# Electric Coin Co.Transparency Report December 2019

A review of income, expenses and use of funds in Q2 2019*

Why release a transparency report?

Electric Coin Co. (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. This transparency report details company income, expenses and use of funds during Q2 2019.
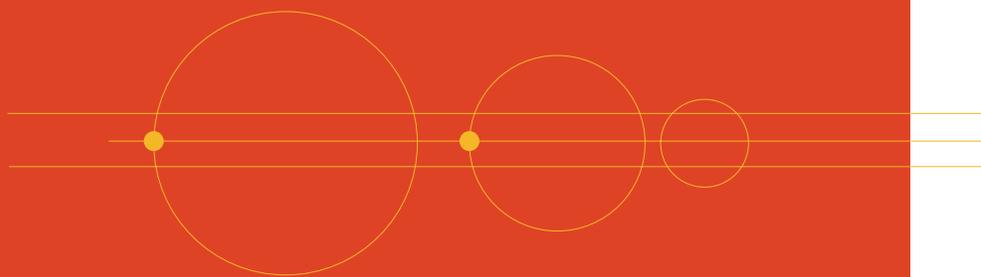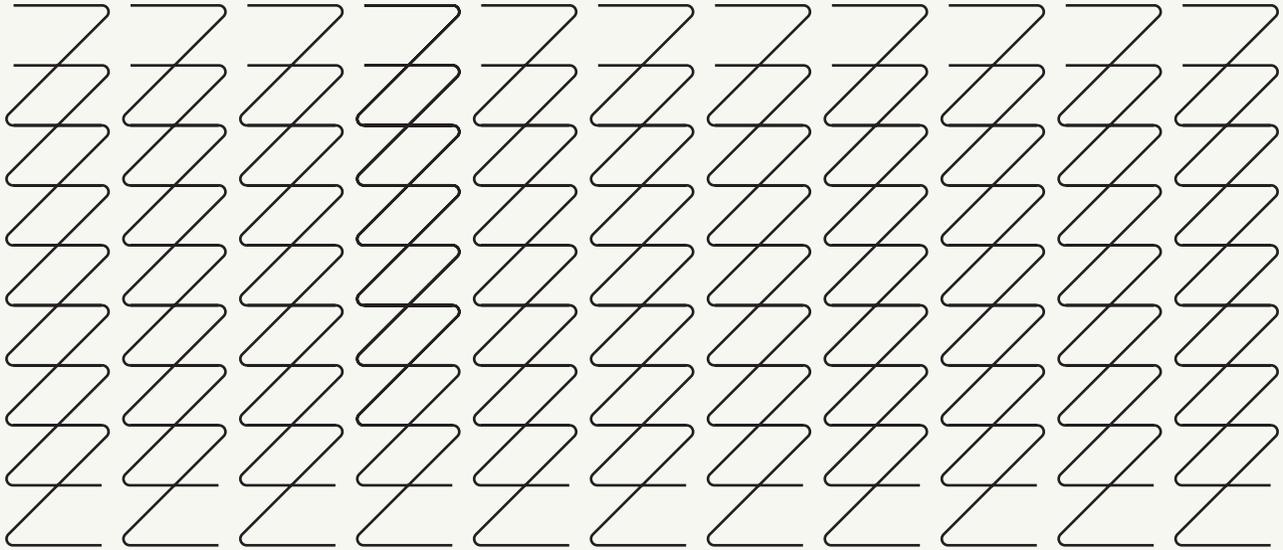
Key takeaways:

- As a result of a budget deficit and some market uncertainty, ECC approached Founders Reward recipients to request dilution. This would allow additional funds to be allocated to ECC, for continued operations and investment in Zcash R&D, engineering, regulatory engagement, adoption and demand generation. The dilution was approved and was implemented in June. Details of ECC activities for the quarter are provided within this report.

- ECC received approximately $634,000 per month in April and May and $1,110,000 in June, based on the average closing coin price of $78.

- At the end of Q2, the company held approximately $7.35M in USD and ZEC. Primarily due to the decline in the price of ZEC since the end of June, ECC's current holdings are approximately $4.4M in USD and ZEC.

*Note: Previous Electric Coin Co. Transparency Reports were named for the quarter in which they were released, e.g., Electric Coin Company Q3 2019 Transparency Report. The convention was problematic because while it was named for Q3, the report was a review of Q1. Our latest and forthcoming reports will be named for the month they are released and subtitled according to the period of time referenced in the report.

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 as a block reward. The remaining 2.5 ZEC are split among various parties, and this is collectively called the "Founders Reward" (FR). The FR will expire in in Q4 2020. At that time, block rewards will also be halved to 6.25. The halvening will continue to occur every four years thereafter.

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The distribution of FR in April and May is broken down in the pie chart below.
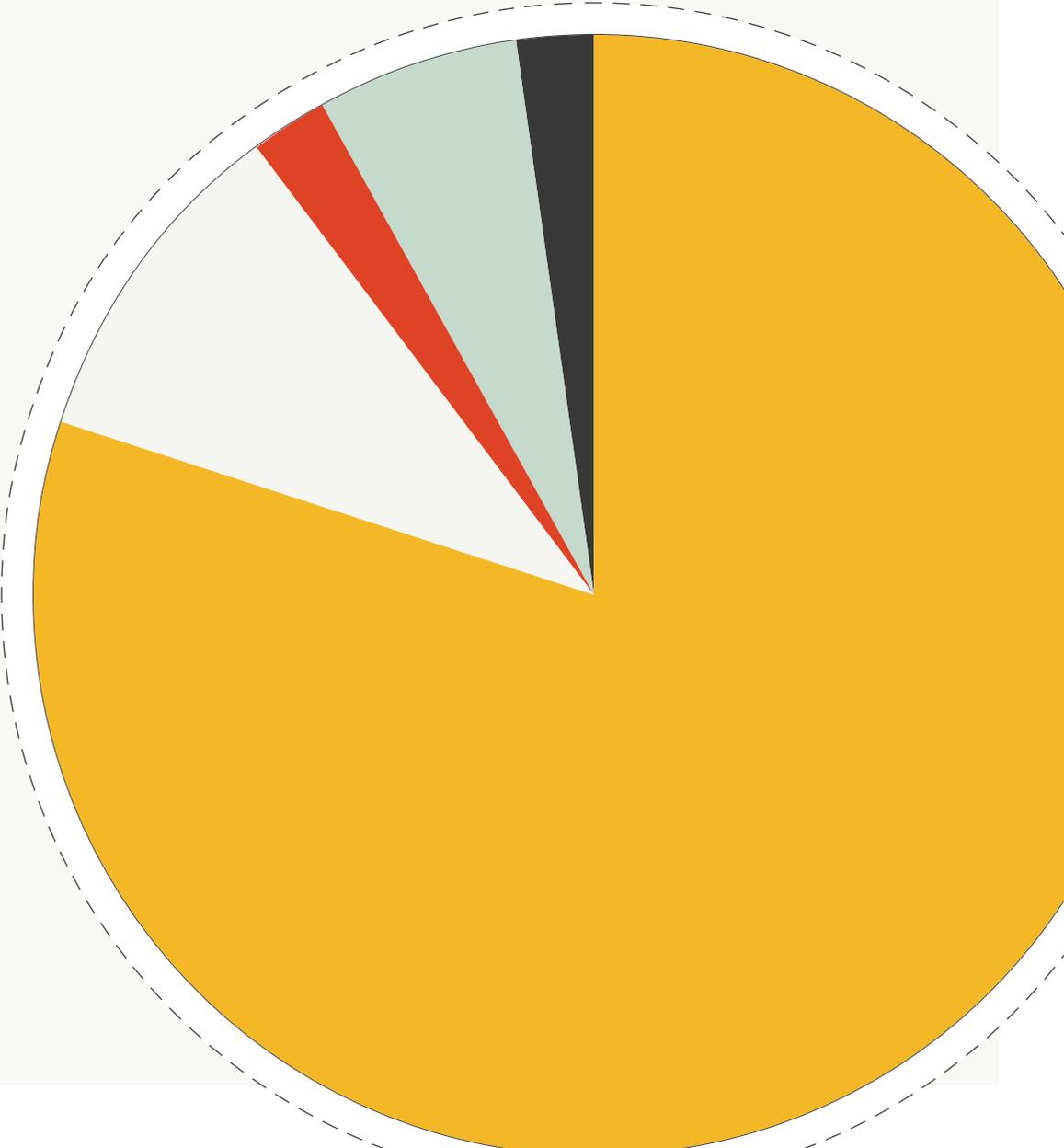
80% MINERS

13.25% FOUNDERS & VESTED EMPLOYEES

3.0% ZCASH FOUNDATION

2.8% ELECTRIC COIN CO.

.95% ADDITIONAL ECC EMPLOYEE COMPENSATION

See page 6 for further detail.

ELECTRIC COIN CO.

The distribution of FR in June, following dilution, is broken down in the pie chart below.

- **80%** MINERS
- **9.85%** FOUNDERS & VESTED EMPLOYEES
- **2.2%** ZCASH FOUNDATION
- **5.75%** ELECTRIC COIN CO.
- **2.2%** ADDITIONAL ECC EMPLOYEE COMPENSATION

See next page for further detail.

ELECTRIC COIN CO.

The approximate amount of total mining rewards generated each month is currently 218,750 ZEC. At a price of $78 per coin (the average of the daily closing price of ZEC in Q2), this equates to $17.063M.

The following is the approximate share of mining rewards and estimated dollar value received per month both pre- and post-dilution.

	PRE DILUTION — APRIL & MAY		POST DILUTION — JUNE	
RECIPIENT	SHARE OF MINING REWARDS	MONTHLY USD VALUE AT ZEC PRICE OF $78*	SHARE OF MINING REWARDS	MONTHLY USD VALUE AT ZEC PRICE OF $78*
MINERS	80.0%	$13,650,000	80.00%	$13,650,000
FOUNDERS AND VESTED EMPLOYEES	13.25%	$2,260,800	9.85%	$1,680,700
ZCASH FOUNDATION	3.0%	$511,900	2.20%	$375,400
ELECTRIC COIN CO.	2.8%	$477,750	5.75%	$981,100
ECC EMPLOYEE COMPENSATION	.95%	$162,100	2.20%	$375,400

Average of daily closing price Q2

Key

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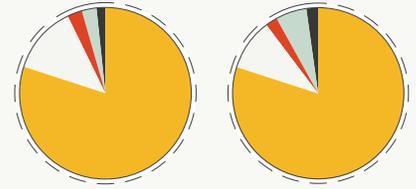
MINERS

Responsible for transaction verification.

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FOUNDERS & VESTED ECC EMPLOYEES

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

ECC employees also receive a share of the FR 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 options 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.

ECC 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.

ECC EMPLOYEE COMPENSATION

A portion of the FR is used as compensation for ECC employees. This category represents compensation paid for unvested shares and will fluctuate relative to vesting.

ECC income and holdings

ECC income for April and May was 6,157 ZEC (approximately $634,000 at $78 per coin) per month. ECC income for June, following the dilution, was 12,233 ZEC (approximately $1,110,000). ECC employee average compensation from the FR was approximately 1,350 coins for each of the three months. As part of the dilution, an additional 3,850 coins per month were set aside for future ECC employee compensation. None of those coins were distributed in June.

The ECC at quarter end held approximately $7.35M in cash and ZEC coin at the June closing price of $102.85. Primarily due to a decline in the price of ZEC since the end of June, ECC's current holdings are approximately $4.4M in USD and ZEC.
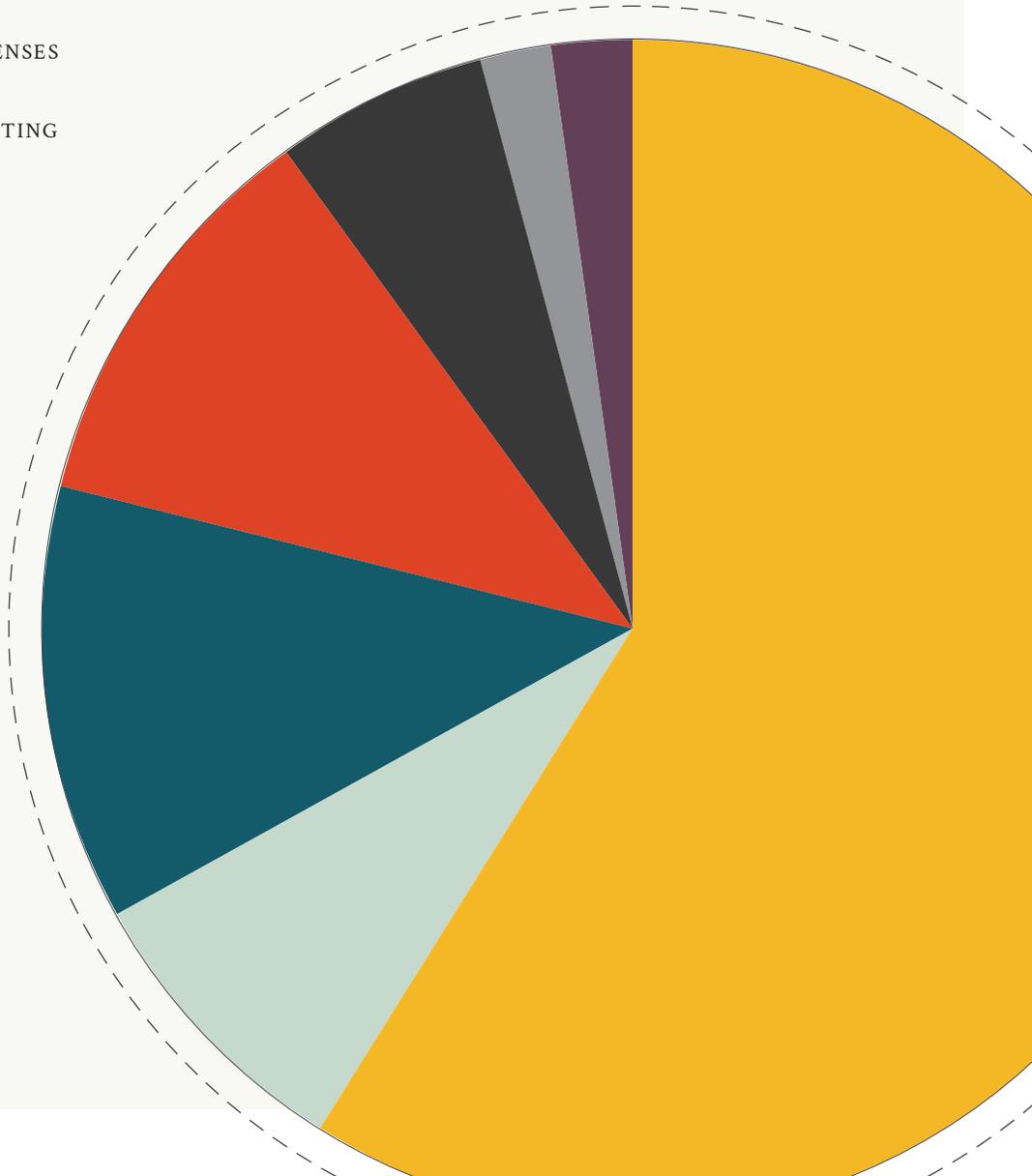
Early ECC investors

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:

During Q2 2019, ECC expenses averaged approximately $680,300 per month. This includes ~$575,000 per month in operating expenses plus ~$105,300 worth of ZEC per month that was paid out in ECC employee compensation. The breakdown of operating expenses are illustrated in the graph below.

Note: The categorization illustrated deviates slightly from transparency reports released in previous quarters. "Marketing and PR" was relabeled to "Growth". In previous reports, marketing and business development salaries were included in "Marketing and PR" and not in "Employee Wages." In this report, employee compensation for all employees was moved to "Employee Wages." For comparative purposes, the aggregate Employee Wages in Q1 were 63% and "Marketing and PR" spend was 7% when using the categorization used for Q2.

- **59.0%** EMPLOYEE WAGES
- **8.0%** GROWTH
- **12.0%** GENERAL & ADMINISTRATIVE
- **11.0%** CONSULTING
- **6.0%** TRAVEL & EXPENSES
- **2.0%** SECURITY AUDITING
- **2.0%** SOFTWARE

ELECTRIC COIN CO.

Q2 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 across R&D, engineering, regulation, adoption and demand generation. The activities below included **work in the second quarter of 2019**. In some cases, we might reference work that was since completed but in progress during this time period.

DRIVE ADOPTION WHILE MAINTAINING QUALITY

Research & development

ECC dedicates a large amount of its engineering team to research focused on Zcash improvements, advances in cryptography, and advances in privacy enhancing technologies in general. We completed research and implementation of the Sapling Migration tool outlined in ZIP 308, which started in November of 2018.

During Zcon1, the annual Zcash Foundation-hosted conference, two ECC engineers presented work:

Daira Hopwood presented a refinement of hir "scalable privacy" proposal. This aims to describe a version of Zcash that is horizontally scalable, i.e., it can be scaled by adding more nodes to the network, without compromising privacy. Jack Grigg built a proof-of-concept Zcash JavaScript SDK, backed by the ECC suite of Rust crates, which were compiled to WASM. This was used to demonstrate a Zcash light client running in the browser, receiving and sending testnet funds. Sean Bowe wrote a new optimized and embedded-friendly Rust implementation of Jubjub, and Jack used it to demonstrate RedJubjub signatures being created on a Ledger Nano S. This work is a precursor to bringing shielded Zcash to many more devices such as hardware wallets.

Some of our longer term research was focused on recursive proof composition that soon after lead to the breakthrough titled Halo, pioneered by Sean Bowe and announced in September.

Engineering

ECC committed in mid 2018 to build and open source tools that help developers integrate shielded Zcash — first and foremost on mobile devices. In April, we open sourced our first batch of work, an Android proof of concept on testnet that used our compact block model to preserve privacy while still limiting download size required by a mobile app. The proof of concept has since evolved and been refined with the help of external wallet developers, but this first deliverable was an immense step forward.

We released zcashd version 2.0.5-2, which introduced a tool to help privately migrate funds from Sprout to Sapling shielded Zcash pools. Along with this tool, ECC also implemented a soft network upgrade that rejects blocks that could violate the value of either shielded pool. This feature was implemented proactively to protect users from the unlikely event of a pool-value violation. 2.0.5-2 also delivered support for 64-bit ARMv8 architecture devices, opening possibilities to run zcashd on ARM-based machines.

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, the Blockchain Association and Global Digital Finance).

Examples of such activities we undertook during Q2 include speaking at Paris Blockchain Week to address concerns raised by French legislators; taking part in the FATF Private Sector Consultative Forum in Vienna (at which the FATF Recommendations were finalized); and providing feedback to HM Treasury on its plans for implementing the EU's Fifth AML Directive.

Adoption

Our adoption work includes partner engagement and support, including for the Zcash development community, exchanges, wallets, custody providers, OTC desks and commerce tools.

Notable Zcash announcements in support of our adoption efforts include:

• Wallet provider Guarda was the first to announce mobile support of shielded addresses and transactions in a mobile wallet. Their wallet is available here: https://play.google.com/store/apps/details?id=guarda.shielded

• We continue to build partnerships with the most highly regarded exchanges, wallets, custody providers, OTC desks and others. In Q2, Coinbase announced the ZEC/BTC pair in Coinbase Pro.

Demand generation

Q2 2019 was a quarter of connection. We reduced spending on trademark activities, PR, event sponsorships and translations. However, we spent more time face-to-face with key influencers and thought leaders to get feedback on our performance to date, and future plans and perspectives on long-term funding. A significant conclusion we reached was that ECC could not lead the conversation on long-term funding. The community would need to take the lead.

Zooko and VP of Marketing and Business Development Josh Swihart wrapped up their trip to Asia early in the quarter. It included an unexpected return trip to Japan to meet with the director general of the Japan Virtual Currency Exchange Association (JVCEA), Japan's most significant self-regulating organization (SRO), to establish a plan for the possible reintroduction of Zcash to Japanese exchanges. Josh summarized the trip in a tweetstorm and later provided additional information on FATF implications in S. Korea in another tweetstorm.

Other notable work included engagement to encourage charitable giving with Zcash.

SPEAKING

ECC team members spoke at more than a dozen events on various Zcash-, cryptography- and privacy-related topics.

Some of these included:

- Deconomy (Zooko Wilcox)
- KryptoSeoul with Zcash w/ video ▶ (Zooko Wilcox)
- 2nd ZKProof Workshop w/ video ▶ (Sean Bowe)
- Paris Blockchain Week Summit (Jack Gavigan)
- Jalisco Talent Land (Brad Miller)
- Zero Knowledge London Meetup w/ video ▶ (Daira Hopwood)
- Greek Cryptocurrency Community Meetup w/ video ▶ (Remote - Elise Hamdon)
- Consensus (Josh Swihart, Page Peterson, Brad Miller)
- Stanford Business School (Zooko Wilcox)
- a16z Regulatory Summit w/ video ▶ (Zooko Wilcox)
- Zcon1 w/ video ▶ (Nathan Wilcox, Daira Hopwood, Str4d, Sean Bowe, Linda Naeun Lee, Zooko Wilcox, Josh Swihart, Jack Gavigan, BamBam)
- Rome Blockchain Week (Paige Peterson)

Q2 2019 NOTABLE MENTIONS

- Coinpost (Japanese):
  https://coinpost.jp/?p=77177

- Crypto Times (Japanese):
  https://crypto-times.jp/zcash-interview/

- Coindesk/OMI:
  https://www.coindesk.com/whats-holding-back-bitcoin-in-venezuela-this-group-is-investigating

Q2 PODCASTS AND INTERVIEWS

- Off The Chain — Pomp w/ Zooko Wilcox:
  https://podcasts.apple.com/us/podcast/zooko-wilcox-ceo-zcash-evolution-legitimately-private/id1434060078?i=1000440661979

- Ripio w/ Brad Miller:
  https://www.youtube.com/watch?v=vec1rkmbyNU

- Global Coin Research w/ Josh Swihart:
  https://globalcoinresearch.com/2019/05/01/join-global-coin-research-and-messaris-joint-conference-call-with-josh-swihart-zcashs-head-of-business-development-and-marketing-to-talk-about-zcashs-asia-focus-in-2019/

- Zero Knowledge Podcast w/ Sean Bowe:
  https://www.zeroknowledge.fm/76

- Blockcode w/ Nathan Wilcox:
  https://www.youtube.com/watch?v=NTV0Rhl8jq0&feature=youtu.be

- Guarda with Paige Peterson:
  https://www.youtube.com/watch?v=IUMRrAuB-rA&feature=youtu.be

Hiring	We converted two initial contractors, our Android developer and user experience design lead, to full-time roles in order to double down on our commitment to mobile SDKs and mobile wallets.
	We hired an associate DevOps engineer to manage internal company IT and contribute to our Dev Infra team.
HR	The ECC team participated in Zcon1 in Croatia. We used this time to attend the conference, participate in team activities, and connect with the community.
	We overhauled our health insurance plans for US-based employees, in order to provide more comprehensive options.
Board of directors	The ECC leadership team and board of directors met for a full-day strategy session prior to Zcon1 in Croatia. We reviewed progress against stated goals, and we developed goals for the second half of the year.

INCREASE OPENNESS AND TRANSPARENCY

ECC's new brand and website	ECC unveiled a new brand and website (separate from z.cash). Our goal was to provide clarity about the difference between the company and the cryptocurrency.
	The new website, electriccoin.co, includes company and team information and the company-maintained blog. Likewise, company email addresses changed to reflect the new domain, and social media channels now reflect the new brand, as well.
	Z.cash continues to host information about the Zcash ecosystem that is not specific to the company — such as protocol announcements, regulatory resources, security information, educational guides and more.
Messari	In our efforts to set the bar for unparalleled transparency, ECC funded and provided information to Messari to be included within the Messari Registry. This project's stated intent is to "be a collective action to push standards of basic disclosures that should be expected of projects with numerous global stakeholders. We want to allow for honest projects to have a platform to differentiate themselves and build trust with their communities and anyone looking to better understand their project."
	More information is available on the Messari website.

Comms

In April, we introduced the new Buzz page to z.cash. This compilation of news from an array of online sources tracks all things buzz-worthy related to Zcash.

Our first Transparency Report was published in May. (We've since fixed the confusing naming convention). We held our ECC Livestream in June, and we published our second quarterly newsletter that month, too.

We did our first reporting on the success of the Coinbase Earn campaign, which had kicked off in Q1 and featured a charitable giving campaign in Q2, as well.

Trademark

Trademark activity was somewhat reduced due to the market downturn, but 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.

We also began work on the trademark donation, an agreement that was only recently signed, which transfers ownership of the Zcash trademark to the Zcash foundation — at no cost — and stipulates rights, obligations and limitations.

"All networks that claim they will 'decentralize governance later,' will have to walk a similar path to the one #Zcash's been walking."

– **Chris Burniske**
@cburniske
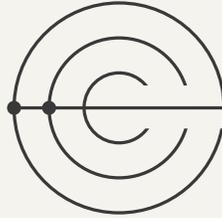
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