

From: Jeremy Rubin <[REDACTED]>
To: "jeffrey E." <jeevacation@gmail.com>
Subject: Re: Investing in Layer One
Date: Mon, 16 Jul 2018 02:03:33 +0000

I chatted with the Layer One team. They seem happy with what we discussed.

1)
They are amenable to \$2m for 20% and agreed to the conditions I proposed (preferred returns for investors until principal is repaid, provisions to have them return unused capital if they fail to meet a major milestone at discretion of investors, and selling a slightly larger percentage of the co at 30-35%).

2)
Given these are terms we requested, they ask that I send them a draft of our preferred investment docs (they are yet to incorporate or have a draft of their own, so we have a fair amount of freedom here). I was surprised because this represents a mis-step in theory (status-quo bias favors the drafter), but in practice we don't have any incentive to produce anything they'd find objectionable.

Shall I draft something with Richard?

3)
If you like, they would like to meet you or speak with you on the phone. If you want to stay disconnected from it, that's ok too.

Best,

Jeremy

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@ [REDACTED]

On Sat, Jul 14, 2018 at 9:34 AM Jeremy Rubin <[REDACTED]> wrote:

Got it.

I think they are yet to draft those, I'll circle up with them and get a draft.

On Sat, Jul 14, 2018, 9:20 AM jeffrey E. <jeevacation@gmail.com> wrote:

dont worry about the size of fund . concentrage on what you think are the best people and futures. papers mean investment docs

On Sat, Jul 14, 2018 at 12:12 PM, Jeremy Rubin <[REDACTED]> wrote:

Can you clarify; which papers? Term sheets?

I'm also slightly reluctant to do 2 mil for 20 because:

- 1) there are some other interesting projects I'm looking at, so am not sure it makes sense to put 40% of the fund in -- would you put more money into the fund if I am bringing in other good deals in the immediate future?
- 2) they might want to have more investors in with sizeable positions for strategic reasons (they might cap us) -- could push them to sell 33% and buy 20 to alleviate
- 3) it might make sense to split the position over the first spv and the fund

On Sat, Jul 14, 2018, 8:14 AM jeffrey E. <jeevacation@gmail.com> wrote:
send papers. I think a larger position. 2 mil for 20% . or 2 mill for 15 plus warrants. ?

On Sat, Jul 14, 2018 at 9:53 AM, Jeremy Rubin <[REDACTED]> wrote:
They are raising 3.5M at 14M valuation.

They are doing an open source r&d lab plus selling investment vehicles on the cryptocurrency are working on, so a mix of both.

How do you want to talk to them? Should I set up a phone call? I've met with them a few times in San Francisco.

On Sat, Jul 14, 2018, 2:51 AM jeffrey E. <jeevacation@gmail.com> wrote:
if you like them lets talk / meet them. they want to raise 20m?? for a carried interest fund? or build a co?

On Sat, Jul 14, 2018 at 3:39 AM, Jeremy Rubin <[REDACTED]> wrote:
Hi Jeffrey,

Below is a summary on the first company I'd like to invest in, Layer One. Questions or thoughts on how/if to proceed? In particular, besides from a provisional yes/no, would like your feedback on the derisking measures I proposed.

Summary: Layer One is a cross between Blockstream and Metastable Capital (core engineering + investment fund managing SPVs).

Their Raise: 3.5M for 25% of the Company. They anticipate this is a 2 year runway. This is expensive for traditional VC given that they haven't built anything yet or closed key hires, but as a counterpoint it's a more reasonable raise with a more clear business model than most crypto companies, and they don't plan to raise again for the parent company.

Proposed Investment: \$250k for 1.7% of the company. I'd be propose a larger investment if you want to invest more aggressively, but I don't think I would want to invest more than 10% of Deploy Capital's funds (500k for 3.5%) so we have space for other deals I'm looking at, but I'd like your guidance on this.

Derisking/Counteroffer Ideas:

- 1) raise a bit less at 25%
- 2) Have them plan to do a second round if they need it and have them only raise \$1M now for 10% (or other numbers), but make all investors commit to putting a matching amount into the SPV to get the ball rolling.
- 3) to sell a larger percentage (e.g., 30%) at same price
- 4) to have some safeguards in place to claw back the money should they fail to deliver on the Grin SPV Launch or close hire quick enough
- 5) have an internal 'hurdle rate'/preferred share impacting the management and carry from the SPV to pay back investor's principal first
- 6) have them sell a larger percentage (e.g., 75%) but give them call options to buy back ownership down to 25% within 2 years at a fair return price

Under some of these, we may be comfortable with a larger investment if it increases surety of capital return.

General Strategy & Reutrn: Their plan is to recruit 5-8 top-tier engineers to work on core protocol development for Grin, a new cryptocurrency (I can separately fill you in on what Grin is, but it's legitimate new tech, like ZCash). Meanwhile, they will open up a SPV fund which takes on more capital (non-dilutive to the layer one shareholders) that operates a mining strategy for acquiring Grin (there is no Grin pre-sale, just mining). The SPV pays management and carry to Layer One -- we can separately participate in the SPV if desired, but we automatically get upside exposure with limited downside through management and carry.

Layer One's core development activities can also result in spin-outs. The IP they build might be licensed commercially to exchanges like Coinbase or otherwise productized for consumers. The first technology they want to build for Grin is a protocol that enables issuing 'assets' (e.g., stocks, coupons, licenses), which could easily spin out into a service provider/support business.

They will generalize this plan going forward for working on other cryptocurrencies paired with an SPV.

They will validate their model in two stages: in Q4 they will do initial funding into their first SPV, and in Q1 2019 the first project will launch. If the project launches successfully in 2019, returns should be seen quickly. If the projects's launch is lackluster, then they will both 1) do another SPV for a different asset 2) continue engineering work on the project to bring it into the black. Another upside angle would be acquire/consulting revenue if they build a high quality technical team, exchanges might pay them for integrations.

they have a slide deck a bit more in detail: [REDACTED]

Team: A stanford grad and a uchicago grad around my age. They claim to have 3-4 engineering hires who will join when they close the fund (poaching from Blockstream and stanford crypto phds). I've met with both of them one on one and think they are sharp. They've clearly thought deeply about this space and have strong views on what's valuable. We share a lot of views.

Strategic Needs: They want technical guidance, hiring support, and some warm intros from me. I may participate in some of the engineering work for fun anyways (Grin is really cool). I think you could also guide them on structuring the company (they are yet to incorporate) -- they aren't sure which jurisdiction will serve their needs best.

Best,

Jeremy

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