Income													
Conferences	18,000	5,000	30,000	95,000	15,000	-	-	-	75,000	75,000	75,000	-	388,000
Membership	47,261	100,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	247,261
Donations	67	100	500	500	500	500	500	500	500	500	500	500	5,167
Total Income	65,328	105,100	40,500	105,500	25,500	10,500	10,500	10,500	85,500	85,500	85,500	10,500	640,428
Expenses													
Technical Development	61,045	56,808	82,040	947	2,447	2,447	2,447	2,447	1,234	-	-	-	211,863
Membership Development	30,368	31,697	28,771	-	-	-	-	-	-	-	-	-	90,836
Outreach	-	-	-	47,629	50,820	14,620	14,620	16,820	58,620	14,620	60,820	14,620	293,188
Operations	226,790	52,557	56,566	17,672	15,138	8,138	7,638	7,638	7,638	7,638	7,638	7,638	422,693
Total Expenses	318,203	141,062	167,377	66,248	68,406	25,206	24,706	26,906	67,493	22,258	68,458	22,258	1,018,581
Other Income/(Expense)	-	-	-	-	-	-	-	-	-	-	-	-	-
Change in Net Assets	(252,875)	(35,962)	(126,877)	39,252	(42,906)	(14,706)	(14,206)	(16,406)	18,007	63,242	17,042	(11,758)	(378,152)
Net Loss excl. Unrealized G/L	(75,141)	(35,962)	(126,877)	39,252	(42,906)	(14,706)	(14,206)	(16,406)	18,007	63,242	17,042	(11,758)	(200,419)
Estimated Cash Balance			150,000	189,252	146,346	131,640	117,434	101,029	119,036	182,278	199,320	187,561	

Bitcoin Foundation v2.0

Forecast Operating Expense Detail

	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	FY 2015
	Actual	Fcst	Fcst	Fcst	Fcst	Fcst	Fcst	Fcst	Fcst	Fcst	Fcst	Fcst	Budget
Salary	72,957	73,310	63,333	20,000	9,583	9,583	9,583	9,583	9,583	9,583	9,583	9,583	306,267
Payroll Tax	7,168	5,433	6,350	1,775	1,150	1,150	1,150	1,150	1,150	1,150	1,150	1,150	29,925
Health Insurance	2,604	5,318	5,500	150	-	-	-	-	-	-	-	-	13,572
Vacation Expense	5,229	4,765	4,904	1,326	625	625	625	625	625	625	625	625	21,224
Office Rent	-	-	-	-	-	-	-	-	-	-	-	-	-
Office Supplies	25	-	100	50	50	50	50	50	50	50	50	50	575
Postage & Delivery	87	14	250	-	-	-	-	-	-	-	-	-	350
Meals & Entertainment	364	1,239	500	-	-	-	-	-	-	-	-	-	2,103
Dues & Subscriptions	355	-	-	-	-	-	-	-	-	-	-	-	355
Licenses & Registrations	-	287	-	-	-	-	-	-	-	-	-	-	287
Website Development	2,233	3,000	5,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	46,233
Expensed HW	-	-	-	-	-	-	-	-	-	-	-	-	-
Expensed SW	796	487	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	11,283
Internet	1,856	2,024	2,100	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	28,479
Professional Svcs - General	30,167	21,167	33,267	-	5,000	-	-	-	-	-	-	-	89,600
Professional Svcs - Accounting	1,800	2,500	5,000	2,000	7,500	500	500	500	500	500	500	500	22,300
Professional Svcs - Legal	400	1,000	1,000	1,000	1,000	1,000	500	500	500	500	500	500	8,400
Public Relations	-	-	-	-	-	-	-	-	-	-	-	-	-
Advertising & Promotion	-	-	-	-	-	-	-	-	-	-	-	-	-
Travel	2,083	5,576	10,500	2,500	4,000	-	-	-	4,000	-	4,000	-	32,660
Bank & merchant service fees	539	300	750	500	350	350	350	350	350	350	350	350	4,889
Corporate Insurance	331	-	-	-	-	-	-	-	-	-	-	-	331
Development Grants	3,480	3,443	5,823	2,447	2,447	2,447	2,447	2,447	1,234	-	-	-	26,217
Sponsorships - General	2,000	4,200	2,000	2,000	4,200	2,000	2,000	4,200	2,000	2,000	4,200	2,000	32,800
Conference Production	2,799	7,000	20,000	25,000	25,000	-	-	-	40,000	-	40,000	-	159,799
Charitable Contributions	977	-	-	-	-	-	-	-	-	-	-	-	977
Misc.	-	-	-	-	-	-	-	-	-	-	-	-	-
Exchange (gain)/loss - Realized	2,219	-	-	-	-	-	-	-	-	-	-	-	2,219
Exchange (gain)/loss - Unrealized	177,734	-	-	-	-	-	-	-	-	-	-	-	177,734
Total Expenses	318,203	141,062	167,377	66,248	68,406	25,206	24,706	26,906	67,493	22,258	68,458	22,258	1,018,581

New Co. for Core Development

Forecast Statement of Operations

	Apr-15 Fcst	May-15 Fcst	Jun-15 Fcst	Jul-15 Fcst	Aug-15 Fcst	Sep-15 Fcst	Oct-15 Fcst	Nov-15 Fcst	Dec-15 Fcst	FY 2015 Fcst
Income										
Core Supporters	2,000,000	-	-	-	-	-	-	-	-	2,000,000
Misc. Donations										-
Total Income	2,000,000	-	-	-	-	-	-	-	-	2,000,000
Expenses										
Technical Development	76,063	128,865	111,865	111,865	110,707	110,707	110,707	110,707	110,707	982,192
Operations	59,297	51,297	51,297	54,297	54,297	54,297	53,297	53,297	52,297	483,677
Total Expenses	135,360	180,162	163,162	166,162	165,004	165,004	164,004	164,004	163,004	1,465,868
Other Income/(Expense)	-	-	-	-	-	-	-	-	-	-
Change in Net Assets	1,864,640	(180,162)	(163,162)	(166,162)	(165,004)	(165,004)	(164,004)	(164,004)	(163,004)	534,132

New Co. for Core Development

Forecast Operating Expense Detail

	Apr-15 Fcst	May-15 Fcst	Jun-15 Fcst	Jul-15 Fcst	Aug-15 Fcst	Sep-15 Fcst	Oct-15 Fcst	Nov-15 Fcst	Dec-15 Fcst	FY 2015 Budget
Salary	64,167	106,667	106,667	106,667	106,667	106,667	106,667	106,667	106,667	917,500
Payroll Tax	7,700	12,800	12,800	12,800	12,800	12,800	12,800	12,800	12,800	110,100
Health Insurance	3,850	7,600	7,600	7,600	7,600	7,600	7,600	7,600	7,600	64,650
Vacation Expense	4,744	7,196	7,196	7,196	6,038	6,038	6,038	6,038	6,038	56,518
Recruiting	1,000	-	-	-	-	-	-	-	-	1,000
Office Rent	-	-	-	-	-	-	-	-	-	-
Office Supplies	100	100	100	100	100	100	100	100	100	900
Postage & Delivery	100	100	100	100	100	100	100	100	100	900
Meals & Entertainment	500	500	500	500	500	500	500	500	500	4,500
Licenses & Registrations	-	-	-	-	-	-	-	-	-	-
Website Development	5,000	5,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	31,000
Expensed HW	-	10,000	-	-	-	-	-	-	-	10,000
Expensed SW	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	9,000
Internet	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	13,500
Professional Svcs - General	29,100	19,100	14,100	14,100	14,100	14,100	14,100	14,100	14,100	146,900
Professional Svcs - Accounting	4,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000
Professional Svcs - Legal	6,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	14,000
Communications	-	-	-	5,000	5,000	5,000	3,000	3,000	3,000	24,000
Travel	6,000	6,000	6,000	4,000	4,000	4,000	5,000	5,000	4,000	44,000
Bank & merchant service fees	100	100	100	100	100	100	100	100	100	900
Corporate Insurance	500	500	500	500	500	500	500	500	500	4,500
Misc.	-	-	-	-	-	-	-	-	-	-
Exchange (gain)/loss - Realized	-	-	-	-	-	-	-	-	-	-
Exchange (gain)/loss - Unrealized	-	-	-	-	-	-	-	-	-	-
Total Expenses	135,360	180,162	163,162	166,162	165,004	165,004	164,004	164,004	163,004	1,465,868

Summary

- Moving the Foundation from a “Linux Foundation” model to a “Mozilla” model provides the best possible avenue for success for promotional and community efforts and the technical development of Bitcoin Core
- DevCore and new conference partnership for Bitcoin 2015 provide viable business model for the Foundation to remain a going concern and support existing membership base
- Creating NewCo for engineering team opens up access to direct fundraising both independently and through Foundation grants. Also, it resolves uncertainty from the IRS treatment of the 501(c)6
- With such a short runway, restructuring activities would need to take place by the end of March