

# Bloomberg

## The Final Days of the Bitcoin Foundation?

**With support dwindling, funds almost depleted, and ex-board members under criminal investigation, bitcoin's pioneering advocacy group is a symbol for the digital currency's growing pains.**

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Bruce Fenton, executive director at the Bitcoin Foundation, opened its Dec. 15 board meeting with a sense of urgency: "We need additional funds if we wish to retain employees." The numbers didn't look good. In two years, the foundation had seen at least \$7 million evaporate. As of Nov. 30, its total assets stood at \$12,553.06.

To sustain the Bitcoin Foundation's operations, which have included lobbying, putting on conferences, and providing technical support for the digital currency, Fenton urged the group to find ways to raise money quickly. They considered cold-calling ex-members, and Fenton said he's working on marketing materials for prospective donors to explain the organization's purpose. "There is no material saying what the foundation does," he said.

Eventually, Jim Harper, a board member and senior fellow at Cato Institute, a think tank, interjected. He questioned whether the foundation was offering its members enough value to warrant its existence, according to minutes released on Dec. 21 from the meeting. "Asking for money is just throwing money away," Harper said. Olivier Janssens, another director, suggested that the organization may not be "fixable."

The Bitcoin Foundation has become a symbol of the challenges facing the digital asset it was designed to steward. While advocates have promoted bitcoin as a global, decentralized currency for the Internet age, it's proved to be more volatile than many penny stocks. Its role in money laundering and other illegal activity is a constant source of questions, and the price fluctuates with each regulatory clampdown or criminal investigation. In November 2013, it reached a high of \$1,137 before falling to \$183 in January 2015 following a slew of problems, including the collapse of Mt. Gox, once the world's largest bitcoin exchange.

Beyond financial trouble, two former Bitcoin Foundation board members have been charged with crimes. Mark Karpelès, former chief executive officer of Mt. Gox, was arrested in Tokyo and charged with embezzlement in September. Charlie Shrem, former vice chairman of the Bitcoin Foundation, resigned before pleading guilty to helping launder money for

transactions through the illicit online marketplace Silk Road. He's currently serving two years in a federal prison.

Several people still involved with the Bitcoin Foundation said the wounds may never heal. "I don't know if the foundation has a future," Gavin Andresen, a former board member who now holds the title of chief scientist, wrote in an e-mail. "It is very difficult to regain trust once trust has been lost, and the illegal behavior of two of the foundation's former board members destroyed a lot of trust."

When the Bitcoin Foundation was formed in 2012, the group was intended to give legitimacy to a relatively unknown technology. By the end of that year, bitcoin traded at about \$13. The organization grew almost in lockstep with the popularity of bitcoin. Comprising pioneering coders and entrepreneurs behind the digital currency, the Bitcoin Foundation would soon become a familiar face in Washington, spreading the gospel of bitcoin around the world.

U.S. lawmakers and congressional committees appreciated having a central figure to represent bitcoin, but foundation members have sometimes become punching bags for politicians. At an event in 2013 attended by Andresen, who was appointed to lead bitcoin development by the anonymous creator, Satoshi Nakamoto, a Justice Department prosecutor compared bitcoin with child pornography, according to a report in the *Washington Post*.

Techies bought into the promises of bitcoin and were eager to donate to further its cause. At the end of 2013, the Bitcoin Foundation reported \$7 million in assets, according to meeting minutes. As demand for bitcoins rose, so did the value of the foundation's funds, much of which were held in the digital currency. In 2014, its ambitions began expanding with the addition of a lobbying operation in Europe.

Then things changed. By mid-2014, funds were down to \$4.6 million, and the burst of the bitcoin bubble that year took a toll on the foundation almost immediately. "I hired lobbying in Brussels in 2014, and then we scaled it right back because the money was gone," Harper said in an interview after the contentious Dec. 15 board meeting. According to the minutes from that meeting, the organization has cut its budget by 95 percent from previous years. Its conference business now faces stiff competition from other events, such as Inside Bitcoins and Money20/20.

About a year ago, when bitcoin's price had fallen to about \$374, the foundation said it would discontinue public policy efforts and concentrate on providing technical development to bitcoin. The reason was simple: It didn't have the money to do both. "It thrived while the bitcoin price was rising, so it never put a plan in place to sustain it," Harper said. "When the price dropped, the foundation ran out of money. The last year has just been cutting costs, shrinking budgets, bringing things under control."

The pressure revealed the foundation's underlying weaknesses. Supporters were inexperienced at raising money, and until recently, few paid attention to expenses, Harper said. "They were spending thousands of dollars per month on Web services that would have cost a couple hundred," he said. Bobby Lee, a Bitcoin Foundation board member, acknowledged "budget and leadership problems in the past" and referred questions about expenses to Fenton, who said he's

made the organization more transparent since he joined in April. “There were a lot of bad decisions and a lot of lost money,” Fenton said. “It’s really a very different organization. It’s a new organization, other than the name.”

Bitcoin has weathered hard times better than the foundation has. The price is back up to \$426. Venture capital firms have invested more than \$1 billion in bitcoin-related startups, according to research from CoinDesk. Finance and tech companies, including IBM, Overstock, Nasdaq, and the biggest banks, are experimenting with the technology for use in everything from money transfers and contracts to issuing stock. Coin Center, a year-old organization with backers such as BitPay, has staff in Washington developing bitcoin policy. There’s also the Digital Chamber of Commerce, a trade association. Those two organizations recently formed the Blockchain Alliance to help law enforcement investigate criminal activity involving bitcoin’s underlying technology.

Roger Ver, whose evangelism for the digital currency earned him the name Bitcoin Jesus, provided the Bitcoin Foundation with funds early on. An ex-convict who had been sentenced to 10 months in federal prison after selling about 14 pounds of explosives without a license on eBay, Ver said the foundation’s demise, if it were to happen, wouldn’t affect bitcoin. “There are lots of different bitcoin foundations, so the name may change, but the mission will carry on,” he said. “I don’t think it matters at all if the Bitcoin Foundation were to close. The Bitcoin Foundation laid the groundwork for the ecosystem that we have today.”

But Lee is determined to resuscitate his organization. “Despite the recent negativity about the Bitcoin Foundation, there are still many people who believe in the need for a global non-profit platform that advocates for bitcoin,” Lee wrote in an e-mail. “The past 18 months were tough for bitcoin and its entire ecosystem; I did not give up on bitcoin then, and I will not give up on Bitcoin Foundation today.”

At the December board meeting, Lee suggested that dissenters should resign. “If someone does not want to be on that ship, they should step off the board,” Lee said. After much debate, Janssens and Harper elected to dissolve the organization, but they were outvoted by Lee and the two other directors.

By the end of the meeting, Harper agreed to step down, and Janssens was removed from the board. “None of this is personal,” said Chairman Brock Pierce. The two ousted men were dismissed. “Don’t thank me,” Janssens said. “I was removed for a bulls--- reason.”

On Dec. 22, the Bitcoin Foundation said it appointed three new board members. The foundation is also considering a revised mission statement, with a focus on technical development, advocacy, and regulatory efforts. Finally, the board “voted to continue the existence of the foundation” and established an optional board seat for bitcoin’s mysterious creator, “if and when Satoshi ever reveals him or herself.”