

RISKS ASSOCIATED WITH REP AND THE AUGUR NETWORK

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Reputation, or “Rep”, is a cryptographic token used by reporters on the Augur network. Reporters are participants who supply to the Augur network an observation of (i) whether a particular event (or set of events) occurred and, if it did occur, (ii) what the outcome of the event was. A participant must control Rep to report on the outcome of markets, and earns Rep by making these reports honestly and regularly. For each market created on the Augur network, the creators of the market designate a portion of the total wager as a fee for reporters. Upon completion of the reporting period, reporters who reported an outcome that was reported by the majority of reporters receive a portion of the fee proportionate to the amount of Rep they control. Reporters who reported an outcome reported by any minority of reporters receive no fee. Additionally, the Augur network automatically redistributes Rep from reporters in the minority of reporters to the reporters whose reported outcome was in the majority. The Augur network also automatically redistributes Rep from reporters who do not report regularly to those who do report regularly. Thus, the amount of Rep a reporter controls is designed, over time, to serve as a score of the honesty and regularity with which that Reporter has reported. For a more complete description of the Augur Network and Rep, please see *Augur: a Decentralized, Open-Source Platform for Prediction Markets*, available at <http://augur.link/augur.pdf>, the contents of which are incorporated into this document by reference.

Rep is not a cryptocurrency. At the time of this writing, Rep (i) cannot be exchanged for goods or services, (ii) has no known uses outside the Augur network, and (iii) cannot be traded on any known exchanges.

Rep is not an investment. There is no guarantee – indeed there is no reason to believe – that the rep you purchase will increase in value. It may – and probably will at some point – decrease in value. Those who do not actually use their Rep to report honestly and fairly will lose their rep to those who do.

Rep is not evidence of ownership or right to control. Controlling Rep does not grant its controller ownership or equity in Forecast Foundation, OU or the Augur network. Rep does not grant any right to participate in the control the direction or decision-making of Forecast Foundation, OU or the Augur Network.

Rep is not required for, and does not permit its controller to make predictions. A reporter must control Rep in order to report the outcome of markets to the Augur network. A reporter need not control rep in order to create markets or join a market in favor of any particular outcome. Controlling Rep does not require joining any markets.

1) Risk of Losing Access to Rep Due to Loss of Credentials

The purchaser’s Rep may be associated with an Augur account until they are distributed to the

purchaser. The Augur account can only be accessed with login credentials selected by the purchaser. The loss of these credentials will result in the loss of Rep. Best practices dictate that purchasers safely store credentials in one or more backup locations geographically separated from the working location.

2) Risks Associated with the Ethereum Protocol

Rep and the Augur network are based upon the Ethereum protocol. As such, any malfunction, unintended function or unexpected functioning of the Ethereum protocol may cause the Augur network or Rep to malfunction or function in an unexpected or unintended manner. Ether, the native unit of account of the Ethereum Protocol may itself lose value in ways similar to Rep, and also other ways. More information about the Ethereum protocol is available at <http://www.ethereum.org>.

3) Risks Associated with Reporting

The purchaser may lose Rep either by reporting or by not reporting. Failing to report as required by the Augur network may cause Rep to be redistributed to other participants. Reporting an outcome that is in the minority of those outcomes reported may cause Rep to be redistributed to other participants.

4) Risks Associated with Purchaser Credentials

Any third party that gains access to the purchaser's login credentials or private keys may be able to dispose of the purchaser's Rep. To minimize this risk, the purchaser should guard against unauthorized access to their electronic devices.

5) Risk of Unfavorable Regulatory Action in One or More Jurisdictions

Blockchain technologies have been the subject of scrutiny by various regulatory bodies around the world. The functioning of the Augur network and Rep could be impacted by one or more regulatory inquiries or actions, including but not limited to restrictions on the use or possession of digital tokens like Rep, which could impede or limit the development of the Augur network.

6) Risk of Alternative, Unofficial Augur Networks

Following the presale and the development of the initial version of the Rep platform, it is possible that alternative prediction market-based networks could be established, which utilize the same open source code and open source protocol underlying the Augur network. The official Augur network may compete with these alternative, unofficial Rep-based networks, which could potentially negatively impact the Augur network and Rep.

7) Risk of Insufficient Interest in the Augur Network or Distributed Applications

It is possible that the Augur network will not be used by a large number of businesses, individuals, and other organizations and that there will be limited public interest in the creation and development of distributed applications. Such a lack of interest could impact the development of the Augur network and therefore the potential uses or value of Rep.

8) Risk that the Augur Network, As Developed, Will Not Meet the Expectations of Purchaser

The Augur network is presently under development and may undergo significant changes before release. Any expectations regarding the form and functionality of Rep or the Augur network held by the purchaser may not be met upon release, for any number of reasons including a change in the design and implementation plans and execution of the Augur network.

9) Risk of Theft and Hacking

Hackers or other groups or organizations may attempt to interfere with the Augur network or the availability of Rep in any number of ways, including without limitation denial of service attacks, Sybil attacks, spoofing, smurfing, malware attacks, or consensus-based attacks.

10) Risk of Security Weaknesses in the Rep network Core Infrastructure Software

The Augur network consists of open-source software that is itself based on open-source software. There is a risk that the Augur team, or other third parties may intentionally or unintentionally introduce weaknesses or bugs into the core infrastructural elements of the Augur network interfering with the use of or causing the loss of Rep.

11) Risk of Weaknesses or Exploitable Breakthroughs in the Field of Cryptography

Advances in cryptography, or technical advances such as the development of quantum computers, could present risks to cryptocurrencies and the Augur platform, which could result in the theft or loss of Rep.

12) Risk of Rep Mining Attacks

As with other decentralized cryptocurrencies, the blockchain used for the Augur network is susceptible to mining attacks, including but not limited to double-spend attacks, majority mining power attacks, “selfish-mining” attacks, and race condition attacks. Any successful attacks present a risk to the Augur network, expected proper execution and sequencing of Augur markets, and expected proper execution and sequencing of Ethereum contract computations. Despite the efforts of the augur Team, the risk of known or novel mining attacks exists.

13) Risk of Lack of Adoption or Use of the Augur Network

While Rep should not be viewed as an investment, it may have value over time. That value may be limited if the Augur network lacks use and adoption. If this becomes the case, there may be few or no markets upon which to report, limiting the value of Rep.

14) Risk of an Unfavorable Fluctuation of Bitcoin Value

The Augur team intends to use the proceeds of the Rep presale to fund development of the Augur Protocol. The proceeds of the Rep presale will be denominated in Bitcoin. If the value of Bitcoin fluctuates unfavorably during or after the presale, the Rep team may not be able to fund development, or may not be able to develop the Rep network in the manner that it intended or promised.

15) Risk of an Illiquid Market for Rep

There are currently no exchanges upon which Rep might trade. If ever exchanges do develop, they will likely be relatively new and subject to poorly-understood regulatory oversight. They may therefore be more exposed to fraud and failure than established, regulated exchanges for other products. To the extent that the exchanges representing a substantial portion of the volume in Rep trading are involved in fraud or experience security failures or other operational issues, such exchanges' failures may result in a reduction in the value or liquidity of Rep.

16) Risk of Uninsured Losses

Unlike bank accounts or accounts at some other financial institutions, funds held using the Augur or Ethereum network are generally uninsured. In the event of loss or loss of value, there is no public insurer, such as the F.D.I.C., or private insurer, to offer recourse to the purchaser.

17) Risk of Dissolution of the Rep Project

It is possible that, due to any number of reasons, including without limitation an unfavorable fluctuation in the value of Bitcoin, unfavorable fluctuation in the value of Rep, the failure of business relationships, or competing intellectual property claims, the Augur project may no longer be a viable business and may dissolve or fail to launch.

18) Risk of Malfunction in the Augur Network

It is possible that the Augur network malfunctions in an unfavorable way, including but not limited to one that results in the loss of Rep, or information concerning a market.

19) Unanticipated Risks

Cryptocurrency is a new and untested technology. In addition to the risks set forth here, there are risks that the Rep team cannot anticipate. Risks may further materialize as unanticipated

combinations or variations of the risks set forth here.