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MONEYBEAT

BitBeat: GAW Miners to Launch Bitcoin Challenger, Paycoin

By MICHAEL J. CASEY

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Ramin Talaie for The Wall Street Journal

Welcome to BitBeat, your daily dose of crypto-current events, written by Paul Vigna and Michael J. Casey.

Bitcoin Latest Price: \$378.84/ up 0.96% (via CoinDesk)

Crossing Our Desk:

Josh Garza, who has built what may be the world's fastest growing bitcoin mining operation, is setting his sights on something even bigger: "the cryptocurrency of the future."

That's the claim made in a press statement Monday to mark the launch of the ICO (initial coin offering) of Paycoin, a digital currency that Mr. Garza's GAW

Miners company says will address "all the inherent shortcomings that have prevented bitcoin from achieving mainstream adoption."

The core technology underlying Paycoin, which was previously codenamed "Hashcoin," is modeled on bitcoin and its public ledger, known as the blockchain. However, Paycoin's blockchain is independent of bitcoin's and, unlike the better known digital currency, will involve an additional layer of "mining" computers beyond the base level of miners employed to routinely confirm the validity of transactions and to maintain the ledger. Those higher-level "controller" miners will perform the special task of compressing data to make Paycoin transactions more streamlined. The controllers will periodically bid for the right to perform this task, for which they will be rewarded in paycoins. In theory, their contributions to computing efficiency should allow Paycoin transactions to be confirmed and settled much faster than the 10-minute minimum that applies to bitcoin.

When the coin opens to the public on Jan. 2 with what Mr. Garza says will be an anticipated market capitalization of \$250 million, the company will partly back that with a store of fiat currency worth around \$100 million. While those funds won't function as a 100% reserve, they will combine with added features within the Paycoin protocol, including a supply schedule that fluctuates depending on the level of miner demand, to reduce exchange-rate volatility and thus seek to resolve one of bitcoin's biggest barriers to mass adoption.

In a move that could assuage cryptocurrency enthusiasts that might accuse it of "centralization," the company itself won't sell "pre-mined" Paycoins for its own account but will from the outset join other miners in bidding for "controller" mining contracts.

Backing Mr. Garza is Stuart Fraser, Vice Chairman and Partner at Wall Street inter-dealer broker Cantor Fitzgerald LP, a long-time backer of Mr. Garza's projects, including his first big venture, the Great Auk Wireless company, which sold broadband services to remote New England villagers.

Whether Mr. Garza can replicate his past success in this project remains to be seen. But Paycoin is poised to benefit from having one of the biggest mining operations behind it. It will also tap a passionate community of GAW clients, many of whom have purchased early rights to mine Paycoin and who debate and discuss the launch on a very active online forum run by the company.

According to Mr. Garza, his Bloomfield, Conn.-based company's cloud mining operation is run out of a 180,000-foot Mississippi warehouse with 15MW electricity capacity. From there, it sells small "hashlet" cloud mining contracts to customers. The hashlets are differentiated and structured in such a way that clients can trade them on an exchange, where the price fluctuates depending the market's view of mining-profitability variables such as the bitcoin exchange rate, electricity prices and the rate at which competition for bitcoins is increasing within the network.

The service, which offered guarantees to overcome some of the customer relations problems of the delay- and lawsuit-prone bitcoin mining industry, now accounts for a whopping 50% of all new mining capacity coming online, he said. After starting operations in the summer, GAW is on track to finish the year with \$120 million in sales, he said.

-UPDATE: An earlier version of this blog post incorrectly stated that Paycoin's software would function as a separate layer on top of the existing bitcoin blockchain. Paycoin will be comprised of its own, separate blockchain.

-The array of new trading instruments for taking investment bets on bitcoin continues to expand.

Today, the North American Derivatives Exchange, or Nadex, announced that it planned to launch bitcoin binary options contracts in early December. A binary option is a derivative trading option for which there are two possible outcomes - typically, that a call or put option pays out a certain amount or that it pays nothing, depending on where an underlying asset's price trades within a certain time frame.

Nadex's bitcoin option contracts, which are pending approval by the Commodities Futures Exchange Commission, will be priced on the basis of TeraExchange's Bitcoin Price Index, which it described as "the global benchmark for USD/XBT contracts." ("XBT" is that currency code that many platforms are now using to signify bitcoin.) TeraExchange launched a CFTC-approved bitcoin derivatives trading platform in September.

In a press release, Nadex said it had "seen strong demand from retail traders looking for new ways to trade bitcoin."

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