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# EDITED TRANSCRIPT

Q3 2018 Overstock.com Inc Earnings Call

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## CORPORATE PARTICIPANTS

**Gregory J. Iverson** *Overstock.com, Inc. - CFO*

**John Paul Knab** *Overstock.com, Inc. - Chief Marketing Officer*

**Jonathan E. Johnson** *Overstock.com, Inc. - Director, President of Medici Ventures*

**Patrick M. Byrne** *Overstock.com, Inc. - Founder, CEO, President & Director*

**Saum Noursalehi** *Overstock.com, Inc. - Director, CEO tZERO*

**Seth A. Moore** *Overstock.com, Inc. - Chief Strategy Officer*

**Steven Hopkins** *Overstock.com, Inc. - COO and General Counsel of Medici Ventures*

## PRESENTATION

### Operator

Good day, ladies and gentlemen, and welcome to the Overstock.com Q3 2018 Earnings Conference Call. (Operator Instructions) And as a reminder, today's conference call is being recorded. I'd now like to turn the conference over to Greg Iverson, Chief Financial Officer. Please go ahead.

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### Gregory J. Iverson *Overstock.com, Inc. - CFO*

Thank you, operator. Good afternoon, and welcome to our third quarter 2018 earnings conference call. Joining me today are Dr. Patrick Byrne, Founder, CEO and President; Saum Noursalehi, CEO of tZERO; Jonathan Johnson, President of Medici Ventures; Steve Hopkins, Chief Operating Officer and General Counsel of Medici Ventures; Seth Moore, Chief Strategy Officer; JP Knab, Chief Marketing Officer; and Chris Donnelly, Chief of Staff to the President.

Let me remind you that the following discussions and the responses to your questions reflect management's view as of today, November 8, 2018, and may include forward-looking statements. Actual results may differ materially. Additional information about factors that could potentially impact our financial results is included in our Form 10-K for 2017, subsequent SEC filings and the press release filed today. Please review the safe harbor statement on Slide 2 of today's presentation.

During this call, we will discuss certain non-GAAP financial measures. The slides accompanying this webcast and our filings with the SEC each posted on our Investor Relations websites and additional disclosures regarding these non-GAAP measures, including reconciliations of these measures to the most comparable GAAP measures.

With that, I'll turn the call over to Patrick.

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### Patrick M. Byrne *Overstock.com, Inc. - Founder, CEO, President & Director*

Thank you very much, Greg. We are on Slide 3. We have an agenda we'll be walking through, covering tZERO where the main event is we are building our lead, I think, dramatically. Good discussion of other Medici Ventures coming. We've had a lot of interested people asking us to explain this collection of assets and why and such. And then retail, where you will see that the ship has turned rather well as quickly as a \$2 billion company can fit it to a different strategy and then Q&A.

So Slide 4, why don't I turn over to Saum?

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### Saum Noursalehi *Overstock.com, Inc. - Director, CEO tZERO*

Thank you, Patrick. On the agenda, we have 4 key areas we'd like to discuss for tZERO: an update on our product road map, human capital, what's coming next, and an update on our strategic investment.

You go to the next slide. This is the security token ecosystem we're building. It is our belief that most securities are going to be converted to digital representations, as tokens through blockchain and smart contract technology. These assets can be equities, bonds, debt, real estate or even art. Our primary focus is on building this security token ecosystem to support this new world, beginning with equities.

This requires building a 2-sided network that matches supply, which you see on the left, which are companies trying to raise capital through token offerings, with demand, on the right, which are investors looking to trade these assets through the ATS or exchange using our trading platform.



Next slide. To scale the number of security tokens that we want available for investors, we plan to integrate third-party issuance platforms in addition to our own solution. Examples of these third-party platforms include Polymath and Securitize.

And if you go to the next slide, this shows how we really scale the investor side. We plan to increase liquidity by licensing our technology to other trading platforms or broker dealers. Our SpeedRoute acquisition allows us to quickly ramp this up since it has relationships with over 140 broker dealers. So ultimately, we believe we win by owning this ecosystem and this network.

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**Patrick M. Byrne** *Overstock.com, Inc. - Founder, CEO, President & Director*

Saum, do you mind if Seth and I put a comment on this.

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**Saum Noursalehi** *Overstock.com, Inc. - Director, CEO tZERO*

Sure.

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**Patrick M. Byrne** *Overstock.com, Inc. - Founder, CEO, President & Director*

Go ahead, Seth.

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**Seth A. Moore** *Overstock.com, Inc. - Chief Strategy Officer*

Yes. I think the real key here is, in any 2-sided network, the key is not to own every component of the network. It's to own the core of the network. If you think in terms of like an auctions platform, the person with the most sellers and the best products being sold also gets the most bidders, which creates the most efficient auction, and it becomes a virtuous cycle. We believe the same is true here, and so we don't want to own all of the issuance world or all of the brokerage world. We want to go to investors and issuers where they are and where they want to operate and extend those businesses simply as a means of fulfilling them, adopting the network and improving that 2-sided network effect.

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**Patrick M. Byrne** *Overstock.com, Inc. - Founder, CEO, President & Director*

That is why this is looked in sort of \$100 trillion opportunity that there are now or bigger, and there are now 5 companies in the world really chasing, at least one of them has a closed circuit system in mind. We're committed to interoperability. There's a standard coming out or maybe has come out called [Milgard], was just negotiated down in New Zealand, where a bunch of folks got together from around the world and then bunch of us in this space, so we've all agreed to make it interoperable. And to Seth and Saum's point, yes, we have such a good position in this ecosystem, we want to make it interoperable with other people's issuance platforms, like friends down in New Zealand and Polymath up in Canada, et cetera.

Go ahead, Saum.

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**Saum Noursalehi** *Overstock.com, Inc. - Director, CEO tZERO*

Okay. What slide? Next slide, which is Slide 5?

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**Seth A. Moore** *Overstock.com, Inc. - Chief Strategy Officer*

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**Patrick M. Byrne** *Overstock.com, Inc. - Founder, CEO, President & Director*

No, I think you're on Slide 8 now.

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**Saum Noursalehi** *Overstock.com, Inc. - Director, CEO tZERO*

Sorry, Slide 8. An update on our security token. We completed the issuance of our token generation for the tZERO preferred token, and this went live on the public Ethereum MainNet. This represents one of the first security tokens completed in full compliance with regulatory laws -- securities laws.

On the second point, in addition to that, on October 30, we open-sourced our token contract code to the world. What this means is we released this to the community, and developers can now take this code, modify it and contribute to it. So we think this is going to



increase the exposure of our token standard and make improvements to this technology more of a global effort.

Points 3, 4 and 5 are the next steps. So we plan to designate a broker dealer, have qualified, accredited investors set up their brokerage account, and then allow them to trade their tokens, which is now targeting an early Q1 launch. Of course, that's contingent on us wrapping up the tech, which we feel good about, and obtaining regulatory approvals.

Next slide, the product road map. So we showed this last time. This is our updated product road map. I just want to highlight 2 bars here that are circled with blue dashes. The first highlight that we completed issuance, as I said, ahead of schedule -- over a month ahead of schedule. The second bar under the security token ATS and exchange shows the timeline for when secondary trading goes live for our token. Under the solution we settled on, we believe we'll reduce the regulatory risk. This will make trading for accredited, international investors 67 days later than we had planned. So that got pushed by 67 days for Reg S or international investors. But we'll be 208 days shorter than we had planned for accredited U.S. investors or Reg D investors.

I'd also point out that the U.S. made up approximately 90% of our investors, so this is good news for those wanting liquidity much sooner. In addition, the second half of 2019, we plan to expand trading of our tokens to nonaccredited investors, both in the U.S. and internationally.

That's the high-level product road map. On the next slide...

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**Patrick M. Byrne** *Overstock.com, Inc. - Founder, CEO, President & Director*

Saum, hang on a second.

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**Saum Noursalehi** *Overstock.com, Inc. - Director, CEO tZERO*

Want to make a comment on that?

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**Patrick M. Byrne** *Overstock.com, Inc. - Founder, CEO, President & Director*

Yes, hang on a second. Go ahead, Seth.

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**Seth A. Moore** *Overstock.com, Inc. - Chief Strategy Officer*

So we are really excited about the progress we made with the token standard and also the open sourcing of the token that we use for our tZERO offering. We think it's going to be widely adopted, and when you open source these technologies, we'll get a lot more scale and a lot more enhancement built into the product. And we think it's going to really revolutionize and offers a step-up on the way other token standards to date have operated. We think the open source community enhancing and advancing that technology will accelerate it far faster than we would in a proprietary network. We think, ultimately, that helps build the 2-sided network we've been talking about within our platform.

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**Patrick M. Byrne** *Overstock.com, Inc. - Founder, CEO, President & Director*

And I'll add to that, on Slide 9 here, what I see when I look at this or the previous Slide 7 really is I'm reminded of Bob Greifeld, and I've quoted this once before. But the retired Head of NASDAQ, yes, said a year ago something like, "100% of the stocks and bonds being issued on Wall Street today could be tokenized, and in 5 years, 100% will be tokenized." What that means -- this is Patrick speaking again -- is that the architecture of Wall street, as we know it will be deprecated, if Greifeld is correct, over the next 5 years. We have built, or we are building the replacement, and we're being very open. Saum wants to be very open about our product road map. These are the different components. What you're seeing there is the replacement. If Greifeld is correct and what exists today deprecates over 5 years, what you see here is the product road map and the replacement.

Okay. So with that, let's go ahead, Saum. You're on Slide 10.

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**Saum Noursalehi** *Overstock.com, Inc. - Director, CEO tZERO*

Slide 10, DLR is the last product I wanted to touch on. Our blockchain-based DLR technology matches securities lenders with securities borrowers as it allows inventory providers to set offer prices for their long inventory, and borrowers to bid for this inventory. This product



is still in beta testing. We have a stock loan commission sharing agreement between StockCross and our broker dealer, SpeedRoute. And as such, SpeedRoute revenues from stock loan have grown 5 to 6x since the beginning of this year, so nice progress on revenue growth with this platform. We're also currently ramping up the resources to scale this business and move it out of beta for wider adoption.

Any commentary here, Seth or Patrick?

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**Seth A. Moore** *Overstock.com, Inc. - Chief Strategy Officer*

No, that's great.

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**Saum Noursalehi** *Overstock.com, Inc. - Director, CEO tZERO*

Okay. Next slide, human capital. Last quarter, I said to accelerate the product development I wanted to double the size of our product team, and I'm happy to report that we've done that. So we're moving full steam ahead. In addition, we hired a CTO from the Retail business, Amit Goyal, to lead this product effort. He's a capable technologist that I've worked with for over 10 years, a really strong business leader, and we're excited to have him.

We're also excited to have hired Alan Konevsky to join as Chief Legal Officer. Alan's background is that he's Harvard educated, served as SVP of Strategic Initiatives for MasterCard, previously was a Managing Director at Goldman Sachs and served as Special Counsel at Sullivan & Cromwell. So we think pushing the regulatory front forward with a heavy hitter like Alan is going to really help us as a team.

And then lastly, we're recruiting for a seasoned Capital Market President to complement my skill set and really help take tZERO to the next level.

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**Patrick M. Byrne** *Overstock.com, Inc. - Founder, CEO, President & Director*

Let me echo that, I mean, I've looked at some of the people Saum is recruiting, including for President. We're just getting unbelievable MD-level candidates from the finest blue-chip names on Wall street are applying for these positions. We're getting a really good flow of human capital or applications of very senior people. So -- anyway, that's been a beautiful step-up. In terms of the product development team, there's a lot more. What's in New York is -- for tZERO is the tip of the iceberg. There's really quite a very significant effort in Utah now, the 60 developers or something, backing up all the technology and everything else here in New York. So it's really turned into a very substantial real company. Go ahead, Saum.

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**Saum Noursalehi** *Overstock.com, Inc. - Director, CEO tZERO*

Okay. Next slide, so what's next after we launch this platform, which comes live early next year? First, we'll quickly onboard issuers, and we have a nice pipeline of issuers that we're working with, and begin supporting other issuance platforms as I mentioned earlier. We're going to attract investors and use our skills in digital marketing to bring investors to trade leveraging -- using our app development experience as well as license our token trading platform. We'll also launch security token trading on our national exchange through our BOX JV, which we're currently aiming for mid-2019, of course, subject to all the regulatory stuff.

And then lastly, we'll partner with international exchanges for global expansion and we're already in talks with a couple of players in this space, so we're feeling really good about our expansion efforts.

And finally, we want to support other asset classes that I mentioned. We're starting with equities, but this could easily expand into bonds, debt, real estate and other securities.

Now I'm going to turn it over to Seth Moore. He's going to talk about the strategic investment.

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**Seth A. Moore** *Overstock.com, Inc. - Chief Strategy Officer*

Yes. In our Q2 call, we announced the new partnership with GSR Capital and our ambitions to scale tZERO globally with them. We share a common strategic outlook that Asia's recent strength in the ICO market will likely evolve into perhaps the world's most attractive security token market. And in recent months, they've helped us a great deal to build connections with a number of strategically important firms in Asia that we believe will help us a great deal in filling out our issuer customer pipeline in Asia as well as our expansion

into additional blockchain assets. In our Form 10-Q and also in our last earnings call, we also discussed that they had signed a repurchase agreement to buy \$30 million in tZERO security tokens and would acquire a significant stake in tZERO and OSTK common stock subject to due diligence and definitive closing docs.

We've completed our legal diligence with them and are actively working with them on finalizing definitive documents and we look forward to completing that transaction as well as to the many strategic ambitions that we have in order to expand the business together with them as a partner.

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**Patrick M. Byrne** *Overstock.com, Inc. - Founder, CEO, President & Director*

Thank you. Thank you, Seth. Let's move on to Slide 14. We're going to Medici Ventures.

Actually, I'm going to just echo out on GSR for a second. We've gotten these email questions about what's real or not. I mean, these folks have hired -- what was their law firm?

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**Seth A. Moore** *Overstock.com, Inc. - Chief Strategy Officer*

Yes, yes.

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**Patrick M. Byrne** *Overstock.com, Inc. - Founder, CEO, President & Director*

Okay.

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**Seth A. Moore** *Overstock.com, Inc. - Chief Strategy Officer*

Yes, they -- we've gone through extensive legal diligence

and they've been fantastic. We recently just spent some time with them in Hong Kong, met a number of really great firms that we think we may end up partnering with. And so yes, they've been phenomenal and been, well, very useful sort so far not just from the capital work that we're finalizing with them but also in terms of the strategic value and importance that they're giving the deal and helping us develop the business.

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**Patrick M. Byrne** *Overstock.com, Inc. - Founder, CEO, President & Director*

Yes, they're very serious, and everybody's flying back and forth across the world to get this nailed down. We have until December 15, but I think it's going to be significantly sooner than that. When it gets done, it's done. But it looks like a terrific partner who can't sort of stop pushing us to get our piece done, so they can take it to Asia. So I feel very good about their intentions.

Let's move on to Slide 14 as Medici Ventures and Slide 15, the mission statement. Jonathan, why don't you read your mission statement?

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**Jonathan E. Johnson** *Overstock.com, Inc. - Director, President of Medici Ventures*

Sure. Medici is really set up to try to change the world by advancing blockchain technology by doing 3 things: democratize capital to allow everyone to participate in local, national and global markets; to eliminate middlemen, which add unnecessary time, difficulty and cost of transaction; and then to rehumanize commerce as people connect directly with each other through blockchain technology. To accomplish that mission, we've set up a blueprint of where we think we should be adding to the portfolio. And Patrick, I'll have -- if you go to the next slide, I'll have you discuss our blueprint, Patrick.

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**Patrick M. Byrne** *Overstock.com, Inc. - Founder, CEO, President & Director*

Okay. I've referred to this previously as our tech stack of civilization or something like that. I've been surprised to see questions come in, saying we don't understand these blockchain investments, and it just seems like a hodgepodge. So I'm going to walk through this clearly, carefully this time.

I view there is being the fundamental processes of this new age that I believe is coming to us. You got to start with identity and self-sovereign identity, which is a concept -- I'm not going to spend a bunch of time lecturing about each of these concepts, but if you want to understand Overstock, you need to understand blockchain and this is important stuff. Self-sovereign identity is the core layer,

and then on top of that or next to that, property and land governance because that's what generates capital. Then, you have to have a blockchain central bank because you need -- if you're going to have national money, blockchain central bank; then a blockchain capital Market, blockchain commerce and blockchain voting. Those to me -- if you staple those together, you get sort of the core functions that -- of which you could hang a functioning society. And so this was our mandate 4 years ago, my mandate to Jonathan to help me build in this framework.

So with that said, I turned that over to Jonathan and the last 2 years, go to Slide 17 to see what Jonathan has built out within each category.

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**Jonathan E. Johnson *Overstock.com, Inc. - Director, President of Medici Ventures***

So you can see we've built out this blueprint in each category. We now have 19 companies in the portfolio from the first, which we made a significant acquisition of in tZERO in 2014, to our most recent GrainChain, which is the supply chain section. You can see that we have at least 2 companies in each of the categories. There are synergies among these companies, both within and across the columns listed here. To date, we have put \$175 million of our shareholders' capital to work in a network of blockchain companies that we think is going to revolutionize each of these areas.

Next slide please. So you can see we've deployed \$175 million into blockchain, \$115 million of that has been put into tZERO. This slide lists our ownership percentages in and gives a brief description of each of the companies in the portfolio. I know many of our investors have asked to know what our ownership percentage is in each portfolio company. Here it is on this slide.

Next slide. Medici Land Governance is one of the portfolio companies we're really excited about. I'm going to turn it over to Patrick to talk about what's going on with Medici Land Governance.

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**Patrick M. Byrne *Overstock.com, Inc. - Founder, CEO, President & Director***

Sure. We have -- the opportunities in this -- the amount of capital that can be liberated is just enormous. This may be, in terms of actual dollars, this may be bigger than anything, bigger than tZERO. I think that all capital formation starts with land governance, and we've got to get that right. What's happened is the World Bank has stepped forward to be our partner. Still open to working with Hernando, we had trouble of sort of turning that MOU into paper, but in the meantime, the World Bank, it got very excited about what we were doing and we've become great partners with them. Actually, some terrific people there and very entrepreneurial and they say they've never seen anyone who can move as fast as we move, and we move at Internet speed.

We have a deal done with Zambia, and I'll probably be going over there in a month. We're turning over the first 50,000 titles. We're working on a much bigger deal there. Rwanda, we have now signed an MOU with the government for Rwanda. There are major, major countries and provinces of countries with 50 million, 100 million, 200 million people kind of places reaching out to us. I mean, at this point, there's only so much time we can spend on the road and spend in these exotic locales and setting up offices and -- but we have, last I heard, 60 people on the ground in Zambia going around with iPads. And I mean, not will-nilly really. There's a certain area -- and I forget the correct term for this area. There's now a correct term, but the word in Spanish would be (foreign language) or the word in Portuguese would be (foreign language). So informal housing but up next to a city and I can't think about a good word in English for it.

But we have a deal with the Zambian government, where our people -- I mean, they're local people with the white T-shirts on and such and iPads going to people's homes in such areas and knocking on the door and asking them for any registration documents they have and they walk the perimeter of the land with the iPad and record the coordinates and collect all this information. The incentive of the people is when they take part in it, they get government recognition of their land. And let's say, it's one little shanty for want of a not a small home on -- and on the edge of -- in one of these informal sectors. Now they're going to be paying like \$8 a year in tax, but they have titled that property that the government recognizes against which that might be worth \$1,000 and against which they can then borrow money and start a fruit stand and things like that. That's the vision.

In Medici Land Governance, we have a revenue model. I can tell you there's enormous sums, enormous sums sloshing around in this industry. The technology of getting land titled, I mean, when I hear what certain NGOs and people are expecting and the kinds of money that various groups are reaching out in order to do this with -- it's unbelievable. We can do it now far cheaper with the technology we



have created than it's ever been done before.

So we have this very disruptive model involving blockchain and so forth. We -- and mobile apps. There's going to be a lot of money in it. I can't -- there's questions in about what is the revenue model exactly. It doesn't matter at this point. It's -- what we have developed is so disruptive it's so much cheaper and better than the way it's done now. There's so much money sloshing around the world in the field of getting land governance built. It's a very disruptive company we have here.

So we are pursuing -- as I say, the World Bank is bringing us all over the world. We don't have enough people to keep up with all the places, but they are introducing us to governments and we have recently initiated our first U.S. titling project. We're not at liberty to announce the government or level of government, which contacted us and asked us to build this for them. But we are now doing one of these in the United States.

Next slide, Slide 20. Steve Hopkins, did we get your announcement out this morning, Steve?

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**Steven Hopkins *Overstock.com, Inc. - COO and General Counsel of Medici Ventures***

Yes.

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**Patrick M. Byrne *Overstock.com, Inc. - Founder, CEO, President & Director***

Good. Go ahead. Talk about Bitsy, Slide 20.

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**Steven Hopkins *Overstock.com, Inc. - COO and General Counsel of Medici Ventures***

Sure. I've been asked to talk about Bitsy, which is an exchange service and wallet created with the goal of making cryptocurrency accessible to everyone. Unlike, financial exchanges, Bitsy provides you with real possession of Bitcoin. The challenge with Bitcoin is, if you don't control it, there's ways it can be frozen or somebody else can be hacked in this industry. It's a real challenge. We allow people the opportunity to keep possession of their own Bitcoins.

With biometric security, you are your passwords. You don't have risk of somebody stealing your password and taking your funds. Probably one of the best and most exciting parts of this is with Bitsy's unique key recovery system, it can help you recover your funds anywhere anytime. There's no need to remember a 12-word seed phrase, there's no need to panic about the fact that you don't -- that you have control of the keys and maybe lost them. We have a way that we can help you with that.

Finally and most important, Bitsy's been in a limited beta where we've been testing it and further developing features. We're launching the public access to our beta beginning next Monday, November 12 and that's the announcement that Patrick was referencing at the beginning of the slide. We're very excited to have any of you get on our app, purchase some Bitcoin, help us find all the features we need to make it even better. You should expect repeated code pushes over the next few months as we update the features and get it into shape for a launch, most likely at the end of January or beginning of February.

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**Patrick M. Byrne *Overstock.com, Inc. - Founder, CEO, President & Director***

Thank you, Steve. Unfortunately, I'm in a New York hotel room, and there's an alarm next to me. I will echo a couple things Steve said. The real possession of your Bitcoin, you've heard about these different Bitcoin exchanges that they go down and people just lose their Bitcoin. That's because in other wallets that are out there, you hold your Bitcoin in the same way that currently you hold your shares in a public company. Which of you have been following the story for years? I don't think you really do. I think it's all held in a company under the DTCC and you don't really own anything. You have contractual claims.

With the wallets that exist out there, what you have is a contractual claim from a company. You don't have your real keys to your real Bitcoin. What is revolutionary about Bitsy, one of the things that's revolutionary is when you buy Bitcoins, you're getting the Bitcoin. You're getting actual keys. The biometrics and the key recovery system, which is itself, I think, is fabulous service that we may open up to the rest of the industry. It's just what the industry needs because, in this industry -- well, I'll get too geeky if I go into it, but it just what



this industry needs.

Moving on from Slide 20 to Slide 21, Jonathan?

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**Jonathan E. Johnson** *Overstock.com, Inc. - Director, President of Medici Ventures*

So these are the newest additions to our portfolio of companies since our last call. All are listed on our website. You can read about them. You can click through to see what they are. I'd like to highlight 2 to discuss on this slide. Both are supply chain companies. And as we've looked at supply chain, we thought there were 2 ways to go at it. One is to go horizontally across an industry, but that would take a large 800-pound gorilla, make it push things from beginning to end or else second go siloed in a specific industry, where someone could have enough influence within that industry to make it work. We've decided to go the second way.

First with VinX. VinX is an Israeli-based company that's using blockchain in the wine industry. It's got 2 problems it's solving with its product. The first is proving the provenance of the wine. Many of you have seen in the Netflix documentary, Sour Grapes, that people are duped all the time buying old bottles that have new wine in them. Proving the provenance of what you're buying is difficult. VinX is tackling that problem with a blockchain solution.

Importantly, they're also working on selling wine futures using blockchain. This really meets our vision of eliminating middlemen and democratizing capital. Today, in the wine world, vineyards or wineries are out there. They pick their grapes before they bottle it. They often sell futures to a negotiator who then sells them to another middleman to a distributor, and ultimately, it gets to the end user. What VinX is doing is it lets end users purchase futures using blockchain technology and tokens directly from the winery. That should allow the winery to get more in its sales price and the end user ultimately pay less because you've cut out middlemen.

It also provides a great feedback loop where the wineries will know who their ultimate customer is and can provide a good amount of information there and sell directly to them. So again, blockchain in the supply chain area works great with VinX.

The other one I would highlight is GrainChain. GrainChain is an existing software business that helps grain elevators companies track and pay farmers. Using tokens and blockchain technology, GrainChain will now let the grain elevators pay farmers in real-time in cryptocurrency as the farmers deliver the grain to the silos. It will cut out a long cycle payment process that really hurts farmers if they run into payment problems.

So these are 2 examples where we think blockchain makes a lot of sense, and it will work well. Patrick, do you want to say anything else before I move to the next slide?

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**Patrick M. Byrne** *Overstock.com, Inc. - Founder, CEO, President & Director*

Just a couple things. One, I really want to applaud Jonathan's strategic decision to say let's go narrow and deep in a couple fields like in supply chain. These are great. VinX, it's kibbutz over in Israel. Got to visit Israel for the first time. Exactly the kind of partners we want. And GrainChain, some wonderful guys down in Texas, just exactly the kind of people that we want to do business with, and these investments are models for how we want to do business, come with people who are bringing a lot of industry expertise and can come to us and we have a lot of blockchain expertise, and we can get together and make a love child.

Votem also is one worth mentioning. It's the blockchain competitor to Voatz, which is the other blockchain voting app. Voatz -- I do want to mention, Voatz on Tuesday -- go ahead.

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**Jonathan E. Johnson** *Overstock.com, Inc. - Director, President of Medici Ventures*

That's on our next Slide, Patrick. I'm going to go specifically about Voatz.

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**Patrick M. Byrne** *Overstock.com, Inc. - Founder, CEO, President & Director*

Go ahead.

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**Jonathan E. Johnson *Overstock.com, Inc. - Director, President of Medici Ventures***

Well, hit the next slide. So you'll see some press coverage that some of the portfolio companies are getting. I want to talk a little bit about Voatz. Tuesday was a big election in the United States, and West Virginia, which had done a pilot in its primary election rolled out Voatz on a broader scale in the general election, allowing people -- West Virginians that are overseas, mostly military personnel and their families, to use Voatz application to vote digitally, remotely on their smartphones. As of the day before the election, West Virginians in 29 countries around the world have voted on the Voatz application. What we're really doing is helping those vote who find it difficult to vote and participate in our electoral process.

Historically, in West Virginia, less than 10% of military voters overseas vote. We expect that to have been greatly increased. I hear the Secretary of State in West Virginia will be putting out a press release later this week. But this is a great application. We're so pleased that West Virginia rolled this out on an iterative basis, a small pilot in a primary, a larger state-wide pilot in the general election. Voatz is talking to many other states. We think, with all of the talk about hacking and voter participation, that Voatz is primed to do well in municipal elections in 2019, and we hope to roll it out in a much larger way for the 2020 elections.

Patrick, anything else you want to say about Voatz before I go to Bitt?

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**Patrick M. Byrne *Overstock.com, Inc. - Founder, CEO, President & Director***

Not Voatz. Go ahead.

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**Jonathan E. Johnson *Overstock.com, Inc. - Director, President of Medici Ventures***

So Bitt, you'll see some press releases here. Couple things that were big during the third quarter, the pilot program announced with Curaçao and Sint Maarten, where the central bank there will be issuing a digital currency using the Bitt platform. Bitt had rolled out its mMoney product in Barbados. There are now over 200 merchants and thousands of users that are using mMoney to pay and accept payments at gas stations, grocery stores, restaurants in the country of Barbados, a really big deal.

And maybe most exciting, that press release on the far left, is the Prime Minister of Barbados, Mia Mottley, announcing a sandbox pilot within the Barbados government to create a digital version of the Barbados dollar. So people with the Bitt wallet will be able to receive payments from the government and paid to the government different fees they owe the government. Again, a big deal blockchain in use in a country where 40% of the population doesn't have a bank account, the digital wallet that Bitt's providing is really life changing, democratizing capital and rehumanizing commerce right in line with our vision statement.

Anything you want to say about Bitt, Patrick?

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**Patrick M. Byrne *Overstock.com, Inc. - Founder, CEO, President & Director***

Not Bitt. Go ahead.

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**Jonathan E. Johnson *Overstock.com, Inc. - Director, President of Medici Ventures***

Yes. And then on IdentityMind...

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**Patrick M. Byrne *Overstock.com, Inc. - Founder, CEO, President & Director***

Actually, I'll hold to the end. You go ahead and finish, JJ.

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**Jonathan E. Johnson *Overstock.com, Inc. - Director, President of Medici Ventures***

So with IdentityMind, it's really working with digital identities to be more efficient, more accurate and more in-depth presentation of data. Many of our portfolio companies use identity as a key player in compliance, doing anti-money laundering and know your customer projects.

I think what we'd like you to take away from this slide is, for months, if not, years, there's been a lot of hope and hype around blockchain. What our portfolio of companies are doing one by one is getting blockchain-based applications in use. That's a big deal. That's where blockchain, I think, will really be revolutionary and change the way we do think.



**Patrick M. Byrne *Overstock.com, Inc. - Founder, CEO, President & Director***

Thank you, Jonathan. And I'm actually going to ask to flip back to Slide 17 for just a moment to echo and reinforce what you have said. We've taken \$175 million of your capital, shareholders, and we have deployed it into this -- correction which was not chosen willy-nilly. I mean, there was an overarching plan described 4, 5 years ago, and this is where we went to fill in. And deploy that capital as intelligently as we could. We've developed a very good system for, I'd say, kind of, extruding some of these companies using the capital and personnel of Overstock Retail. Some of them have come out of that body, others, we've gone out there and found. There's all kinds of interesting -- when you think about it, there's all kinds of interesting relationships among possible -- among firms within one column as well as firms across columns. For example, Identity is something that is needed -- the IdentityMind application and Netki are technologies that can end up in money and banking in capital markets and maybe even land governance and probably even voting and on and on. So there's all kinds of synergies across and within these columns and that's how we've taken \$175 million of your money and put it to use in building a system. We don't think it is just a bunch of stand-alone investments. This is a Keiretsu from the Japanese, in short, that all fits together.

And Slide 18, you see we have very substantial pieces of some of these companies, and some of them are really world-changing companies like the Bitt. I didn't want to step on what you were saying, Jonathan. I know it seems funny to some people that we get so excited that, in Barbados, I think the Prime Minister walked in to some place that actually used it to buy a chicken sandwich or something, used our app. It's the only sovereign nation in the world where the sovereign currency is available in a digital, i.e. blockchain format.

So you can basically have mobile banking on your phone, but there's no underlying bank account. So poor people all over the world are not going to need banks because they can now have banking on their phone but without an underlying bank account. And what comes after that, there's all kinds of other functions besides banking. It can be turned into apps on a phone plus blockchain.

So let's move on to Retail.

**Jonathan E. Johnson *Overstock.com, Inc. - Director, President of Medici Ventures***

Patrick, one thing I'd like to say before we move to Retail if we go back to Slide 22. I may have inadvertently referred to these as press releases, this is press coverage. This is from reputable sources. If you're on one side of the aisle, you might look to the Washington Post. If you're on the other side of the aisle, you might look to the Fox News stories. And if you're in the middle, you'll look to Forbes. These are reputable places that are covering this in a real way. These portfolio companies are doing the work and getting recognized for it.

**Patrick M. Byrne *Overstock.com, Inc. - Founder, CEO, President & Director***

Exactly. Thank you. And Jonathan and Hopkins and the Medici team have assembled something I literally haven't seen anywhere else in the world other than maybe one place in China. That is the blockchain firepower we have accumulated over 5 years in Utah that we can inject into these companies and help in this portfolio of companies, is something I've only seen in Shanghai and in New York in consensus, the group, the Medici team we have in Utah. I think people don't understand maybe how significant a piece of our building out in Utah has become.

Let's move to Slide 23, moving to Overstock Retail. And Seth, would you like to start on Slide 24?

**Seth A. Moore *Overstock.com, Inc. - Chief Strategy Officer***

Yes, absolutely. We said on our last call that we believed our marketing testing in Q1 and Q2 would allow us to replace much of our lost traffic from SEO via improved paid acquisition. Additionally, we also ended the testing phase in late July and believe that we can maintain positive growth while decreasing marketing expense with more efficient paid acquisition as well as improved retention through Club O and our customer value-focused initiatives.

We're pleased to report that, in August and September period, we generated year-over-year growth in both contribution and revenue for the first time since our Google rankings began to deteriorate and thereby, significantly reduced operating losses. This is in spite of the fact that we did not complete our heightened spend testing until well into the quarter and that our competitors accelerated spending during the same period.



We believe that we'll continue to improve our efficiency year-over-year in the holiday quarter and set the stage for significantly stronger 2019. We also believe that this will obviate the need for further shareholder dilution in order to fund retail operations or Medici investment. You could see in those graphs the radical improvements in both contribution and revenue growth really feeding out of that.

On the next slide on...

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**Patrick M. Byrne *Overstock.com, Inc. - Founder, CEO, President & Director***

Let me add some comment on that for a second here. The slide on the right, I've said for probably over 10 years in phone calls, ultimately, contribution is the thing to manage, and it's the economic health of the business that's built around contribution. I'm a bit surprised at how Wall Street has not picked up on it as a key metric to follow in companies is contribution dollars. You can make everything kind of apples to apples across a lot of different business models if you look at the e-commerce business model if you look at contribution. That's our hockey stick. It's not a segment. We told you we were going to build it, it happened. We did it quite quickly, and we told you 3 months ago we're going to do it, and we did it.

And as Seth said, it is always the friction costs and as you make the hard curve, things working against you. But we have a long way to go with this. I mean, we have a lot of improvements we had figured out. Well, I'll let Seth speak to the next slide.

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**Seth A. Moore *Overstock.com, Inc. - Chief Strategy Officer***

Yes. The reality is that July looked more like Q2 than it did like the trend that you saw there. So, we know we have a lot of tailwind coming in behind us as we move forward based on these improvements.

You'll see on the next slide, a comparison between our January revenues pretesting and our September revenues post-testing in our largest acquisition channels. Despite the fact that January is seasonally stronger than September, we were able to increase the scale of our acquisition activity while decreasing the number of dollar spend by very significant margins.

JP, do you want to add some color, commentary on this and the improvements we've seen in ROAS?

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**John Paul Knab *Overstock.com, Inc. - Chief Marketing Officer***

Yes. Thanks Seth. Yes, one of the benefits of the increased advertising spend is we were able to accelerate our learnings. We engaged in some additional resources during that period, both internally and with our external partners and we're able to get to a statistical significance much more rapidly during those periods because of the increased spend. This allowed us to do about a year, maybe a bit more than a year's worth of testing in just a couple of months. The changes ranged from audience targeting, campaign creative, the integration with our new machine learning processes and deep incremental testing that we pioneered with groups like Facebook and Pinterest. The net is we're not only able but beat the typical trend you mentioned, Seth, on revenue of September being lower than January, but we actually saw ROAS bounces, if you look at Pinterest, up to 187%. These are larger than we've ever seen. They're larger than, I think, for many of our competitors in the industry. This was a herculean effort during that period that we're now seeing some of the results.

We do believe we pulled back a bit too much in Facebook as we made the shift. so we will be investing back into them further in this current quarter, Q4. We still have a lot of work to do here, but the results are especially encouraging given that our SEO traffic is still the multiyear low, and we have a large amount -- we lose a large amount of assist clicks. So SEO actually helps this paid channel be more efficient. When you lose SEO, it makes these kind of bounces even harder to obtain, and you lose the ability to retarget that organic traffic. So we're happy with the progress, the direction. Still a lot to do to get into even stronger results, but nice progress for that short period of time.

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**Patrick M. Byrne *Overstock.com, Inc. - Founder, CEO, President & Director***

Thank you, JP, and I will applaud you. JP manages such a tight ship here. Just to make sure, I'm going to break this down as a bear of little brain, break it down for anyone who doesn't understand. ROAS is return on ad spend. It's -- we spend \$1 with Google, how much revenue do we get back for it? We spend \$1 with Pinterest, how much revenue do we get back for it? That's the ROAS. Those have made

improvements of 43%, 187% and 82%. That's a way of saying that we've gotten like 82% smarter. Our marketing dollar has gotten 82% smarter in September versus January on Facebook. And that came in part because of this tremendous Q2 push and spend, where we got sort of 1 year's worth of data improvement in a quarter. But JP manages this to a fare-thee-well. And now that we have pivoted to this strategy, he's also managing this ROAS. We have this wonderful relationships with these firms, where we feel we are on sort of the leading edge of development in terms of marketing technology and what we're developing symbiotically with them. JP or Seth, do you want to comment or anything on that or not? No?

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**Seth A. Moore** *Overstock.com, Inc. - Chief Strategy Officer*

Yes.

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**Patrick M. Byrne** *Overstock.com, Inc. - Founder, CEO, President & Director*

Seth is wincing. Well, they've been wonderful partners.

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**Seth A. Moore** *Overstock.com, Inc. - Chief Strategy Officer*

They have been wonderful partners, and we look forward to continued improvement.

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**Patrick M. Byrne** *Overstock.com, Inc. - Founder, CEO, President & Director*

JP, Google mentioned us. Can you say anything about Google -- about these partnerships or not?

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**John Paul Knab** *Overstock.com, Inc. - Chief Marketing Officer*

I think your description of an amazing symbiotic relationship is good. We love to get into their alphas and betas, to test with them. They love us being in their alphas and betas because we bring a team that's very responsive, experts in their space and can test and learn quickly. We found it's mutually beneficial that we work together to drive new technology, new innovations in the marketing tech space and advertising tech space.

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**Patrick M. Byrne** *Overstock.com, Inc. - Founder, CEO, President & Director*

Cool. Thank you. Let's move to Slide 26. I'm super excited about this. I've dreamed of this for years. It's finally happened. Go ahead, Seth.

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**Seth A. Moore** *Overstock.com, Inc. - Chief Strategy Officer*

Yes. So as we entered the exercise to improve our profitability, we knew that in order to replace free search traffic profitably, we would need to significantly increase the amount of free traffic from retained customers on our site. As you can see from the chart, our Club O loyalty program has been instrumental in doing so. In spite of the fact that Club O was already growing well at this time in 2017, we saw the CAGRs accelerate during the quarter. We expect this growth to remain strong in the holiday quarter allowing us to retain more seasonal holiday shoppers into the more profitable home buying season in the first quarter. We think this puts real spring behind us as we move forward into 2019 and becomes a growth engine for the company, decreasing our reliance on acquired traffic and on organic search.

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**Patrick M. Byrne** *Overstock.com, Inc. - Founder, CEO, President & Director*

Right. And I can say this is now over a quarter of our revenue coming out of Club O. And maybe belatedly, but we have finally really found the buttons we need to push to make this grow and get people to sign up and it's working nicely.

Next 2 slides. I'm going to show you. I think these are how often you show up in the top Google 100. Google 100 is the top 10 pages and we know that you don't go to the 10th page much, but it's kind of a way of saying what is Google viewing, what is it even seeing before it really gets into the ranking question. I think I showed you, I said at the last conference call, I showed you that we were actually starting a movement back. We've got a nice movement back in that greater -- in that very big bucket of just what is Google seeing in the top 100. We're starting to see some deterioration in some of our key competitors in that metric and that all leads to Slide 28. The idea is when you're trying to get SEO built or fixed in a company it's showing up in the top 100 and then working on getting those terms to percolate up into the top 10 and then up into the top 3. So Slide 27 is the top 100. And as we saw that movement coming back into the top 100, go to Slide 28, you see it is starting to percolate up into the top 10. These are now, for us, we are now seeing movement back up into the top 10. What you were looking at here, though, I would tell, I would say I wanted to include the slide. This is -- go ahead.

**Seth A. Moore *Overstock.com, Inc. - Chief Strategy Officer***

So the thing that really excites me about this is we've seen these significant improvements financially in terms of acquisition and in terms of retention and those have been the major drivers in terms of the contribution turn in Q2 -- or sorry, in Q3. The exciting thing about this chart is that the big jump doesn't happen until the end of the period. That was really at the start of Q4 that we saw this recent surge and really the first signs of life in terms of recovery for SEO in the top 10 rankings and that all came in during the October period.

And so this really sets some nice tailwind behind us as we come in to this quarter and the next quarter and gives us a great foundation to build on, as we make these enhancements to our site and these improvements that Google is really rewarding us for.

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**Patrick M. Byrne *Overstock.com, Inc. - Founder, CEO, President & Director***

Yes. And this is icing -- also to Seth's point, this is icing on the cake. What's really happened, I mean, our operating loss in retail fell from \$60 million to \$30 million-sh before the effect of that lawsuit in Delaware. That's been going on just because of the things you've seen on the previous slides. The improvement in marketing spend, the tightening in marketing spend, the system getting that much smarter that quickly, et cetera. This is just icing. I feel confident predicting our contribution dollars are going to grow nicely in Q4 and more in Q1 and at even higher rate in Q2. So I think the rates that you see contribution grow will step up Q4, Q1 and Q2 and then settle back to something -- settle back to wherever it settles back. Can't see anything further in the future. But I feel confident in our marketing technology improvements and in what's going with SEO. So let's move on to Slide 29. Seth?

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**Seth A. Moore *Overstock.com, Inc. - Chief Strategy Officer***

Yes. I think the really impressive thing about it if we started to look to the metric is you see sequentially versus the second quarter, which is seasonally a relatively similar quarter, big improvements in gross margin, significant improvements in contribution based on those improvements in ROAS, more than \$30 million improvement in contributions. That played out through to roughly \$30 million in income improvement. This is taken before extraordinary legal cost related to one particular escheatment case as well as some fundraising activities. All of that translates through into much improved financials. The key thing to remember here is most of these changes we're talking about around ending this testing didn't start at the start of the quarter, so this is still reflecting sort of a third of the quarter in that lower contribution model that we were in, in Q2. So we think we have considerably more room for improvement as we move forward.

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**Patrick M. Byrne *Overstock.com, Inc. - Founder, CEO, President & Director***

Yes. Okay. Let's go Slide 30, strategic alternatives. And Seth, you have the -- standby just a moment. I'm going to mention on this, before I turn over to Seth, that I have -- the tone of some of the questions, okay, go ahead, Seth, you address it.

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**Seth A. Moore *Overstock.com, Inc. - Chief Strategy Officer***

So we mentioned in our last call that we were exploring strategic alternatives with potential buyers of the retail business and that we believe positive progress on the profitability of the retail business would help with that process. We're pleased with the business seeing such significant improvements now and we're currently engaged in a structured and time-lined process to move the interested buyers forward in parallel in order to maximize shareholder value. We'll comment more publicly when appropriate based on the confidentiality of the process.

I think where Patrick was going is there's lots of questions trying to ask details about who is involved, what are they doing, all those sorts of things. The nature of a confidential process is you can't comment on those things. That said, we do have a very nice structure, we're moving interested buyers along, and we feel good about the process right now.

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**Patrick M. Byrne *Overstock.com, Inc. - Founder, CEO, President & Director***

Yes. And the process has confirmed to me that this is the right thing to do. Because it's confirmed to me what my gut was a year or 2 ago when I said the Gods of economics really think this should be hybridized with 1 or 2 other types of businesses, brick-and-mortar or media business that already have a traffic. And certainly, the act of these discussions has made us see the gobs of money that fall out if we're part of either one of these 2 different types of businesses. So there's no doubt in my -- I'm looking forward -- I'm marrying my daughter off. I'm marrying my daughter off, I've grown her for 19 years. There is no question in my mind that I want to marry her off. People can be

confident that there's no second thoughts like that. I know that she doesn't belong with me. I know that she belongs to be married off. On the other hand, I want -- we want to find the right suitor and such. But as Seth has described, there is a very structured process that is in place and Seth is leading the charge there. So with that, that was a lot of information. Jonathan, why don't you take over?

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## QUESTIONS AND ANSWERS

### **Jonathan E. Johnson** *Overstock.com, Inc. - Director, President of Medici Ventures*

Great. Thanks, Patrick. And I'll just note, as we go to questions, 2 things. One, we received a lot of questions and we appreciate the questions from our shareholders. We hope that we've covered some of them in the presentation. We'll answer all of them. I would also remind our shareholders and investors that we have an Investor Day next week in Salt Lake on the 13th. We invite you to participate in person or by phone. It would be something that you can dial in and listen to. So with that, I'm going to go through the questions. I think I'm going to -- because they came in from different people and different bunches, we're going to go through them in the same order that our presentation was. We'll first take some -- I'll put the questions about tZERO, then about Medici and it's -- other portfolio companies. And then we'll get to retail and then there's some general kind of overarching Overstock questions we'll get to.

Saum, can you give us some sense of the number of companies in 2019 that might be listed on the tZERO exchange and where we think we're going with that?

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### **Saum Noursalehi** *Overstock.com, Inc. - Director, CEO tZERO*

Yes. Well, we have a nice pipeline, as I mentioned, of issuers or companies that want to do Security Token Offerings and then those tokens would move to secondary trading on the ATS. There's really been 2 schools of thought here, one is who's going to quickly ramp up and get to 2000 or 5000 tokens trading, and that's the group that's going to win. Our philosophy is to be much more selective in vetting these companies. So while we have a healthy pipeline, we're being very selective on who we want to onboard onto our system. But they come from all sorts of sectors. We have parties from pharma, tech, the financial world, even film that are interested in doing token offerings with us.

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### **Jonathan E. Johnson** *Overstock.com, Inc. - Director, President of Medici Ventures*

Right.

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### **Patrick M. Byrne** *Overstock.com, Inc. - Founder, CEO, President & Director*

Go ahead.

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### **Jonathan E. Johnson** *Overstock.com, Inc. - Director, President of Medici Ventures*

No. I was going to ask the next question. Do you want to add anything thing to that, Patrick?

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### **Patrick M. Byrne** *Overstock.com, Inc. - Founder, CEO, President & Director*

No.

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### **Jonathan E. Johnson** *Overstock.com, Inc. - Director, President of Medici Ventures*

Okay. We've completed the STO. Saum, where do we stand on providing services to other companies that want to do STOs, and maybe setting up exchanges like tZERO in other parts of the world?

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### **Saum Noursalehi** *Overstock.com, Inc. - Director, CEO tZERO*

Right. On STOs, we learned a lot through our own process being one of the first to have done this. We're already in discussions now with some of the companies that I mentioned. We're in conversations to do their offerings, so we're really hoping by Q1, we start to do more of these token offerings for other parties. And as far as exchanges that are offshore, we're in talks with 2 exchanges that are international and they are moving along nicely. Anything, Seth or Patrick, you want to add to that?

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### **Seth A. Moore** *Overstock.com, Inc. - Chief Strategy Officer*

Yes. I think the international development is moving along nicely. We're also seeing a nice emerging pipeline of interested companies out of Asia, particularly Singapore and Hong Kong, that are interested in doing token offerings. It's actually been a very interesting



phenomenon. In the ICO world, when the U.S. cracked down on ICOs, a lot of them moved into Asia, particularly, into Singapore. However, we're seeing a lot of those companies start to evolve and see the value in having their offerings as a registered security and some of the safety that it actually brings to the issuer to do so. And so as that happens, we're seeing a lot of interest in doing that kind of offering and doing their initial issuances as either in the U.S. or in a partnered exchange via one of the other locations where we're looking to add an international exchange presence.

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**Patrick M. Byrne *Overstock.com, Inc. - Founder, CEO, President & Director***

Yes. So we have undeniably -- so this field, we've noticed for 2 or 3 years now, has a lot of people wandering around talking a good game and talking about all the things they're going to do. I'll point out, again, we're the only guys in the world, we've done it while we did the world's first private cryptosecurity, the world's first public cryptosecurity. Now we've issued a security token pursuant to all the laws and ways of the SEC. One could argue we're the first or second to do that -- one could argue we're the second or one could argue we're the first to do that. We have an ATS that is SEC-kosher that can actually trade such securities. And we have -- we're working on exchange. So as exciting as this world of security tokens is, I think it's fair to say -- and it's quite interesting when we go to Asia and Europe how widely this is understood. There's -- we're not the only game in town but we are so far ahead in terms of our actual accomplishments of what we have done. We're so far ahead in all the other people, who are saying they're moving into this field. And we intend -- with Saum and the capital he's brought in there, both human and financial, we anticipate building that lead.

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**Jonathan E. Johnson *Overstock.com, Inc. - Director, President of Medici Ventures***

Great. Saum, you addressed some of these in the presentation and maybe there's not much more to say, but what's the current status of the digital locate receipt or DLR effort?

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**Saum Noursalehi *Overstock.com, Inc. - Director, CEO tZERO***

Yes. So I would say my primary focus has been really ramping up and accelerating the security token world. But in addition to that, we see the massive opportunity with DLRs, and we're now putting product managers and shifting a lot of engineers onto that product. And we've said it's in beta testing, and the stock loan revenues are now 5 to 6x where they were. We see that really going to the next level starting early Q1.

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**Patrick M. Byrne *Overstock.com, Inc. - Founder, CEO, President & Director***

And these are not negligible numbers. I mean, it's a real number. It's not like a \$100 to \$500 or something. I do want to mention that we had -- I mean, so it's growing nicely, but it's really almost in, I'd say, alpha still or -- it's not -- but we recently had an investor, I can't disclose who, but who was talking about -- basically most people who want to be involved or super excited about the security token world but somebody, who really knows their stuff, some massive investor, who really knows their stuff, who's contacted us. And our discussions their attitude is basically, yes, yes, that security token stuff is nice. When is your DLR product going to be ready for prime time? We understand that's where the real money is on Wall Street. It's true that there were some people who really understood. So we know that there's a lot of hunger for us to take that product from its current alpha state and supersize it. But Saum has had a resource constraint technologically and had a lot of people smeared around, but now that he has patted out all these things, we have the resource to pursue all of these at the same time.

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**Seth A. Moore *Overstock.com, Inc. - Chief Strategy Officer***

Yes, and I think you'll really see that program move from its alpha testing in a much more widespread adoption like Saum said, in early 2019.

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**Jonathan E. Johnson *Overstock.com, Inc. - Director, President of Medici Ventures***

As we're talking about digital locate receipts, we take a move away from tZERO, we'll get back to it. But Patrick, a question for you. Since the last earnings call the stock's declined. Do you attribute any of the decline to mischief with short sellers? If so, is there a way to use the DLR platform to curtail short-selling of Overstock stock?

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**Patrick M. Byrne *Overstock.com, Inc. - Founder, CEO, President & Director***

No. I haven't been following that issue frankly for years. I assume we're not on Reg SHO. But I will mention as far as these -- so no, I can't, I know -- I know that we're incredibly heavily shorted. Somebody told me 10 million shares or something. That's their business. No, no

complaints. But I'm not aware of any mischief or settlement failures. Although, years ago, we discovered there are ways people can have them and keep stocks from showing up on the Reg SHO list and that's by using the ETFs. And you will see that ETFs in which we are -- the last time I checked a year or 2 ago, you look at the couple ETF baskets that we were a member of and those were the ones with the largest settlement values on Wall Street. So maybe that people are playing the game, they just shifted it into a new loophole. However, I do want to mention that by my calculations, tZERO reaches 5 years in 13 months. We've looked into this, and I want to assure people. Although, I think the whole strategic question gets resolved a lot faster than 13 months. But just the balancing so that they understand, please understand that if nothing else, tZERO in another 13 months becomes eligible for a tax-free dividend. We can do a tax-free dividend to our shareholders of our ownership in tZERO. I will commit that, that's what I'm going to do if we've not found some other strategic solution before then. I can't imagine that we will not, by 13 months, I think. But just to give people an outer date, I can promise you that if I'm still sitting in this seat, that 13 months from now, if we have not sold the retail business, we will have -- we will be spinning out tZERO in a tax-free dividend to people. But again, I think that 13 months is a -- it would surprise me if that promise gets called upon.

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**Jonathan E. Johnson** *Overstock.com, Inc. - Director, President of Medici Ventures*

Okay. Saum, can tZERO do another Security Token Offering? And maybe you can explain just what a Security Token Offering is. There may be some people who don't know what that term means.

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**Saum Noursalehi** *Overstock.com, Inc. - Director, CEO tZERO*

Yes. We can do another offering, but that's not currently the plan. We raised \$104 million in cash, \$134 million if you count the payback to Overstock. But no plans to do another token offering at this time. An STO is a Security Token Offering. So it's a lot like an ICO that was being done and is still being done for utility tokens, where they issue tokens to raise capital. Businesses do this to raise capital. We've demonstrated that we can do this with a regulated equity offering. We've demonstrated that it can be done properly. It's something we plan to provide as a service to other businesses.

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**Jonathan E. Johnson** *Overstock.com, Inc. - Director, President of Medici Ventures*

Great. Good explanation. There's some questions about GSR and investment in tZERO. Are there additional parties other than GSR that are interested should GSR deal not close? Would they do it at the same valuation, and if so, why not? Maybe that's a question for you, Saum, or Seth.

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**Saum Noursalehi** *Overstock.com, Inc. - Director, CEO tZERO*

I know there's other parties interested that have expressed interest. But Seth, why don't you take this one?

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**Seth A. Moore** *Overstock.com, Inc. - Chief Strategy Officer*

Yes. We actually have met a number of strategic parties who are interested in investing in tZERO. And they have a lot of interesting strategic ratifications and can bring strategic value to the company. We also feel good about how things are going with tZERO. Like I said, we're very excited about the strategic opportunity they pose, and we're also confident in getting our deal done together. I know there were a couple of other questions that I'm seeing coming in, one asking if we have CFIUS concerns. We are working with -- for those who don't know, CFIUS is reviewed to make sure that foreign nations don't get control of security-sensitive industries in the United States. We are working closely with GSR, making sure that we structure the investment in such a way that it avoids raising CFIUS concerns and we're confident that we can work around it so that everybody will be comfortable as well as meeting their needs.

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**Patrick M. Byrne** *Overstock.com, Inc. - Founder, CEO, President & Director*

Yes. Translation is they're not getting enough control at any one level of either the tokens or tZERO or Overstock that they'd be able to trigger any national security concerns.

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**Jonathan E. Johnson** *Overstock.com, Inc. - Director, President of Medici Ventures*

All right. Thank you for that answer. Saum, we've completed the STO, does that mean the SEC investigation is over?

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**Saum Noursalehi** *Overstock.com, Inc. - Director, CEO tZERO*

No, it's not over it. It's in progress.

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**Jonathan E. Johnson** *Overstock.com, Inc. - Director, President of Medici Ventures*

And often no news is good news, is what I would say.

**Patrick M. Byrne** *Overstock.com, Inc. - Founder, CEO, President & Director*

But I feel good about it. I feel good about it.

**Jonathan E. Johnson** *Overstock.com, Inc. - Director, President of Medici Ventures*

Right. Those are the questions on tZERO. There's a number about Medici Ventures in the portfolio of companies. Steve, let me ask you a couple about Bitsy. What's the time line for the Bitsy platform to begin trading, and what did we learn in the limited beta?

**Steven Hopkins** *Overstock.com, Inc. - COO and General Counsel of Medici Ventures*

The first answer is you can buy bitcoin on Bitsy as soon as you download the app on Monday. The open beta is an open beta but it's functioning. We're not treating, just to be clear, we're really focused on being a bridge between dollars and other FIAT currencies and cryptocurrencies. We're not trying to be a fully functional cryptocurrency exchange. You might see in some slides that one other thing the tZERO is looking to do is get involved in full cryptocurrency exchange model where you're trading lots of currencies for each other. We are focused on making it easy to move dollars into Bitcoin and other cryptocurrencies and back. That's our focus. For the limited beta, I would say we learned a lot of things about just code. What we've been doing is testing and wherever we've got a fail, we work through it and dive deeper until we can reassure ourselves that we've got it bulletproof. That's our goal.

**Jonathan E. Johnson** *Overstock.com, Inc. - Director, President of Medici Ventures*

And I would say iterative learning, agile development is what Bitsy's been practicing. I think it's been very helpful for us. Patrick, some questions about Medici Land. The World Bank and various other country MOUs have been signed. What does that mean in terms of revenue? What's the time table? And what's the significance of what we're doing in Rwanda?

**Patrick M. Byrne** *Overstock.com, Inc. - Founder, CEO, President & Director*

I would not be expecting, in the next year, significant revenue out of this. But I have to say it's like it's 1993 and I feel like we're sitting here explaining this thing of being able to search. There's a bunch of these different websites that they may be able to search among them. It's going to be really valuable and somebody saying, "Yes, but what's the revenue model," just trust me, it's going to be really valuable to be able to search on the Internet and it's going to be really, really valuable to not only set aside the hundreds of millions of dollars that are sloshing around the world to pay -- in donor funds and such to get governments to title up, to implement good land governance. The amount of capital that is released by good land governance, just to throw one number at you, there's \$179 trillion of known reserves of precious metals and such around the world that are not -- nobody digs because there's not -- one of the reasons is there's not good -- they can't get capital because there's not good land governance. And ultimately, you can't raise money in a public company, go mine somewhere if you can't prove all the land governance. So there's \$175 trillion that would be liberated by getting good land governance globally. There are these kinds of numbers, just ridiculous multi-tens of trillions of dollars numbers that fall out of helping countries. I mean, there's one major, major country in Africa that is in contact with us and talking about asking us when can we bring over that whole text back, the whole 7 layers I showed you at the outset and bring -- we can bring them a block -- a Central Bank on a laptop, a blockchain Central Bank on a laptop. We can bring them the land governance system on the --- they're talking about multi-hundred million dollar checks for us to come in and install these systems there. So the truth is, at this point, we know there's so God-awful amount of much money in it that we're not even really worrying about that right now. What we are worrying about is getting these systems built, and we're doing it. And we get paid, the next project we do in Zambia will be paid for if we do it, and yes, we're paid enough that it covers a large fraction of the expense or significant fraction of all the capital we needed today to build this. There's just a heck of a lot of money in this field. It's not the only reason I'm doing it. I think we can change history by...

**Seth A. Moore** *Overstock.com, Inc. - Chief Strategy Officer*

Yes. I would footnote that by saying in sort of the classic Silicon Valley startup model, your goals are, first, a really huge market and there are not many markets bigger than land. Even in the submarket of land titling governance, et cetera, those markets are absolutely enormous. But then secondly, you need to look and see, is your product adoptable and does it have real demand. We knew the first was true, now as we started this project, as we're seeing the adoption with our partners in Zambia and Rwanda and now even in the U.S., we're seeing both in undeveloped market and at highly developed markets, there is real demand and there is a big push for adoption. So

we see those 2 formulas as working out, and when they do we know a lot of money is going to be made, but it would be silly for us to start trying to put projections around it now instead of just making the investments we need to grab the opportunity.

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**Patrick M. Byrne** *Overstock.com, Inc. - Founder, CEO, President & Director*

Oh, and what I can tell you is that we are in charge of -- in front of anyone in the world, so I can think of one group over from -- the Bitfury folks that are doing this in Georgia. They have a one pilot project in Georgia last I heard. But other than that, I think we are leading the world in this, as we are in the capital markets, as we are in blockchain central banking. That's my answer. Rwanda is a very interesting country. We all think of it like -- because what happened there 20 years ago, but actually it's really a model African nation, and like Estonia is in Europe, where they're going to digital citizenship, and they're very forward-leaning; the same thing is true with Rwanda. They are extremely progressive, in the good sense of that word, about -- they really are experimenting with leading on stuff there. So the benefits that will flow out of this, we just have to document it in a few places, and we'll have the world beating a path to the door, through our door. But the truth is the world is, thanks to the World Bank, the world is that we have more projects to discuss with governments than we have people who can fly around the world to have the discussions.

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**Jonathan E. Johnson** *Overstock.com, Inc. - Director, President of Medici Ventures*

Great. Thank you. A question on Voatz. Midterm elections were just held, meddling in elections is a huge news story. Why didn't we promote Voatz more heavily during the midterm, seems timely? Let me answer that question.

Maybe no group is more change-averse than County Courts running elections. These people move slowly. We were very pleased with the foresight and vision that the Secretary of State and the County Clerks in West Virginia had to implement it. There are many states and counties that are watching what happened in West Virginia. I think doing it iteratively, learning what we learned in West Virginia, proving what we proved in West Virginia was good. I don't think we could have done it any faster, promoted it any harder. We do expect to do it faster and with more promotion in the years to come as we come to new elections. Patrick, you want to add anything to that?

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**Patrick M. Byrne** *Overstock.com, Inc. - Founder, CEO, President & Director*

No. Other than, well, it is a, obviously, a super timely field and all of this angst that this country is feeling can be addressed if everybody switched to blockchain voting. All the voter fraud questions and voter suppression questions and voter hacking questions, it all gets resolved if you go to blockchain and create a transparent and immutable system.

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**Jonathan E. Johnson** *Overstock.com, Inc. - Director, President of Medici Ventures*

And I would also just say, the speed problems. There are several elections, which are still not called including the congressional district, where Overstock is located. So voting done on blockchain doesn't require 4-hour lines and provisional ballots and all these things. Next question, does Overstock have current revenue-generating blockchain deals that would generate revenue and income in the next 12 months?

I guess, the answer is yes. Some of those, like tZERO, roll up into Overstock; some, where we own smaller percentages can generate revenue, can make huge income and it's still won't show up in the Overstock P&L. Is that correct Greg? That was a nod of his head from Greg, for those on the phone. But yes, but it's only the companies where we have larger percentage ownerships and like tZERO, which does today generate revenue. And as Saum has talked about, have plans to generate more revenue that we'll see roll up into the P&L for Overstock.

Another question, it's kind of a shotgun question for Medici. For all your Medici Venture holdings what percent do you own? Why did you invest, what's the business model? What do sales margins look like? Who are the public comps? Who's running the company and will they do STOs?

That's a lot of questions. I will say we did disclose on one of the slides, maybe Slide 17 or 18, what percentage we own. I think we've explained why we invested in each company. Patrick put out a blueprint that we're building to. We have our vision. Each of the companies fits in the blueprint and helps advance the vision.

What sales and margins look like in each of the companies? Hard to say. Many of these are nascent start-ups. We are bullish on them,

that's why we've invested. Public comps: Many of these companies are disruptive in the new areas, and they aren't public comps, they're doing it. And will all these do STOs, we don't know. They may. We're not going to dictate how they raise money, but that's where we are.

Let me move forward to retail. A year ago, we talked about SOFS, our SOFS software logistics system, can we have an update on this and how it relates to creating value for, maybe, potential strategic buyers?

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**Patrick M. Byrne** *Overstock.com, Inc. - Founder, CEO, President & Director*

Sure. I'll take a first crack at that. Well, settle down, you look like you -- go ahead. Okay well, our systems, I mean, we've talked to lots of the big brick-and-mortars. And we have systems that -- I mean, one group said we -- in 10 years have \$1 billion, we couldn't build what you've built here, and they know it, like, they talk to -- we have similar suppliers and stuff. And they talk about our systems versus Amazon's or versus Wayfair. So we have systems on -- the supply chain system that's SOFS. We have agile and nimble we built 3 or 4 years ago, spend \$30 million building our supply chain system to have intelligence that all -- actually in some ways we use some of the techniques we use on the consumer-facing system. But people don't want us just for the backend system. They want -- there's all kinds of technology that optimizes our website and all kinds of dimensions and ways.

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**Seth A. Moore** *Overstock.com, Inc. - Chief Strategy Officer*

So yes, I would say there's really a couple of fronts that are key. One is we have proprietary rendering technology that lets us load pages faster than just about anybody else. If you look at the load times, for example, on our homepage on the mobile website on a bad 3G connection, it's like half the time to load that it is with most of our competitors. Likewise, if you look at what we would call sort of product finding technology, we have technology that is considerably better than what the retail industry at large has and particularly better than what a lot of legacy players have built. And we think it's very valuable and a strategic combination to help them improve the exposure of the widely good assortments that they built and are proud of. And then, finally, like the questioner brought up, we do have a lot of value in our logistics technology and in particular, we've made improvements in our logistics network in this quarter, where we've just added some distribution capabilities, particularly, out of the middle of the country that will make our network faster and more efficient, bringing down shipping costs and shipping times.

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**Patrick M. Byrne** *Overstock.com, Inc. - Founder, CEO, President & Director*

We actually brought the continental U.S. into 2-day, or now 98% of the countries in 2-day, for which for furniture is a big deal.

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**Seth A. Moore** *Overstock.com, Inc. - Chief Strategy Officer*

Yes. So yes, there is a number of systems there that have the potential to add a lot of value in a strategic acquisition. And those technologies and those capabilities have value far outside of our own brand name. And so we think that offers a lot of potential strategic value.

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**Jonathan E. Johnson** *Overstock.com, Inc. - Director, President of Medici Ventures*

Great. Staying in the logistics area. Do we still plan to move forward with adding distribution centers to increase 2-day shipping footprint?

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**Seth A. Moore** *Overstock.com, Inc. - Chief Strategy Officer*

Yes, as I was just saying, we did that additional distribution this quarter and we think it's going to be very valuable and will improve our operating cost.

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**Jonathan E. Johnson** *Overstock.com, Inc. - Director, President of Medici Ventures*

Great. Well, this may be a question for JP or Patrick. What did we learn from customer day? Do we plan to do it every year? What does it tell us about our ability to add new customers? Why do we do it in October when Amazon has Prime in June and Wayfair does theirs in April? JP, you want to...

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**John Paul Knab** *Overstock.com, Inc. - Chief Marketing Officer*

I'll take that, we have our annual sale in October. We felt like a customer day would fit nicely in there. We also looked at it's a nice intro into the holiday season. So October 15, you're a month out from Black Friday, a little over a month. And so we felt like the timing was good for multiple reasons. It was a greater success than we thought. We set some stretch goals for what the day will do. We passed those

stretch goals. It was a first attempt. We have some great road map items for next year, but we're pleasantly surprised by how customers reacted to it, probably the primary learning we found is as we present different opportunities for our consumers to shop some of the best home events in the industry, they really respond to that. So we're building that not only into next customer day but into our promotional planning for 2019.

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**Jonathan E. Johnson** *Overstock.com, Inc. - Director, President of Medici Ventures*

Great. International sales. Patrick, you want to comment on those?

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**Patrick M. Byrne** *Overstock.com, Inc. - Founder, CEO, President & Director*

Well, we have focused our efforts on Canada. And here, we've spent all these years chasing around the world markets and as we -- the best thing is to get Canada right, and we have gotten Canada right. And it's growing very fast, and not enough to be a significant part of our business this year but enough to start being a -- I mean, it's a single-digit percentage of our business this year, next year can start really -- at this kind of growth rate would be adding significantly. So our focus has been on Canada and just getting the features and free shipping and all the things right for Canada, rather than trying to work on 20 countries at once. And that's really been what's going on for the last 2 years. We think we have it down, and it's growing quickly, like multiple hundreds of percent. It'll be -- while I don't want to say the number this year, what it'll be. But it's a significant -- less than \$100 million, but a significant number and then but -- so next year it should start really adding.

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**Jonathan E. Johnson** *Overstock.com, Inc. - Director, President of Medici Ventures*

Great. Patrick, we did a deal with Elio Motors. Have we ever thought about doing a deal with Tesla?

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**Patrick M. Byrne** *Overstock.com, Inc. - Founder, CEO, President & Director*

We have thought about doing a deal with Tesla, but Mr. Musk has been hard to reach this month. I was trying, if anyone out there listening knows his email. But in the last couple of months, he was hard to get a hold of, I'm not sure why. But if you have his email, tell him to get in touch because we've got -- I think the Elio -- I said when we did it, the Elio car -- coin you should really study it. We -- although I love the Elio car myself, I'm also excited about that token design. Because I think that token design is going to take over a lot of things. It could take over financing of public infrastructure. Someone reached out to me this quarter, a leading medical researcher in a specific area that wanted to discuss -- he gets that you can apply that token design to funding specific pharmaceutical research, et cetera. So anyway, it's getting late. Jonathan, how many more questions do we have?

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**Jonathan E. Johnson** *Overstock.com, Inc. - Director, President of Medici Ventures*

We've got one more. The rest of the questions really deal with things that we've addressed on the call about strategic sale and GSR. I think we've addressed them all. There's one other. We recently hired 3 new C-level executives. Talk about them, tell us how does that affect the company's intent to do something strategic?

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**Seth A. Moore** *Overstock.com, Inc. - Chief Strategy Officer*

Yes. I don't think that affects the intent of the company to do something strategic and all. If you look at the executives we added, one is Dave Nielsen, who is new, but not new, he's actually an old-time hand that we've worked with for a decade now and we're very excited to have him back. The other 2, we've made a deliberate and careful effort around re-centering the company's customer focus around both customer targeting and customer experience. If you look at the other 2 hires, they were really brought in to help us emphasize that portion of the business and to fill out where we have elevated roles that were formerly not C-level roles with emphasis around those 2 fields. The addition of those 2 executives help us elevate those roles and draw that focus into a part of the business that we think we have great opportunities in and will fuel a lot of growth for the company in the future.

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**Patrick M. Byrne** *Overstock.com, Inc. - Founder, CEO, President & Director*

Well said.

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**Jonathan E. Johnson** *Overstock.com, Inc. - Director, President of Medici Ventures*

So that's the Q&A. Again, we remind people of our Investor Day on the 13th, next week. It's great to talk to our investors. Know that we're working hard for you. Patrick, anything else?

**Patrick M. Byrne** *Overstock.com, Inc. - Founder, CEO, President & Director*

No. Thanks very much.

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**Jonathan E. Johnson** *Overstock.com, Inc. - Director, President of Medici Ventures*

Yes, bye.

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**Seth A. Moore** *Overstock.com, Inc. - Chief Strategy Officer*

Thank you.

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**Operator**

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program. You may all disconnect. Everyone, have a great day.

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