



Bitcoin Shop Inc.

OTCQB: BTCS

March 23, 2015
Target Price: \$0.59
Recent Price: \$0.23

Market Data

Fiscal Year	December 31
Industry	Bitcoin
Market Cap	\$35.8M
Price/Earnings (ttm)	N/A
Price/Book (mrq)	41.6x
Price/Sales (ttm)	N/A
Insider Ownership	63.1%
Shares Outstanding	155.6M
Float	57.3M
Avg. Daily Vol. (3 mos.)	1,627,710

As of March 20, 2015

Income Snapshot

	TTM
Revenue	\$0.0M
Net Loss	(\$6.8M)

Balance Sheet Snapshot

	MRQ
Cash*	\$0.6M
Debt*	\$0.07M

*Includes proceeds from January financing

Company Website

<http://www.bitcoinshop.us/>

Company Overview

BTCS plans to build a universal digital currency platform with the goal of enabling users to engage in the digital currency ecosystem through one point of access. BTCS currently operates its transaction verification services business, or digital currency mining, which entails running specialized servers which solve a set of prescribed calculations to add a block of verified information to the blockchain and thereby confirm bitcoin transactions, and its public beta site (<http://www.btcs.com/>) where consumers can purchase products using digital currency such as bitcoin, litecoin and dogecoin, by searching through a selection of over 250,000 items. BTCS provide its customers competitive pricing options from 256 retailers through its "Intelligent Shopping Engine." All ecommerce customer orders are fulfilled by third-party vendors. BTCS plans to use its ecommerce platform as a customer on-ramp for a broader digital currency platform. BTCS has been actively partnering with strategic digital currency companies who have technologies, services, or products that are complementary to its business strategy by making investments in them and integrating with them.

Value Proposition

Given BTCS's strong long-term potential and universal ecosystem business model, we are opting to value BTCS at a 10% premium to Vogogo, giving a valuation of a \$92.3 million market cap. This derives a target price of \$0.59, representing current upside of 157%.

Investment Highlights

- BTCS is attempting to create a universal digital currency platform with one point of access; majority of digital currency competitors focus on one product inside the ecosystem
- Revenue currently generated through transaction verification services business, or digital currency mining
- Declining bitcoin prices and increased cost of transaction verification services driving companies out of the transaction verification services business; leads to opportunity for BTCS
- BTCS owns two bitcoin ATMs; plan to grow this business in conjunction with its partner Coin Outlet (BTCS is the lead investor in Coin Outlet)
- BTCS's beta ecommerce business offers an "Intelligent Shopping Engine" to find consumers competitive prices on products from over 250 retailers
- Wallet solution necessary for bitcoin adoption; security breaches have hindered adoption to date
- Various strategic investments provides the Company with multiple shots on goal
- Management has taken actions that align its interests with shareholders and show confidence in the future of BTCS

Investment Highlights

BTCS is attempting to create a universal digital currency platform with one point of access; majority of digital currency competitors focus on one product inside the ecosystem. BTCS's business strategy, in a nutshell, is to create its own digital currency platform which allows consumers to access bitcoin through one point of access, as opposed to the vast majority of current bitcoin technology, which are single solution providers. Allowing an individual to access the bitcoin ecosystem through one access point would help make bitcoin more widely adopted, particularly among individuals that are less technologically savvy.

BTCS has developed a series of strategic partnerships and investments to develop this ecosystem:

Wallet: Syndicate investor in Gem, which is developing a secure, cloud wallet storage technology

ATM: Lead investor in the seed round in Coin Outlet, a digital currency ATM manufacturer

Financial services: Lead investor in the bridge round in Expresscoin, a digital currency exchange with multiple payment options

Payment processor: Lead investor in the Series A financing for GoCoin, a leading international digital currency payment platform

BTCS has also made its own investments in transaction verification services and ecommerce. Transaction verification services and ecommerce both represent near-term revenue streams for BTCS, and the Company's ecommerce platform represents a potential onramp for the rest of BTCS's proposed ecosystem. If fully built out, the ecosystem could serve as something akin to a bank, with the ability to easily obtain digital currency, either online or through ATMs, and providing security through a secure wallet storage technology.

Revenue currently generated through transaction verification services business, or digital currency mining. BTCS is currently generating revenue through its transaction verification services business. The Company recently obtained an 83,000 square foot facility in which to expand its transaction verification operations. BTCS also purchased additional servers from Spondoolies Tech Ltd., which has brought its total hash rate to 891 TH/s. The hash rate is the measuring unit of the processing power of the bitcoin network, and 1 TH is equivalent to 1,000,000,000,000 hashes per second. With minimal improvements, the Company's new facility is expected to be able to house up to 40,000 TH/s of transaction verification hardware. BTCS believes that its current capabilities give it the ability to earn at least 350 bitcoins in 1Q15, or \$77,000 at today's bitcoin to dollar exchange rate. BTCS plans to expand its capacity beyond 10,000 TH/s and 10 megawatts, indicating that revenue from its transaction verification services business should increase significantly in the coming months.

Declining bitcoin prices and increased cost of transaction verification services driving companies out of the transaction verification services business; leads to opportunity for BTCS. As the below graph from BTCS (and using data from CoinDesk.com) shows, bitcoin prices have been declining over time while the difficulty of mining bitcoins have been increasing at a rapid rate.



This combination of declining bitcoin prices and increasing bitcoin difficulty have driven many miners out of the market. The network hash rate doubled every 1.87 month in 2014, eventually leading to miners being driven out of the market due to excessive costs. This has left only a few major players in the marketplace, including Spondoolies-Tech (who BTCS is working with), BitFury, KnCMiner AB, and Bitmain. Given that many miners have left the market, specialized services have become available at competitive prices, and difficulty is beginning to stagnate. At the end of the chart, you can see the difficulty of mining bitcoins beginning to stagnate, and on December 3, 2014, coindesk.com reported that mining difficulty declined for the first time in two years, dropping 0.62%.

BTCS owns two bitcoin ATMs; plan to grow this business in conjunction with its partner Coin Outlet (BTCS is the lead investor in Coin Outlet). BTCS currently owns two BitXatms, which it plans to deploy and have operated by its partner Coin Outlet. BTCS is the lead investor in Coin Outlet and has the option to own up to 11.4% of Coin Outlet at a \$6 million dollar valuation. Coin Outlet currently has 10 digital currency ATMs (9 in the U.S., 1 in Europe) in service and plans to expand to over 150 ATMs in 2015, which are to be located in high profile locations.

In our view, the value of an ATM network will become clearer over time, as the actual network of Bitcoin ATMs increases. If Bitcoin ATMs become a more common occurrence throughout the world, it could encourage more people to use bitcoin or other digital currencies, making the entire bitcoin network/ecosystem more valuable.

BTCS's beta ecommerce business offers an "Intelligent Shopping Engine" to find consumers competitive prices on products from over 250 retailers. BTCS is in the process of redeveloping and unveiling its ecommerce site, which is currently in beta. The Company's site, <http://shop.btcs.com>, currently has over 250,000 products (looking to eventually expand into millions of products). The two most key features of this site are its acceptance of multiple different digital currencies and its "Intelligent Shopping Engine," which compares prices among 250 different retailers.

The online retail market is highly competitive, but the marketplace is enormous. Forrester Research projects the U.S. online retail market at \$279 billion in 2015. Ecommerce represented 6% of total U.S. retail sales in 2012, which indicates how much more potential growth is available in ecommerce not just in the U.S., but throughout the world.

We believe that the greatest value for BTCS lies in its ability to use its ecommerce site to introduce people to making transactions with bitcoin. For example, using bitcoin through its ecommerce site could lead to users than making deposits/withdrawals through bitcoin ATMs, thus making everything more valuable as a whole. BTCS will also begin accepting traditional payments through credit/debit cards soon, with the goal of eventually transitioning regular monetary users over to digital currencies.

Wallet solution necessary for bitcoin adoption; security breaches have hindered adoption to date. BTCS has partnered with Gem to make its own white-label wallet solution. Gem estimates that 9% of bitcoins have been stolen or lost. There have been multiple high-profile hacks, including Mt. Gox, which lost approximately \$460 million worth of bitcoins. This has underscored the need for users of digital currencies to have a safe place for storage, without fear of becoming hacked. BTCS's storage solution is built on top of Gem's technology, using multi-signature technology, combining three keys, two of which need to be activated to access the wallet. On top of this, the Company's solution offers 2-factor authentication for additional security. BTCS holds one key, ensuring the user is always in control of the funds, and then there are two other keys (a primary key and an offline backup key). There are also two layers of 2-factor authentication on top of this, providing additional security. Multi-signature technology has become increasingly more prevalent: 0.02% of bitcoins were secured with multi-signature technology in January 2014; by the end of 2014, this had risen to over 5% of bitcoins.

The volume of Bitcoin wallets has been growing rapidly, with approximately 12 million bitcoin wallets forecasted by 2015, according to the "State of Bitcoin 2015" report that was recently released by CoinDesk.

Various strategic investments provides the Company with multiple shots on goal. While BTCS builds its ecosystem through its own internal staff, we believe there is additional value in the early investment rounds in other firms that it has participated in. Below are the ownership stakes that BTCS has accumulated:

GoCoin - a checkout solution (payment processor) designed to accommodate digital currencies. BTCS invested \$150,000 as the lead investor in March 2014.

Gem – a platform that provides simple and secure management of digital currency wallets using multi-signature technology. BTCS invested \$50,000 in May 2014.

ExpressCoin – a financial technology platform focused on helping people get access to digital currency. BTCS invested \$150,000 in July 2014.

Coin Outlet – manufactures Bitcoin Kiosks (ATMs) with two-way transaction via a recycler and secure fulfillment services with bank grade security. BTCS invested \$50,000 in October 2014, \$100,000 in January 2015, and the Company has an option to invest another \$100,000 by December 31, 2015. BTCS also received the option to exchange 3.5 million BTCS shares for 75,448 shares from Eric Grill, Coin Outlet’s founder. These investments give BTCS the ability to own up to 11.4% of Coin Outlet’s equity.

If any one of these companies begins to grow rapidly, BTCS’s equity stake will grow along with it, potentially providing substantial value to investors. We also note that the financings that BTCS participated in for Gem, ExpressCoin, and Coin Outlet were seed financing rounds. While these are the earliest and typically most risky financings, the potential exists to achieve a significant return on a relatively small amount of investment.

Management has taken actions that align its interests with shareholders and show confidence in the future of BTCS. Management has taken a number of actions recently that, in our view, demonstrate their confidence in BTCS. On October 14, 2014, BTCS announced that certain officers, directors, and large shareholders agreed to lockup 71,254,575 shares of common stock until February 5, 2017. This represents approximately 45.8% of currently outstanding shares. On October 22, 2014, management redeemed 12.75 million shares. On November 10, 2014, management announced that all of management’s 6.2 million outstanding options were cancelled and were replaced by performance based options. In 2015, an aggregate 3.75 million options vest if 2015 EBITDA is at least \$500,000 and EBITDA per share is at least \$0.003. Additionally, 850,000 options will vest upon the completion of milestones completed by 12/31/2015. In 2016, 5.35 million options vest if 2016 EBITDA is at least \$3 million and EBITDA per share is at least \$0.014. 1 million options will vest if the Company is listed on the NASDAQ or NYSE by 12/31/2016. 1 million options will vest if 2016 revenue for Bitcoinshop.us LLC is at least \$1 million. On January 21, 2015, BTCS announced that management led a financing for \$498,000. Management and family of management comprised 66% of total funding.

These actions indicate that management is prepared to build BTCS over the long-term, and is committed to building a profitable enterprise in the fast growing bitcoin space.

Management led financing of \$498,000 should provide capital to expand business. Management recently closed a \$498,000 financing (\$433,000 in equity, and \$65,000 in a convertible promissory note bearing annual interest at 2%). \$100,000 of this capital was invested into bitcoin ATM provider Coin Outlet.

We believe the Company will use the remaining capital to invest in other company business lines. In particular, investments in the Company’s transaction verification services business can offer cash flow and short payback periods that can ultimately give BTCS more capital to use.

Venture capital investment in bitcoin related businesses increasing rapidly. Investment in bitcoin businesses from early stage venture capital investors has been growing rapidly. According to CoinDesk, 2014 investment in bitcoin was \$335 million, a 342% increase over 2013 investments of \$96 million. 4Q14 was the largest quarter of bitcoin investing to date, coming in at \$130 million, and represented a 103% increase on the \$64 million raised in 3Q14.

Comparisons have been made between bitcoin and early Internet investing. Internet startup investing totaled \$250 million in 1995, and ended up being the precursor to many large and valuable companies in the years to come. Bitcoin investing exceeded this total in

2014, and 83% of respondents of CoinDesk’s Bitcoin Thought Leader annual survey expected bitcoin investments in 2015 to exceed 2014’s totals.

The largest VC investments to date are in the table below:

Company	Type	Round Size	Cumulative Funding	Date of Round
21 Inc.	Transaction Verification	\$116.0 million	\$121.05 million	3/10/2015
KnCMiner	Transaction Verification	\$15.0 million	\$29.0 million	2/3/2015
Coinbase	Universal	\$75.0 million	\$106.0 million	1/20/2015
Blockstream	Infrastructure	\$21.0 million	\$21.0 million	11/17/2014
Bitnet	Payment Processor	\$14.5 million	\$14.5 million	10/20/2014
BitFury	Transaction Verification	\$20.0 million	\$40.0 million	10/9/2014
Blockchain	Wallet	\$30.5 million	\$30.5 million	10/7/2014
Xapo	Wallet	\$20.0 million	\$40.0 million	7/8/2014
BitPay	Payment Processor	\$30.0 million	\$32.51 million	5/13/2014
Circle Internet Financial	Universal	\$17.0 million	\$26.0 million	3/26/2014

We note that the largest investments have gone toward universal solutions, mining, and wallets, three areas that BTCS is involved in.

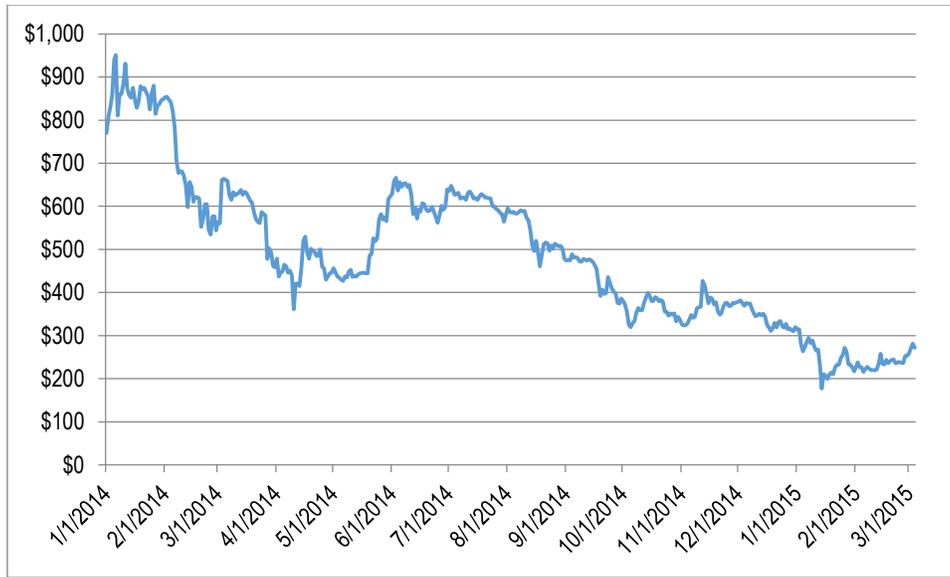
Larger merchants beginning to accept Bitcoin, although overall adoption is still somewhat limited. According to Capital IQ and provided by BTCS, some large companies are now beginning to accept bitcoin, including Microsoft, Dell, and DISH. The top 10 list of companies, ranked by revenue, is listed in the table below:

Notable Companies Accepting Bitcoin	Revenue (billions)
Microsoft	\$92
Dell	\$57
DISH	\$14
Time Inc.	\$3.5
Systemax Inc. (Tiger Direct)	\$3.4
Overstock	\$1.4
1-800-FLOWERS	\$0.8
Zynga	\$0.7
Digital River	\$0.4
Total	\$173.2

Source: Capital IQ, as of 12/16/2014

Larger companies such as Microsoft, Dell, and DISH accepting bitcoin underscores the rising trend of bitcoin being accepted in mainstream commerce. At the same time, however, the number of merchants accepting bitcoin and other digital currencies only represents a tiny portion of enterprises. We believe that this provides an opportunity for BTCS’s e-commerce platform, as there is still a significant amount of vendors that do not accept digital currencies, leaving consumers with a relatively small amount of places to use digital currencies.

Bitcoin prices declined throughout 2014; however, enthusiasm in bitcoin and digital currency based businesses is at an all-time high. As the chart below indicates, Bitcoin prices have declined significantly from 2014 onwards:



However, bitcoin investment is at an all-time high, underscoring the long-term potential of the technology. The declining price of bitcoin also allowed BTCS to enter into the bitcoin transaction verification services industry at a favorable entry point. We believe that bitcoin price volatility has little impact on investments and growth of bitcoin-related businesses.

Blockchain technologies are being developed; early indications are that blockchain technologies can lower fees associated with financial transactions while completing payments instantaneously. The blockchain is a public ledger of all bitcoin transactions that have ever been executed. They are entered in chronological order and can never be deleted, giving the blockchain robust potential with regards to record keeping. Recently, a growing consensus has been emerging of the potential disruptiveness of the blockchain with regards to direct consumer-to-consumer payment transactions. This has the potential to either eliminate or greatly reduce fee transactions along with accelerating transaction completion. Initially, this development is projected to reduce the roles of companies such as Visa, Mastercard, and banks that act as financial intermediaries. This technology is expected to benefit merchants, as payment is received faster and fees are lowered or eliminated. We believe that if the technology is developed effectively, winners will be companies within the bitcoin ecosystem (wallets, payment processors, digital currency accepting stores), along with other companies such as PayPal and other digital payment solutions.

Many bitcoin developers have begun using blockchain technologies to create projects that are mostly unassociated with digital currencies. The backbone of this is the blockchain's decentralized nature, which gives the potential for huge and secure networks without a single point of failure. This gives the possibility of the blockchain eventually being used to replace any number of centralized networks where improvements can be made. While much of the blockchain's potential is very exciting, technologies built around it are in very early stages, and any monetization from these technologies is likely at least a few years away.

Bitcoin APIs continue to improve; will increase acceleration of digital currency and blockchain technology development and adoption. As various Bitcoin APIs continue to be further developed and improved upon, it will make it easier for companies to make and improve upon digital currency and blockchain technologies. Additionally, it should speed adoption by other businesses as they find bitcoin technologies easier to integrate into their own operations and applications.

Valuation

Due to the early stage of bitcoin, valuations are still very difficult to determine, in particular due to a lack of revenue and data on the number of users using a particular company's services and the fact that a large amount of bitcoin services are still in development stages. However, a number of trends have been emerging, with higher valuations being afforded to companies that offer a multifaceted bitcoin solution (trending toward a universal ecosystem) and companies that seek to bring bitcoin to the masses through either making digital currencies easier to use and understand or by building new technologies off of the blockchain. Coinbase Inc.,

recently raised \$75 million at a valuation that has been reported at being approximately \$400 million. Coinbase is best known for its bitcoin wallet and payment processing capabilities for merchants, and Coinbase has also recently added a U.S. based bitcoin exchange.

It is clear that VC firms are trending toward more universal platforms as being more valuable and having more potential than single-source solution providers. One of the issues that is still being worked on today is attempting to gain mass adoption of bitcoin. This will likely require a solution that makes it easy for people to use bitcoin while providing confidence in the security, protecting their digital currency from theft.

BTCS is in the early stages of developing this type of multi-faceted product. Its current solution proposes to combine easy-to-use and understand digital currency usage sources, like bitcoin ATMs and a digital currency e-commerce platform, while providing security with a multi-sig wallet. This solution, if built fully, we believe has the potential to command at least a multi-hundred million dollar valuation, particularly if digital currency adoption accelerates and industry valuations continue to increase. Even if this vision is not fully achieved, developing one or a few parts of its business, or if one of the strategic partners BTCS has invested in begins to show strong increases in valuation, could still result in a business that is valued multiple times larger than its current market cap today.

Given BTCS's strong long-term potential and universal ecosystem business model, we are opting to value BTCS at a 10% premium to Vogogo, giving a valuation of a \$92.3 million market cap. This derives a target price of \$0.59, representing current upside of 157%.

Company	Ticker	Type	Valuation/Market Cap
Vogogo Inc.	TSXV: VGO	Financial Services	\$83.9 million
Digital CC Ltd.	ASX: DCC	Transaction Verification	ASD\$20.3 million
Bitpay		Payment Processor	\$160 million
Coinbase		Universal	\$400 million

VGO and DCC data as of March 20, 2015 from ThomsonReuters

Bitpay valuation from Wall Street Journal article on 5/13/2014

Coinbase estimated valuation from Re/Code article on 11/14/2014

There is also further potential for development in different blockchain applications. Stealth Startup 21 Inc. just raised \$116 million in VC funding, and while business details are scarce, the funding appears to be used for transaction verification services and to develop consumer products that integrate with the blockchain. New development in this area could grow bitcoin industry valuations significantly and provide a host of new potential products that can be developed.

Risks

BTCS will likely need to raise additional capital to fund its business expansion. The funding will likely be through an equity raise, which would dilute BTCS shareholders. However, business expansion could more than offset the negative impact from dilution.

BTCS is highly reliant on strategic partners to help expand its business. Much of BTCS's success will be predicated on the development of its strategic partners, which include GoCoin, Gem, ExpressCoin, and Coin Outlet.

The Company is currently generating net losses, and there is no guarantee that BTCS will ever generate a profit. We expect losses to continue for the foreseeable future, as the Company develops its universal ecosystem. However, we believe that BTCS's transaction verification services business and e-commerce site will reduce cash burn.

The bitcoin space is rapidly evolving, and the Company may not be able to keep up with technological changes. As digital currency and blockchain technologies are further developed, BTCS will need to stay on top of technological advancements.

	FY13	1Q14	2Q14	3Q14	4Q14E	FY14E	1Q15E	2Q15E	3Q15E	4Q15E	FY15E
Revenues	29,328	11,374	4,912	1,520	7,500	25,306	78,500	117,750	235,500	588,750	1,020,500
Operating expenses:											
Marketing	8,206	17,897	45,569	26,241	26,241	115,938	26,241	26,241	26,241	26,241	104,964
General and administrative	2,089	1,546,821	2,626,581	2,458,086	2,500,000	9,131,488	2,500,000	2,500,000	2,550,000	2,601,000	10,151,000
Change in fair value of digital currencies	1,908	7,400	(3,651)	108,400	0	112,149	0	0	0	0	0
Total operating expenses	12,203	1,572,118	2,668,489	2,592,727	2,526,241	9,359,575	2,526,241	2,526,241	2,576,241	2,627,241	10,255,964
Loss from operations	17,125	(1,506,744)	(2,663,577)	(2,591,207)	(2,518,741)	(9,334,269)	(2,447,741)	(2,408,491)	(2,340,741)	(2,038,491)	(9,235,464)
Other income:											
Interest income	0	0	0	1,709	1,709	3,418	1,709	1,709	1,709	1,709	6,836
Fair value adjustments for warrant liabilities	0	109,000	95,957	0	0	204,957	0	0	0	0	0
Total other income	0	109,000	95,957	1,709	1,709	208,375	1,709	1,709	1,709	1,709	6,836
Net loss	17,125	(1,451,744)	(2,567,620)	(2,589,498)	(2,517,032)	(9,125,894)	(2,446,032)	(2,406,782)	(2,339,032)	(2,036,782)	(9,228,628)
Net loss per share, basic and diluted		(0.01)	(0.02)	(0.02)	(0.02)	(0.07)	(0.02)	(0.02)	(0.02)	(0.01)	(0.06)
Weighted average number of shares outstanding											
Basic and diluted		111,313,557	137,582,162	151,649,201	146,812,020	136,839,235	152,224,457	155,592,235	155,592,235	155,592,235	154,750,291

Additional Information

Auditor: Marcum LLP

Transfer Agent: Equity Stock Transfer LLC

[Company Website](#)

[Company Information](#)

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