

Crisis Strategy Draft



Situation

For several weeks MtGox customers have been affected by bitcoin withdrawal issues that compounded on themselves. Publicly, MtGox declared that “transaction malleability” caused the system to be subject to theft, and that something needed to be done by the core devs to fix it. Gox’s own workaround solution was criticized, and eventually a fix was provided by Blockchain.info.

The truth, it turns out, is that the damage had already been done.

At this point 744,408 BTC are missing due to malleability-related theft which went unnoticed for several years. The cold storage has been wiped out due to a leak in the hot wallet.

The reality is that MtGox can go bankrupt at any moment, and certainly deserves to as a company. However, with Bitcoin/crypto just recently gaining acceptance in the public eye, the likely damage in public perception to this class of technology could put it back 5~10 years, and cause governments to react swiftly and harshly. At the risk of appearing hyperbolic, this could be the end of Bitcoin, at least for most of the public.

We believe in the value of Bitcoin, its potential to change the world, and its principles of transparency. Most importantly we care about the customers of MtGox and other bitcoin-based businesses who will be affected.

The likely consequences will be larger than this localized financial damage, and we believe that the benefits of keeping MtGox stable and running outweigh the risks. This isn’t about saving MtGox anymore.

4 Parts Strategy

To avoid a chaotic situation, we propose:

1- Immediately reduce liabilities as much as possible with partners

With actual assets using arbitrage/ injecting new coins to erase them from the books. Informing and asking selected Bitcoin main players to ask for their help. The MtGox price is low, making it possible to erase a significant portion of the debt, but it needs to be done quickly. Injections in coin are most useful (enough to run the exchange) but some cash is also needed to not run a fractional reserve.

2- Switch off the MtGox exchange temporarily (1 month) while announcing a restructuring and re-branding

On a freshly branded static homepage, post a letter from Mark Karpelès stepping down as CEO of MtGox, bringing in transition advisors, and citing poor organization and technology. Moving to a new country (Singapore?) could be helpful.

3- Push the new branding (ready) and reset all SNS channels for communication:

Using Facebook, Twitter, etc with the new branding, we will give constant updates, changing the tone of communications and informing stakeholders on all progress: new advisors, team members, location, fee structure. We need to inspire confidence.

4- Set up a competent team and redesign the service and codebase:

Announce a new CEO, talented developers, and trusted business people to establish a new business model. (Finance, marketing strategy, IT, developers, Customer support). Build a low-cost, profitable business again that gives customers a reason to stay (low fees, stability, etc) while we work off our debts to stakeholders.

Strategy Timeline

Now to Feb 25th morning JST

Part 1: Assets/Liabilities and cover the 624 408 BTC:

Arbitrage, coins donation, coins for equity, cash for buying coins at MtGox price

Target: 50% covered

Announce on Tuesday 25th morning JST

Part 2: Shut down of MtGox for 1 month, with a rebranded landing page

- Step back from CEO Mark Karpelès
- Creation of transition advisors backed by a respected name
- Fixing the technology and business
- Give to customers their account history



From MtGox to Gox Apr 1st 2014 or later

Part 4 : Launch of Gox:

- New platform, new brand, new management, new services and business model

Part 3 : SNS continuous update and project follow up:

- Following up on projects on new Twitter, Facebook
- New tonw and demonstration that MtGox is working
- Gathering world wide experts and establishing the strategy
- Building the new team

Financial Assets and Liabilities

	Assets	Liabilities
Bitcoins	2,000 BTC in the Hot Wallet	624,408 BTC(Customers) +120 000 (MtGox) - 80 208 BTC <i>From banned or suspicious accounts</i>
Fiat	22,430,000 USD In the bank account (averaged across currencies)	55,000,000 USD (but still unclear at this point)
	5,000,000 USD held by CoinLab	
	5,500,000 USD held by DHS	
Total	32,430,000 USD + 2,000 BTC (MtGox av price 160 USD= 320,000 USD)	55,000,000 USD + 744,408 BTC (MtGox av price 160 USD= 119,105,280 USD)

Other Assets

- 1.1 million of account and 550,000 verified customers
- High volume of trading
- Trained AML team and process
- High publicity (broken but customers are still buying coins and depositing)
- Valuable domain names: bitcoins.com, etc
- New trading engine (Midas)
- New brand and services ready to be launched (Bitcoin Cafe, Japanese wallet "Bitpocket")

Part 1: To reduce liabilities

The stakeholders of MtGox are not the owners, but everyone in Bitcoin. This is sad but the reality.

The current situation will negatively affect everyone who owns or operates in Bitcoin. We will need to inject fresh coins inside the system in order to establish a basis to eventually clear the books by running the exchange (perhaps 200,000 coins). The costs of not doing so are incalculable at this stage.

Support from Bitcoin big players and core community - long term, high leverage:

Coins for equity, coin donations, and cash injections to buy coins at the cheap MtGox price are some options among many.

Bet on future profit to refill the lost coins - Long term, low leverage:

Regardless of malleability and regulatory issues, MtGox's main problems are massive robbery and poor bitcoin accounting. However, the business as an exchange is highly profitable and healthy when run properly.

(Please refer to the business plan draft attached)

MtGox business is healthy and profitable

Projection Draft

Income Statement	* April 1 st , 2012 - March 31 st , 2013	** April 1 st , 2013 - March 31 st , 2014	*** April 1 st , 2014 - March 31 st , 2015	*** April 1 st , 2015 - March 31 st , 2016
<i>(Amounts in thousands of USD)</i>				
Net Sales	1,351	10,750	31,500	71,950
Cost of Goods Sold	40	100	150	200
Gross Profit	1,311	10,650	31,350	71,750
Selling, General and Administrative Expenses 1)	1,099	7,635	11,350	15,900
Operating Income	212	3,015	20,000	55,850
Interest Income	6	7	14	40
Foreign Exchange Gains	76	-	-	-
Non Operating Result	82	7	14	40
Ordinary Income	294	3,022	20,014	55,890
Corporate Taxes	8	1,022	6,164	16,890
Net Income	286	2,000	13,850	39,000

1) Breakdown of Selling, General and Administrative Expenses	* April 1 st , 2012 - March 31 st , 2013	** April 1 st , 2013 - March 31 st , 2014	*** April 1 st , 2014 - March 31 st , 2015	*** April 1 st , 2015 - March 31 st , 2016
<i>(Amounts in thousands of USD)</i>				
Subcontracting Expenses 2)	814	3,650	6,200	10,000
Accountant, Consultant and Lawyer Fees	167	3,300	4,000	4,000
Commission Fees	51	340	415	1,000
Depreciation	0	125	360	400
Advertising Expenses	4	75	160	200
Salary	60	105	130	150
Other	3	40	85	150
	1,099	7,635	11,350	15,900

Part 2: Shut down MtGox.com, launch new branding

Big focus on the future



Letter from the CEO

Admitting his errors and expressing desire to fix the situation by stepping back as a CEO. Blaming the technology implementation which was not sized and designed to deal with such level of transactions or to deal with malleability.

It's time to step up and face reality by bringing a transition of respected advisors who will run things properly.

In Japan, a CEO cannot resign until a new CEO is nominated. In that case customers knows that MtGox is still around and working, but under new management. Try to reduce the impact and raise stakeholder confidence, and eventually get Mark out.

New branding, means that there are future-forward plans already in the works, and customers will see that MtGox actually has a plan in motion

Part 3: 1 month transition while updating the industry

In order for stakeholders to follow up on MtGox progress, we will use SNS platforms with constant positive communications.

- Every new milestone reached will be announced: Team members, new marketing, progress on the technology implementation etc...
- **The Customer support will stay operational** to deal with people who want to have access to their account/history
- **During this period, the advisory board will be created**, hopefully a new CEO can be chosen and try to reset and secure the trading engine platform.

Expertise to find: Analysts, top class developers (crypto), IT security expert, marketing, Bitcoin experts, economists, execs (CFO, COO, CMO, etc)

Part 4: MtGox becomes Gox

To avoid a bank run from customers, the daily amount of bitcoin and cash withdrawals will be limited.

With the profit, a meticulous analysis will be made over the coming years to clean the bitcoin balance sheet while running the exchange and generating revenue to pay back stakeholders.

New offerings such as additional currencies, low trading fees, etc will give customers a reason to stay with MtGox.

The new branding is already complete, and new services such as the Bitpocket wallet are already developed and ready for deployment.

With a new image, team, and offering we believe that it will be a challenge, but is not impossible. The risks of not acting are incredibly large and unpredictable.