

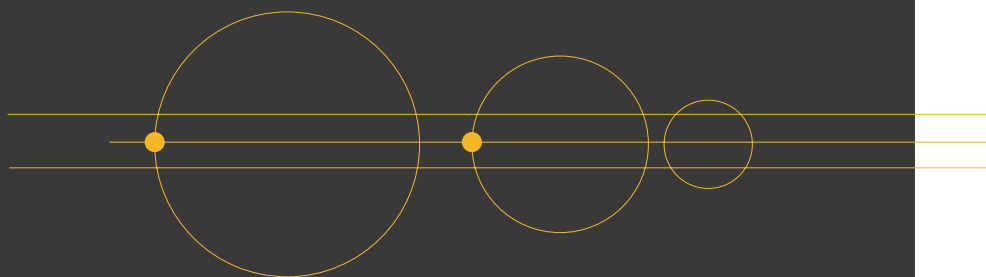
Electric Coin Company Q3 2019 Transparency Report

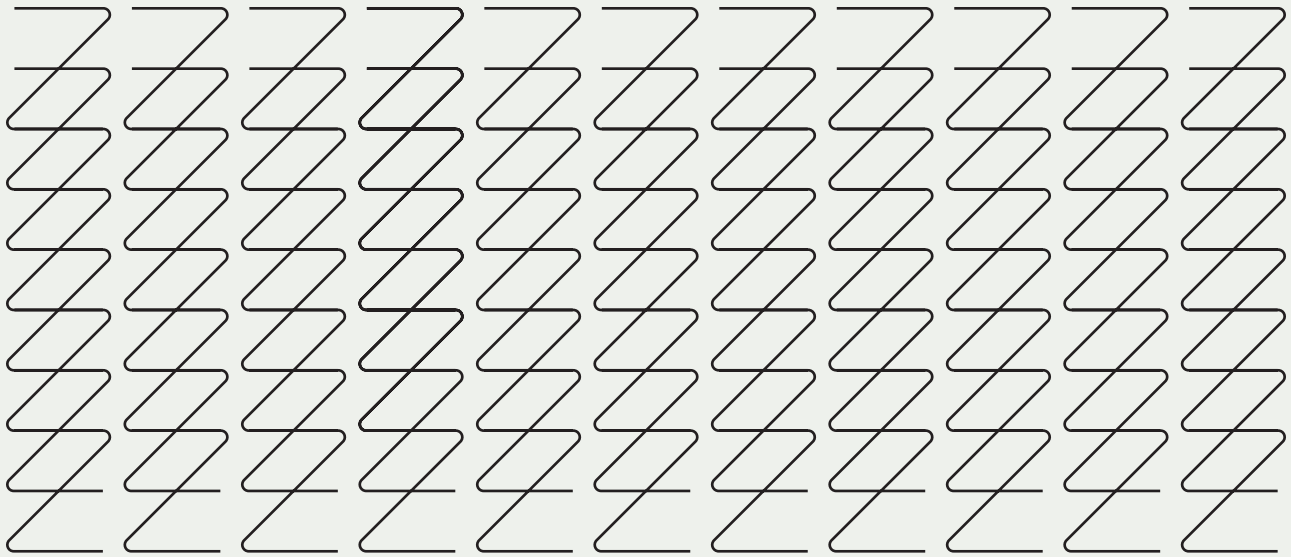
Published: August 29, 2019



Why release a transparency report?

Electric Coin Company (ECC) is committed to openness and transparency — as we help evolve and support the Zcash digital currency, and in support of our mission to empower everyone with economic freedom and opportunity. To this end, our transparency report details company income, expenses and use of funds during Q1 of 2019.





Key Takeaways:

- At the Q1 price of approximately \$55 per ZEC, the company and its employees received approximately \$449k per month.
- In response to ongoing market pressures, the company spent less per month than in the previous period, curtailing or deferring certain activities.
- The company's operating cost in the first quarter of 2019 averaged approximately \$525k per month. An additional 2,000 ZEC per month, \$110k at \$55 per ZEC, were used for employee compensation during the period.
- The Zcash received from ECC's share of mining rewards was used to fund R&D, engineering, global adoption efforts, audits, trademark protections and regulatory relations. The specifics are included in the Expenses and Use of Funds section of this disclosure.
- At the end of Q1, the company held \$5.2M in USD and Zcash. The company currently holds approximately \$6.4M worth of USD and Zcash.
- ECC share dilution impact to Founders Reward participants was implemented and effective June 2019. This change supports continued financial sustainability of the company.

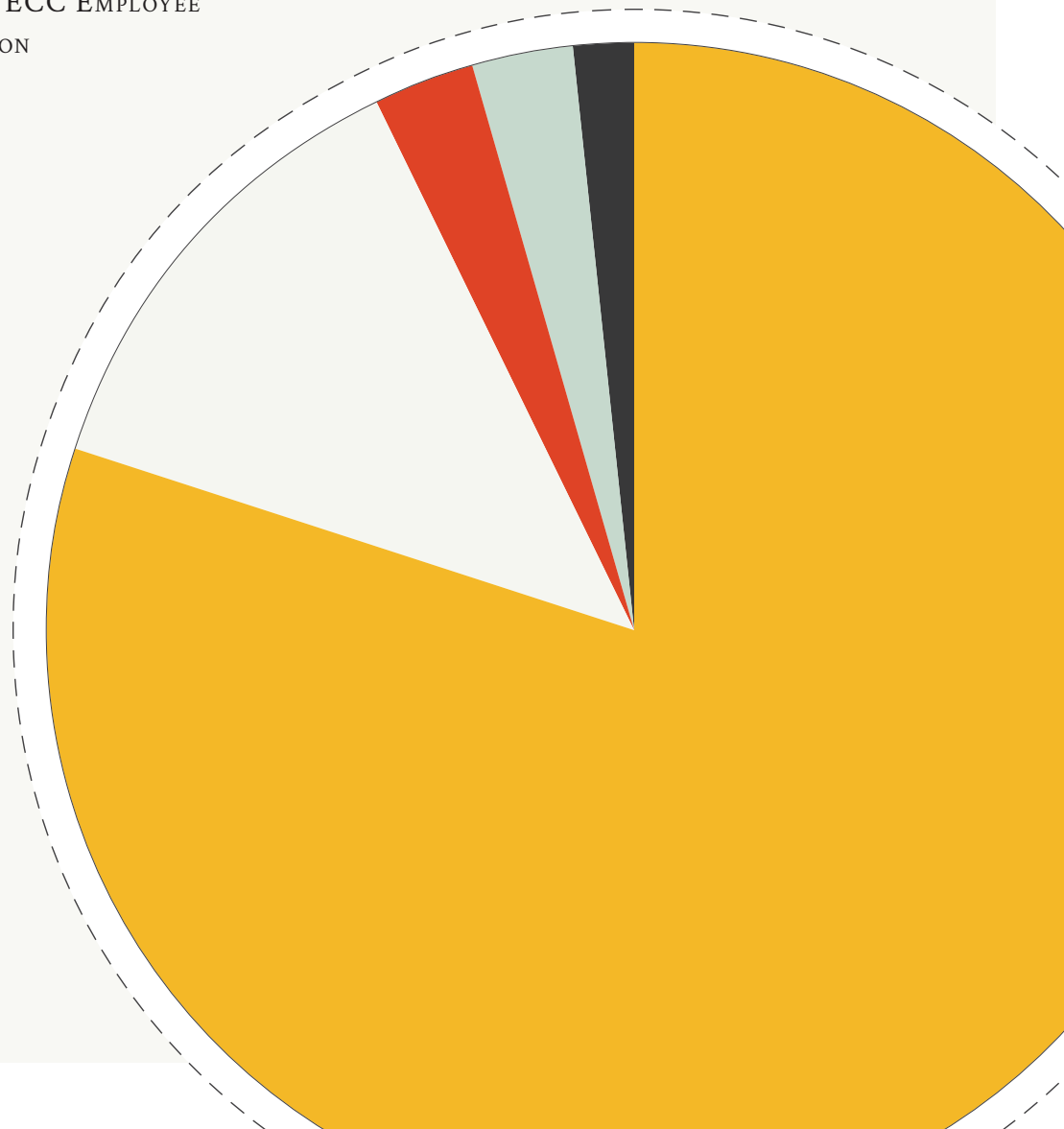
Income and the Mechanics of the Founders Reward:

Zcash uses a Proof-of-Work consensus mechanism to produce blocks. Currently, the Zcash block reward is 12.5 Zcash (ZEC), and blocks are mined every 2.5 minutes. Miners receive 10 ZEC plus transaction fees (80+%) as a block reward. The remaining 2.5 ZEC are split among various parties and are collectively called the “Founders Reward” (FR). The FR will expire in October 2020. At that time, block rewards will also be halved, to 6.25. The halvening will continue to occur every four years thereafter.

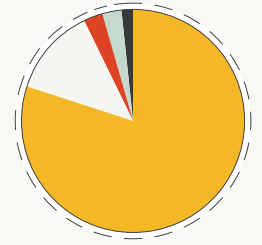
The Q1 distribution of FR is broken down in the pie chart below.



See next page for further detail.



Detail



MINERS

Responsible for transaction verification.

FOUNDERS & VESTED ECC EMPLOYEES

The company's founders — including the founding scientists, Zooko Wilcox, and others — receive a share of the FR for their work on the initial build of the Zcash protocol.

ECC employees also receive a share of the Founders Reward as part of their compensation. ECC offers its employees Electric Coin Company LLC membership units on a vesting schedule. A share of the FR is paid to employees in proportion to their LLC ownership equivalent option for membership units.

Employees that were part of the founding team are fully vested.

Employees that were not part of the founding team are on a vesting schedule. As time passes, the ratio of vested to unvested for a given employee (and, therefore, the ratio of coins that are reported in this category versus the “Current ECC Employee compensation” category) will increase.

ZCASH FOUNDATION

The [Zcash Foundation](#) is a 501(c)3 nonprofit that focuses on financial privacy. Its stated mission is to build internet payment and privacy infrastructure for the public good.

ELECTRIC COIN CO.

The Electric Coin Company is the author of this report. It is a for-profit entity that built and supports the Zcash protocol and affiliated software. Its share of the FR is used to fund the development and adoption of Zcash. A breakdown of ECC activities and expenses are included in this report.

Q1 ECC EMPLOYEE COMPENSATION

A portion of the FR is used as compensation for ECC employees. This category represents compensation paid for unvested shares.

Mining and Founders Rewards Expressed in US Dollars

The approximate amount of total mining rewards generated each month is currently 218,750 ZEC. At a price of \$55 per coin (the average closing price of ZEC in Q1), this equates to \$12.031M. The following is the approximate dollar value that each recipient receives per month.

RECIPIENT	SHARE OF MINING REWARDS	MONTHLY USD VALUE AT ZEC PRICE OF \$55*
MINERS	80.0%	\$9,625,000
FOUNDERS AND VESTED EMPLOYEES	12.8%	\$1,540,000
ZCASH FOUNDATION	3.0%	\$360,950
ELECTRIC COIN COMPANY	2.8%	\$336,900
ELECTRIC COIN COMPANY EMPLOYEES	1.4%	\$168,450

*rounded to the nearest \$50

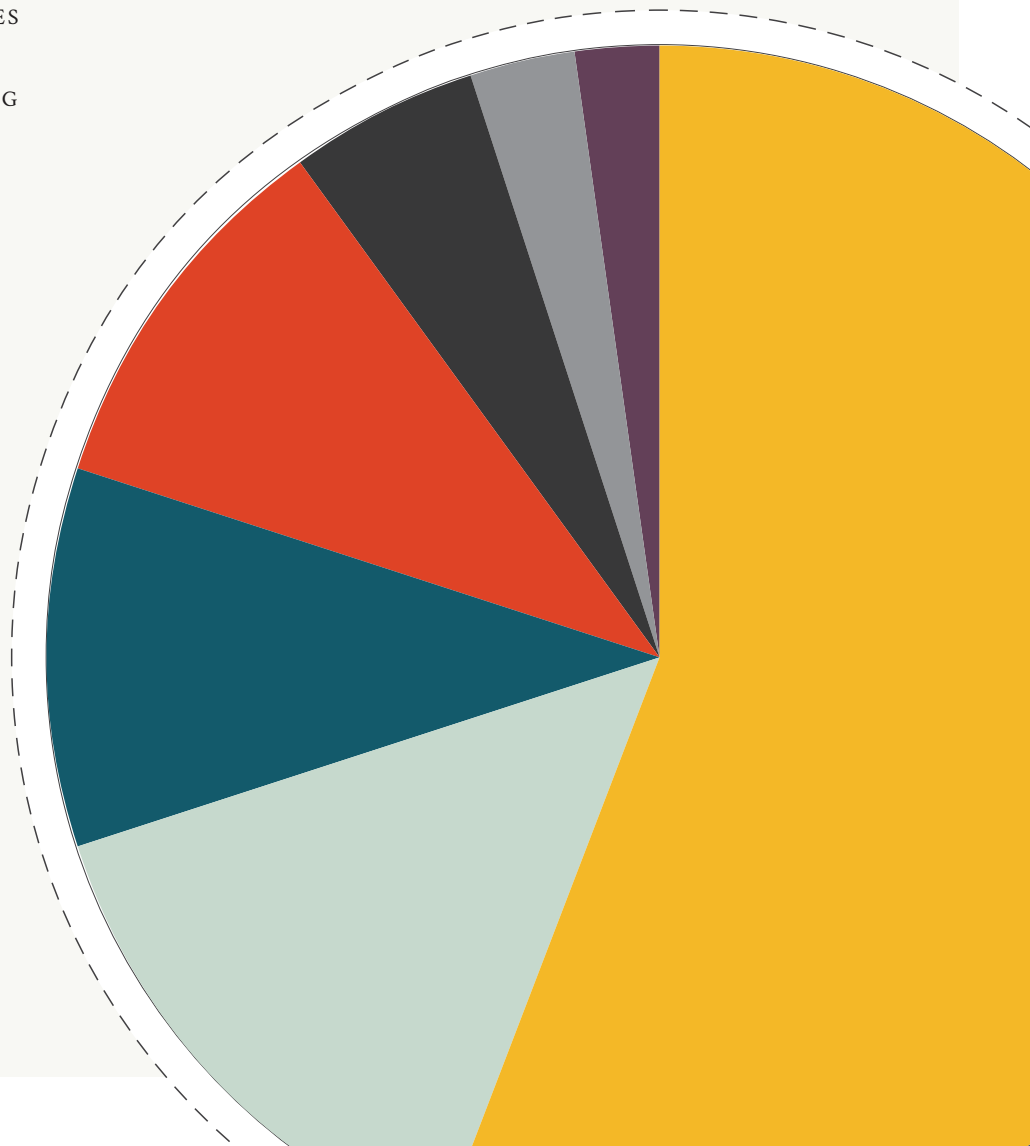
Early Electric Coin Company Investors

The company took on initial investment to get the company started. More information is available in the [ECC FAQ](#) and this [blog post](#). All investors received their share of the FR as part of their equity in ECC by October 2017. They no longer receive FR from that investment.

Expenses and Use of Funds:

This report is based upon expenses from the first quarter of 2019. During that period, the company averaged approximately \$525,000 in monthly operating expenses, accounting for typical timing variability. The breakdown of expenses are illustrated in the graph.

In addition to the \$525,000, the company provided additional compensation in the form of ZEC to employees as described in the “Income” section of this report. For the period, approximately 2,000 coins were distributed to employees each month. At a price of \$55 per ZEC, this totals approximately \$110,000 per month.



Q1 2019 Use of Funds

ECC used funds received to develop and support the Zcash technology and community. ECC's three strategic priorities are to drive adoption while maintaining quality, invest in the team, and increase openness and collaboration. Our actions are aligned to those priorities. The activities below included **work in the first quarter of 2019**. In some cases, we reference work that was since completed but in progress during this time period.

DRIVE ADOPTION WHILE MAINTAINING QUALITY

Research & Development

Sean Bowe, a cryptographer at ECC, collaborated with Mary Maller, Markulf Kohlweiss and Sarah Meiklejohn to publish Sonic, a new zero-knowledge proving system that is forthcoming at ACS CCS 2019. The most efficient zero-knowledge protocols require a trusted setup that must be repeated even as the protocol changes. Sean and his co-authors devised a new system that is nearly as efficient as the state-of-the-art, but only requires a single setup for all applications. Furthermore, the setup never has to end, improving the reliability and security of these kinds of setups.

<https://eprint.iacr.org/2019/099>

Engineering

With the release of Sapling, the most obvious issues with broader shielded Zcash adoption, namely transaction creation speed and compute resource requirements, were improved by many orders of magnitude. The focus of a majority of ECC engineering then shifted onto user-centric projects such as mobile wallets, exchange support of z-addresses, and making the ecosystem more reliable to improve user experience.

We decided the next network upgrade should happen approximately a year after Sapling was released to allow time to focus on improving our internal systems such as testing, deployment, and release processes, as well as features not dependent on a network upgrade.

Q1 2019 was heavily focused on thoughtful research to improve user interaction with the Zcash shielded pool. Some notable items include requirement gathering for shielded multisignature schemes, careful design of the Sprout-to-Sapling migration tool, [consulting on a GDPR-compliant payments implementation using Zcash](#), and a [soft network upgrade to protect monetary base integrity](#).

These improvements are setting the stage to aggressively push for a more robust shielded Zcash ecosystem on our way to fully shielded Zcash by default.

With the breadth of possible improvements now presented to the engineering team since we delivered and moved past our singular focus on cryptographic performance, ECC created a product team with the sole mission of identifying the correct jobs to be done in appropriate timelines while considering user experience, network health, regulatory climate and industry advancements.

Awareness and Education

ECC work in Q1 included new and ongoing efforts to raise awareness of Zcash and the importance of privacy around the world. Significant work included community and regulatory engagement in Japan, Singapore and S. Korea, as well as education initiatives in partnership with third parties such as Coinbase and eToro.

High level [plans for the year](#) were published in early January based upon our [assessment of the market](#). However, the continuing bear market resulted in a deficit of funds, and we decided to curtail certain activities, including hiring plans in Asia and engagement in Latin America. We reduced PR activities and trademark work, and we cut event sponsorships during this period.

[We announced that we were changing our brand name](#) in Q1. The Zcash Company became the Electric Coin Company (ECC). This decision was necessary due to ongoing market confusion about the difference between Zcash, its ecosystem and the company.

ASIA

Asia is arguably the fastest growing and most important region of the world for the adoption of cryptocurrencies. But Zcash isn't well known or understood in Asia. And in Asia, face-to-face conversations are critical due to culture, language and timezones. In order to engage in Asia, you need to be in Asia.

Zooko Wilcox and Josh Swihart spent two weeks in Tokyo, Singapore and S. Korea in Q1. Time was spent with regulators in Japan (JVCEA) and Singapore (MAS) to better understand the current climate, understand positions on Zcash and work through privacy implications for personal, business and national security.

The pair also met with over 20 other teams including regional and global exchanges, OTC desks, development projects, custody providers and others.

Additionally we organized the first Zcash meetups in each of the three cities. The video recording from the Seoul Meetup hosted by [KryptoSeoul](#) is available [here](#).

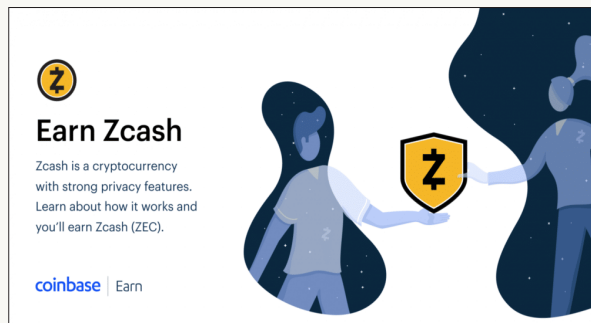
RESEARCH

In partnership with [Least Authority](#), ECC released the results of a study conducted by TechGDPR on Zcash GDPR compliance. The results? [Zcash shielded addresses are compliant by default](#).

The [Open Money Initiative](#) (OMI) [was launched](#) from research work sponsored by the company the year before. OMI's mission is to "tackle problems of education, usability, and exchange to enable cryptocurrencies to become a tool of freedom in areas of financial repression."

EDUCATION

ECC worked with Coinbase to build content and financially support the [Zcash earn-drop campaign](#) to coincide with the launch of Zcash on the exchange. [The results speak for themselves](#). There are now over 125k Zcashers on the Coinbase exchange.



We also worked with [eToro on a research paper](#) to help educate their users about Zcash.

Introducing You To the People Behind ECC

We took a bit of time to introduce you to some of the engineering team at ECC, including [Daira Hopwood](#), [Marshall Gaucher](#), [Eirik Ogilvie-Wigley](#) and [Jack Grigg](#).

SPEAKING

ECC team members spoke at nine different events on various Zcash, cryptography and privacy related topics.

These events included: Real World Crypto (Zooko Wilcox), Stanford Blockchain Conference (Sean Bowe), Trust Machine Showing (Josh Swihart), Eth Denver (Zooko Wilcox), MIT Bitcoin Expo (Paige Peterson), Radicalxchang (Zooko Wilcox), Bay Area Zcash Users Meetup (Joseph Van Geffen), Rust LATAM (Jack Grigg) and FCA Innovate (Jack Gavigan).

Q1 2019 NOTABLE PRESS MENTIONS

- [Forbes](#) on Zcash GDPR Compliance
- [Cryptoslate](#) on Zcash GDPR Compliance
- [Fortune](#) coverage of the Zcash vulnerability disclosure
- [Fast Company](#) on Cryptocurrencies in Challenging Geographies
- [CryptoBriefing](#) on eToro Analysis

Q1 PODCASTS AND INTERVIEWS

- [Down the Rabbit Hole](#) from Shapeshift
- [Crypto Bytes](#) from Abra
- [What Bitcoin Did](#) with Peter McCormack
- [Privacy on Cryptocurrencies](#) with cripto247

Third-party Adoption

NOTABLE ZCASH ADOPTION IN Q1 INCLUDES:

- [Trust Wallet](#) from Binance
- [OTC trading at Galaxy Digital](#)
- [Custody](#) at Coinbase
- Binance's [addition of Zcash trading pairs](#)



- Valr's [addition of Zcash in S. Africa](#)
- Tor's addition of a [Sapling address for donations!](#)

Regulatory Relations

ECC believes that well-informed and educated policy-makers and regulators produce better regulation. To that end, we engage with policy-makers and regulators both directly (through outreach; meetings; providing feedback on proposed legislation and regulation; and educational activities designed to improve understanding of blockchain/ DLT technology, cryptocurrencies in general, and Zcash specifically) and indirectly (by supporting and contributing to the efforts of organizations like Coin Center, the Blockchain Alliance and Global Digital Finance).

Examples of such activities we undertook during Q1 include giving a presentation about the regulatory implications of privacy-preserving technologies as part of an open day hosted by the UK's Financial Conduct Authority, and contributing to [Global Digital Finance's response to FATF's proposals for regulating virtual assets](#).

INVEST IN THE TEAM

Hiring

ECC worked through a hiring freeze in Q1 2019 in order to constrain spending and survive “Crypto Winter.” The team pulled together and worked hard to deliver, despite being stretched thin by the hiring freeze. We are proud of the fact that, unlike a number of other crypto projects, we made it through without having to do any staff reductions. We were able to survive without layoffs because we were relatively conservative with our hiring during the boom cycle.

HR

A number of improvements were made to increase support for our team, including refactoring our “fun Fridays.” We held our first set of “performance reviews” for our people, which is typical in corporate environments but is unusual for open-source projects. We also performed a leveling exercise to better understand where our people’s compensation levels were with respect to market rates.

Board of Directors

As the company matured, a [Board of Directors](#) was officially appointed to provide a higher level of oversight and accountability.

INCREASE OPENNESS AND TRANSPARENCY

Audit Results

BLOSSOM ZIPs

ECC engaged with Coinspect and NCC Group to perform security assessments on ZIPs 207 and 208, both proposed for the Blossom network upgrade, and subsequently [published those reports](#).

Vulnerability Disclosure

A vulnerability was discovered in Zcash and it was remediated in the October 2018 Sapling activation. [The full disclosure was posted on our blog](#) in February.

We diligently prepared communications in late 2018 and Q1 2019. The team’s work set the standard for responsible disclosure of vulnerabilities in cryptocurrencies.

Outside of a small group of people, the vulnerability was not disclosed to the ECC team until early 2019. The broader ECC team then diligently prepared for the disclosure including prepping communications to third parties like exchanges and wallet providers, engaging with the Zcash Foundation and founding scientists, coordinating communications with other affected third parties, and preparing to collaboratively field questions from the community on the day the disclosure was posted.

INCREASE OPENNESS AND TRANSPARENCY (CONT'D)

Community Updates

In addition to the regularly scheduled AMA sessions in the forum, ECC began work on driving better access to company team members and providing regular updates.

We hosted our first [quarterly livestream](#) with company and community updates, released our first [quarterly newsletter](#), posted [weekly updates](#), and provided product updates on the [light wallet](#) and the upcoming [Blossom upgrade](#).

Trademark

Though we reduced trademark activity due to the market downturn, we did continue in-flight efforts that included work on word and logo trademarks in Canada, Singapore and South Korea under classes 9 and 42.

“Bitcoin and Zcash are two revolutionary technologies vying for different mantles — Bitcoin being digital gold and Zcash being digital cash.”

– **Cameron Winklevoss**
President, *Gemini*

Shen, Lucinda. “Here’s Why Cryptocurrency Zcash Is Soaring While Bitcoin Languishes,” *Fortune.com*. May 15, 2018. <https://fortune.com/2018/05/15/zcash-bitcoin-gemini/>

Financial Sustainability:

During Q1, ECC operated at a deficit as we averaged approximately \$525,000 a month in USD-based expenses, or approximately \$635,000 including employee compensation paid in ZEC at the Q1 ZEC price of roughly \$55 (the average ZEC daily closing coin price during the period).

The income of 6,157 ZEC per month plus the 2,000 ZEC for employee compensation provides the company with approximately \$449,000 at the average price of ZEC for Q1. The company's first quarter ending amount of USD and Zcash was approximately \$5.2M. The company currently holds approximately \$6.4M worth of USD and Zcash.

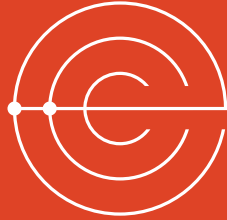
As a result of the deficit and market uncertainty, the company reduced spending in a number of areas including PR, trademark protections, engineering, event sponsorships and other non-critical activities. We also approached FR recipients to request dilution in order to allocate additional funds to allow ECC the ability to continue to operate and invest in Zcash R&D, engineering and adoption. This dilution took place in June.

The following table represents the Share of Mining Rewards allocated following the June dilution.

RECIPIENT	SHARE OF MINING REWARDS	MONTHLY USD VALUE AT ZEC PRICE OF \$55*
MINERS	80.0%	\$9,625,000
FOUNDERS AND VESTED EMPLOYEES	9.6%	\$1,155,000
ZCASH FOUNDATION	2.2%	\$264,700
ELECTRIC COIN COMPANY	5.75%	\$691,800
ELECTRIC COIN COMPANY EMPLOYEES	2.45%	\$294,800

*rounded to the nearest \$50

The company's new allocation of funds will allow it to both sustain R&D and engineering and invest in new areas to grow adoption. The post-dilution ECC Employee amount includes an allocation of new units to provide incentive for future recruitment and retention of employees.



ELECTRIC COIN CO.

electriccoin.co