

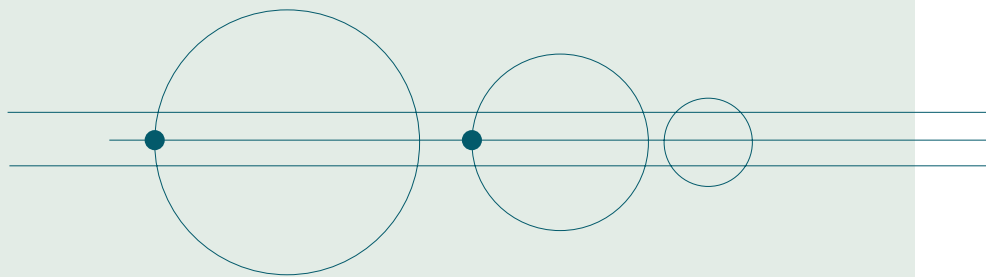
Electric Coin Co. Transparency Report June 2020

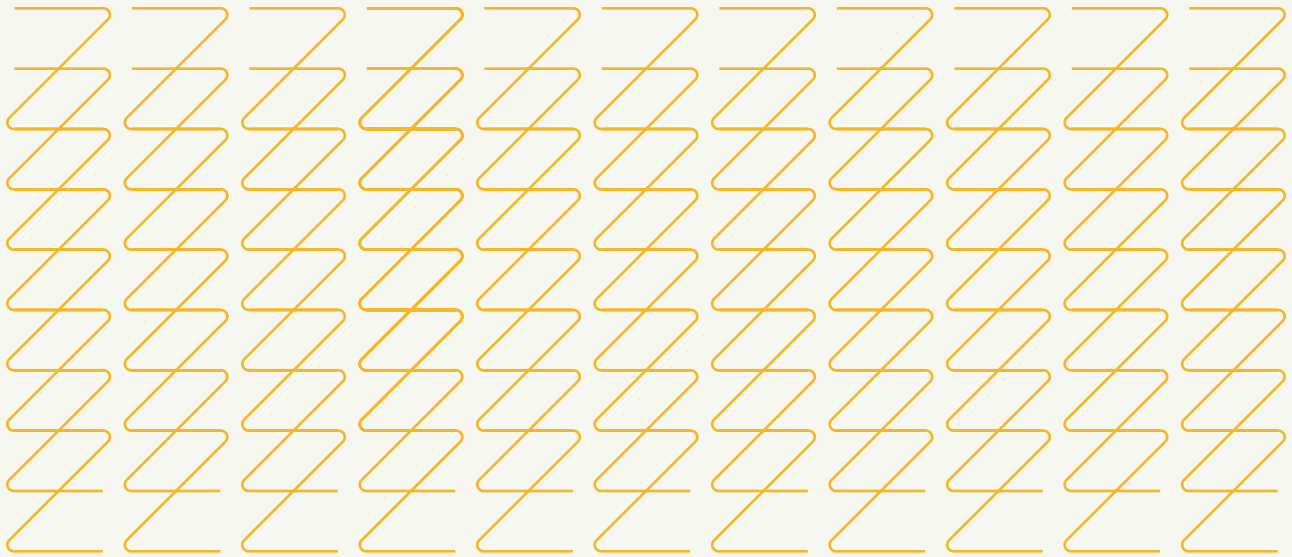
A review of income, expenses and use of funds in Q4 2019



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 Q4 of 2019.





Key takeaways:

- ECC used funds in excess of the coin value received in Q4 2019 — we received coins at an average of \$410,000 a month and realized approximately \$710,000 a month in operating expenses. Separately we distributed \$127,800 a month in employee incentive compensation from the Founders Reward distribution, paid in ZEC at the Q4 ZEC price of roughly \$33.50 (the average ZEC daily closing price during the period).
- At the end of Q4, the company held approximately \$3.9M in USD and ZEC, based on the December closing price of \$27.23. ECC's holdings at the current ZEC price are approximately \$7.2M in USD and ZEC.
- ECC realized expense increases during Q4, including for security work that was in process during the previous quarter and one-time expenses such as the write off of the capitalized value of the trademark. Company expenses will be lower in the following quarter as we closely controlled spending.

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 6.25 Zcash (ZEC), and blocks are mined every 1.25 minutes. Miners receive 5 ZEC plus transaction fees as a block reward. The remaining 1.25 ZEC are split among various parties, and this is collectively called the “Founders Reward” (FR).

The FR will expire in Q4 2020 at the halvening, which occurs every four years. At that time, block rewards will be halved to 3.125 and [a new development fund](#), as proposed and approved by the community, will be implemented. The new dev fund stipulates that 80 percent of Zcash issuance will continue to be distributed to miners, while 20 percent will be devoted to Zcash development funding. Importantly, 8 percent of the total block reward (or about 35 percent of the new dev fund) will go into a grant program that will exclusively fund independent third-party developers. ECC will receive 7 percent of the total rewards, and the remaining 5 percent of rewards will go to support the work of the Zcash Foundation.

The distribution of FR in October, November and December 2019 is broken down in the pie chart below.



See next page for additional detail.

The approximate amount of total mining rewards generated each month is currently 218,750 ZEC. At a price of \$33.50 per coin (the average of the daily closing price of ZEC in Q4), this equates to \$7.328M.

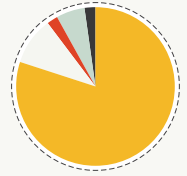
The table below shows the approximate share of mining rewards and estimated dollar value received per month.

OCTOBER-DECEMBER 2019

RECIPIENT	SHARE OF MINING REWARDS	MONTHLY USD VALUE AT ZEC PRICE OF \$33.50*
MINERS	80.0%	\$5,862,500
FOUNDERS AND VESTED EMPLOYEES	10.31%	\$755,530
ZCASH FOUNDATION	2.20%	\$161,219
ELECTRIC COIN CO.	5.75%	\$421,367
ECC EMPLOYEE COMPENSATION	1.74%	\$127,803

**Average of Daily closing price Q4*

Key



MINERS

Responsible for transaction verification.

FOUNDERS & VESTED ECC EMPLOYEES

The company's founders — including the founding scientists — 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 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 are provided 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 is realized at the time of selling coins received. During Q4, ECC received 12,233 ZEC (approximately \$410,000 at \$33.50 per coin) per month. Separately, ECC employee total incentive compensation from the FR was approximately 3,815 average monthly coins for October, November and December.

At year end, ECC held approximately \$3.9M in cash and ZEC at the December closing price of \$27.23. ECC's current holdings are approximately \$7.2M in USD and ZEC.

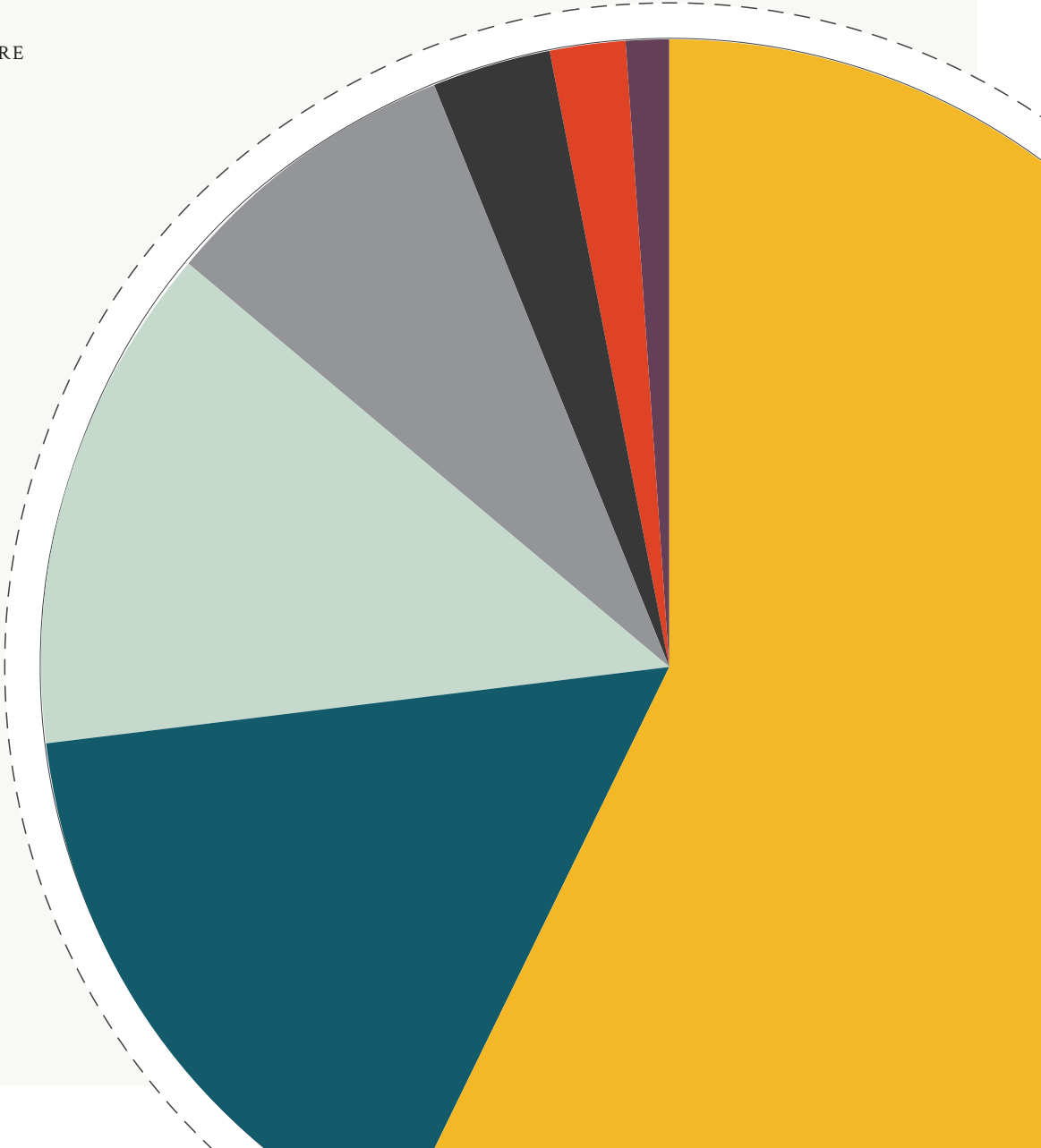
Early ECC investors

ECC 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 Q4 2019, ECC operating expenses averaged approximately \$710,000 per month. The breakdown of operating expenses are illustrated in the graph below.

- 58.0%** EMPLOYEE WAGES
- 16.0%** GENERAL & ADMINISTRATIVE
- 13.0%** GROWTH
- 8.0%** SECURITY AUDITING
- 3.0%** TRAVEL & EXPENSES
- 2.0%** CONSULTING
- 1%** SOFTWARE



Q4 2019 use of funds

ECC used funds received to develop and support Zcash technology and the 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 fourth 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 continues to dedicate a large amount of its engineering capacity to research focused on Zcash protocol improvements and advances in cryptography. Work continued on Halo, and the [paper](#) authored by ECC employees Sean Bowe, Daira Hopwood and Jack Grigg was updated with optimization descriptions.

Engineering

During the quarter, the ECC engineering team produced two releases of Zcashd, focused primarily on supporting the Blossom network upgrade and addressing a security issue. On November 4, we released [version 2.1.0 of Zcashd](#). This release set the mainnet activation height for the Blossom network upgrade, addressed a mempool denial-of-service attack, and disabled old Sprout proofs. On November 8, we released [version 2.1.0-1 of Zcashd](#) to address a security issue. The issue was [announced](#) on the bitcoin-dev mailing list earlier that morning. The [Blossom network upgrade](#) activated on December 11. Blossom was primarily designed to improve scalability and user experience by cutting block times in half.

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 Q4 include co-chairing the [Global Digital Finance KYC / AML / CFT working group](#), contributing to the [Whitechapel Think Tank's](#) work on the Future of Payments, speaking at [CipherTrace's Travel Rule Compliance Conference](#), and delivering a seminar to an audience of regulators and compliance professionals on [Privacy Coins and the implications for AML/CFT regulation](#).

Third-party adoption

In Q4, Zcash was listed on Binance.us, based on the company's US Digital Asset Risk Assessment Framework. The findings of the evaluation are consistent with our assertion that Zcash is fully compliant with AML / CFT regulatory requirements.

Zcash users gained the ability to earn interest on their holdings through a partnership between Bitcoin IRA and Genesis Capital. Zcash support was also added into the SafePal hardware wallet.

A growing number of charitable causes accept Zcash. In Q4 we saw adoption by [YMCA](#) of Saint Petersburg and [Tails](#), a privacy-preserving operating system.

User adoption and education

Additional speaking

ECC team members attended several events on various Zcash-, cryptography- and privacy-related topics.

- [DevCon19](#) (Josh Swihart)
- [ZK Summit SF](#) (Sean Bowe, Jack Grigg & Nathan Wilcox)
- [ZKProof Amsterdam](#) (Daira Hopwood & Jack Grigg)
- [Prosper Retreat](#) (Elena Giralt & Linda Liu)
- [SF Blockchain Week](#) (Zooko Wilcox, Nathan Wilcox & Joseph Van Geffen)
- [CipherTrace Travel Rule Conference](#) (Jack Gavigan)
- [Crypto Community Project](#) (Josh Swihart, Andre Serrano, Elena Giralt & Savannah Baily)
- [Consensus: Invest](#) (Andre Serrano)
- [DAS:Markets](#) (Andre Serrano)
- Navigating Blockchain: Trust vs. Control, Transparency vs Privacy (Elena Giralt)
- [LABitConf](#) (Elena Giralt)

Q4 2019 notable mentions

The ECC-sponsored Crypto Community Project was covered in [The New Yorker](#).

[Coindesk](#) wrote about the ECC's Zcash trademark donation, as did [Cointelegraph](#), [The Block](#), [Blockchain News](#) and [The Next Web](#).

[Coindesk](#) wrote about Halo and its potential impact beyond cryptocurrency.

Zcash and ECC were featured in [The Street](#), and Zcash was given an A grade.

In October, [Coindesk](#) wrote about the possibility of the Zcash community developing a wrapped ZEC token that can be used on the Ethereum blockchain.

INVEST IN THE TEAM

Hiring

In Q4 we hired Andre Serrano as a business development manager to build and own strategic partnerships and third-party relationships, in order to accelerate adoption of Zcash. We also hired Steven Smith, director of engineering, to lead and manage our engineers. This role is crucial in aligning our internal engineering and product teams.

HR

We met at the beginning of Q4 in Denver to invest in agile methodology training for the whole company, as well as to plan for Q4. We also introduced the OKR framework across the company, and several teams used the framework to set their quarterly goals. We also invested in Product Owner and Scrum Master training for our POs and SMs.

INCREASE OPENNESS AND TRANSPARENCY

Comms

In Q4, our frequent communications regarding a new Zcash development fund continued as community sentiment was settling. The [forum](#) and [Twitter](#) were active on this topic, and we wrote a series of blogs related to dev funding and trademark negotiations:

- [Electric Coin Co. donates Zcash trademark to Zcash Foundation](#)
- [ECC Response to Zcash Community Polling Results](#)
- [Dev Funds Should Be in Zcash, Not United States Dollars](#)

The ECC [Q4 Livestream](#) took place in November.

Our [Transparency Report](#) covering Q2 2019 was published in December.

Trademark

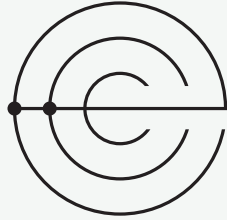
ECC [donated the Zcash trademark](#) to the Zcash Foundation on Nov. 6. The move helps further decentralization and honors the community's voice with regard to the future of Zcash. The agreement contains unique stipulations such as this: No party has independent authority to declare that a specific chain of Zcash can actually be called Zcash. There must be agreement from both parties, and neither party can unilaterally override the will of the community.



Acevedo, who wore a Zcash T-shirt, reminded the students that they were in the Forty-first Precinct — known as Fort Apache, he explained — which was at one time “the most dangerous precinct in New York City.” ... Over truck noise on the Bruckner Expressway outside, Acevedo said, “For the first time in history, if you have a phone you can participate in a worldwide economy without the need of any bank.”

The New Yorker

Dec. 2, 2019



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