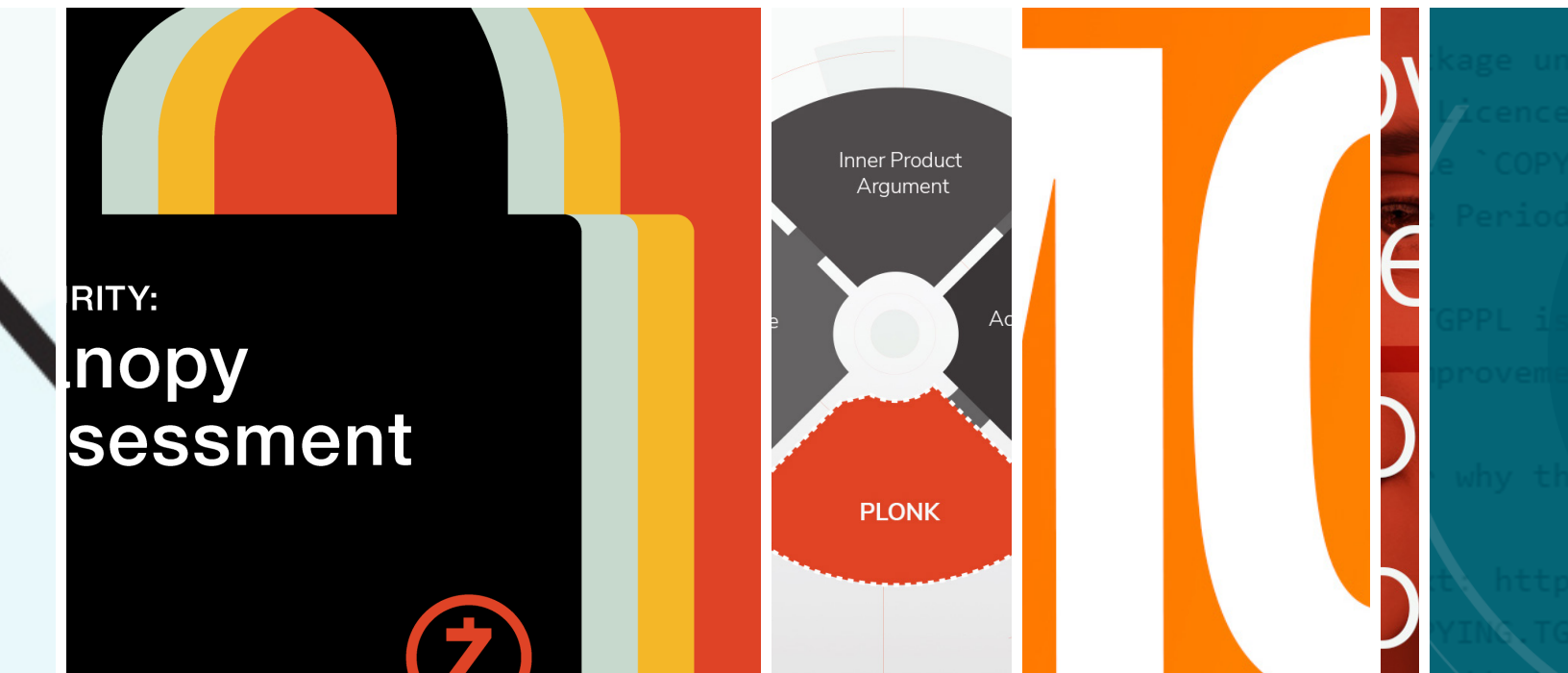




Electric Coin Co. Transparency Report

October 2020

A review of income, expenses and
use of funds in Q1 2020



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 people with economic freedom. This transparency report details company income, expenses and use of funds during Q1 of 2020.



Key takeaways:

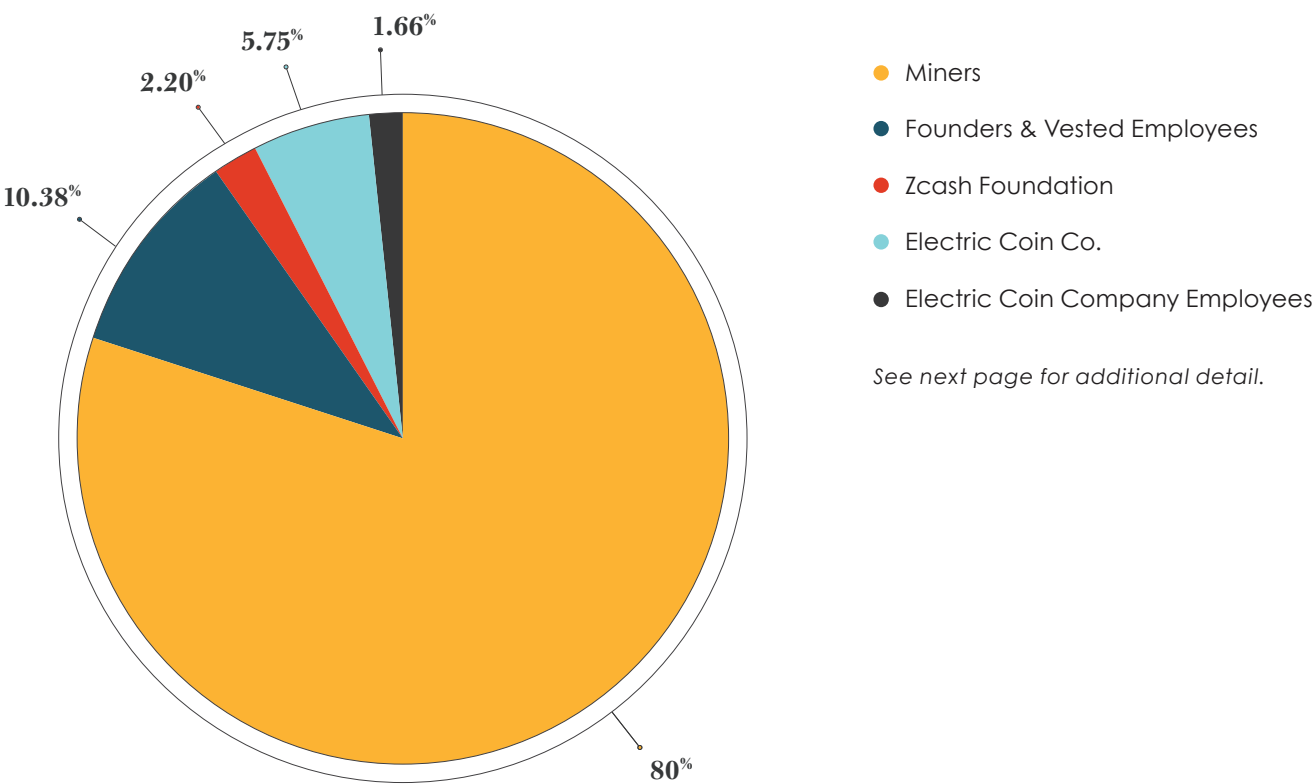
- ECC received coins valued in excess of the operating expenses for Q1 2020: We received coins at an average of \$588,000 a month and realized approximately \$520,000 a month in operating expenses. Additionally, we distributed \$174,600 a month in employee incentive compensation, paid in ZEC at the Q1 price of roughly \$48.05 (the average ZEC daily closing coin price during the period).
- At the end of Q1, the company held approximately \$4.65M in USD and ZEC, based on the March closing price of \$31.08.
- ECC realized lower expenses during Q1 2020 when compared to Q4 2019. This is a result of our efforts to reduce 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.



The approximate amount of total mining rewards generated each month is currently 218,750 ZEC. At a price of \$48.05 per coin (the average of the daily closing price of ZEC in Q1), this equates to \$10.51M.

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

January-March 2020

Recipient	SHARE OF MINING REWARDS	MONTHLY USD VALUE AT ZEC PRICE OF \$48.05*
Miners	80.0%	\$8,408,750
Founders and Vested Employees	10.38%	\$1,091,035
Zcash Foundation	2.20%	\$231,241
Electric Coin Co.	5.75%	\$604,379
ECC Employee Compensation	1.66%	\$174,614

**Average of daily closing price Q1*



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.

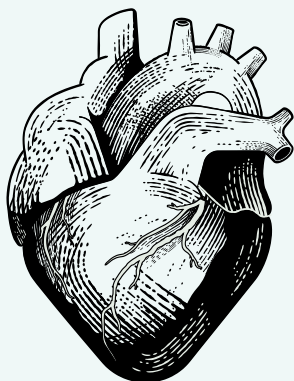
ECC income and holdings

ECC income is realized at the time of selling coins received. During Q1 2020, ECC received 12,233 ZEC (approximately \$588,000 at \$48.05 per coin) per month. ECC employee total incentive compensation from the FR was approximately 3,634 average monthly coins per month for January, February, and March.

At Q1 quarter end, ECC held approximately \$4.65M in cash and ZEC at the March closing price of \$31.08. ECC's current holdings at mid September 2020 are approximately \$8.3M in USD and ZEC.

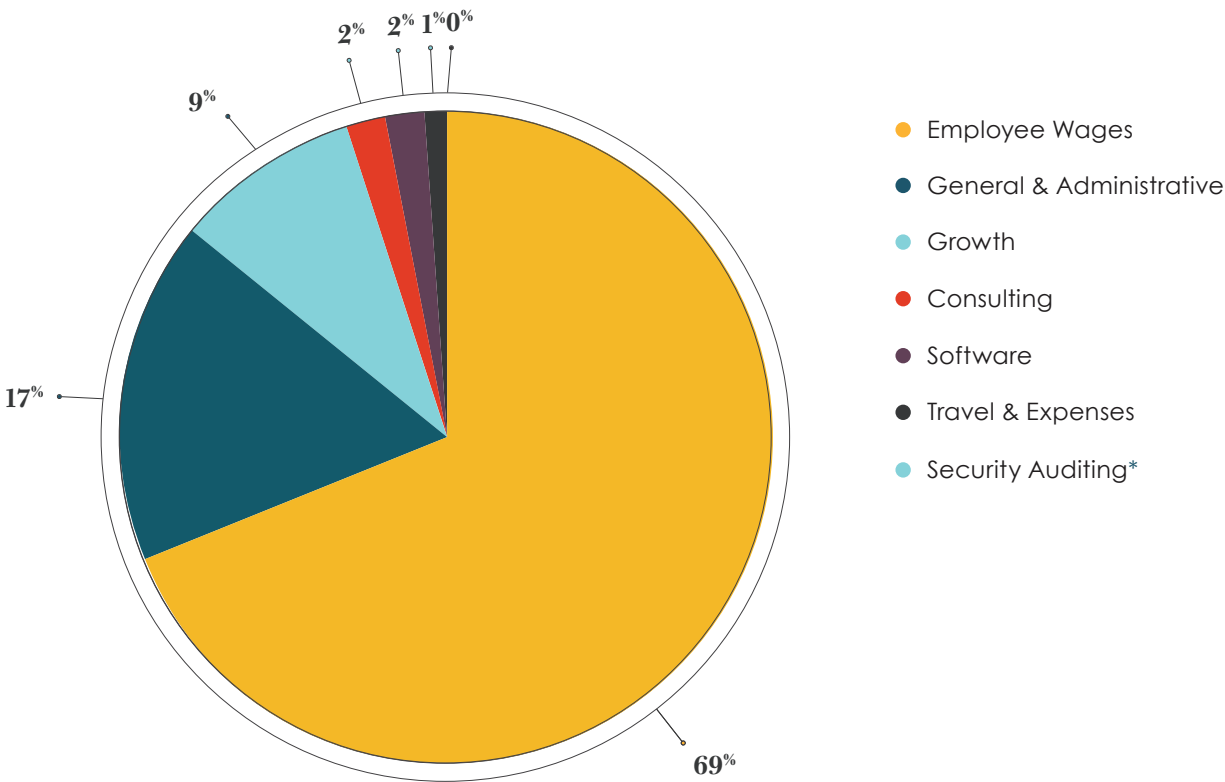
Early ECC investors

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 Q1 2020, ECC operating expenses averaged approximately \$520,000 per month. The breakdown of operating expenses is illustrated in the graph below.



**Security efforts were ongoing in Q1 2020, but no external expenses not covered in other budgets were processed during the quarter*

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 first quarter of 2020**. 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 benchmarks and the security proof.

Engineering

During the quarter, the ECC engineering team produced two releases of Zcashd, focused primarily on addressing security issues. On February 7, we announced [version 2.1.1 and 2.1.1-1 of Zcashd](#). These releases included a timing side-channel fix and a fix for the incorrect banning of nodes during syncing. We also released [several enhancements](#) to our wallet resources for developers, including an improved Android SDK, a new iOS SDK, and a compatible lightwalletd server with increased speed and efficiency. Additionally, we completed [two separate security assessments](#) for the Heartwood network upgrade.

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).

During Q1, we co-chaired the [Global Digital Finance KYC / AML / CFT working group](#), contributed to joint efforts to develop Travel Rule standards by [TRISA](#) and [the Joint Working Group on InterVASP Messaging Standards](#), and supported several exchanges that were facing regulatory or compliance obstacles to listing Zcash in a number of jurisdictions.

Drive Adoption While Maintaining Quality (Cont'd)

Third-party adoption

During Q1, Coinbase launched support for Zcash in New York. New York residents now have the ability to buy, sell and exchange Zcash (ZEC) on Coinbase.com, as well as in its iOS and Android apps.

Binance added Instant Buy support for Zcash, enabling instant purchases through Visa debit and credit cards in supported countries and regions. Binance Futures launched a ZEC/USDT perpetual contract that offers up to 50x leverage. Binance also added support for the ZEC/BUSD trading pair.

Blockchair, a privacy-preserving block explorer, launched a Zcash explorer with advanced transaction functionalities.

Zcash was added to the Ellipal cold storage wallet with trading available on the Ellipal exchange platform. Zcash was also added to the Midas Wallet with support on iOS and Android.

User adoption and education

Speaking

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

- Real World Crypto presenting [BLAKE3](#)
- ETH Denver (Josh Swihart)

Q4 2019 notable mentions

[Zcash, The HTTPS of Blockchains](#) (NAKAMOTO), [Zcash on Binance Futures](#) (Cointelegraph), [DevFund](#) (Coindesk), [Shielded Wallet SDKS](#) (Coindesk)

Community: ECC launched Zeal calls, a monthly community gathering with guest speakers from privacy organizations and partners from around the industry. See the recordings here: [Jan Zeal Call](#), [Feb Zeal Call](#), [Mar Zeal Call Pt 1](#) and [Pt 2](#).

ECC hosted a “Pretty Good Pancakes” breakfast event as part of ETH Denver. This event brought together friends from various projects.

Zcash is regularly one of the top currencies in charitable campaigns organized by The Giving Block. ECC participated in the [COVID relief fundraiser](#) and [Women’s Day crypto campaign](#).

Invest in the Team

Hiring	In Q1 we hired a senior software engineer, Kris Nuttycombe, to help further our commitment to Zcash security and quality and to our end-users.
HR	<p>In Q1, we completed our first remote coworking week to set OKRs for Q1 2020. We also continued to collect feedback and iterate on our performance-review process.</p> <p>As March marked the beginning of the coronavirus pandemic, ECC transitioned completely to an online setting and temporarily closed our Denver office.</p>

Increase Openness and Transparency

Comms	<p>In March, ECC joined a Giving Block campaign for COVID relief.</p> <p>Our Transparency Report covering Q3 2019 was published in March, and our Q1 newsletter was distributed in February.</p> <p>ECC's Q1 livestream took place in February.</p> <p>ECC was active on Twitter and Blockfolio, and we published blog posts on our new board member, Zeal calls, shielded wallet resources, security assessments, DevFund, scaling research, Engineering/ R&D Flight Plan, and Heartwood.</p>
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“Just as HTTPS became standard on the public internet to protect credit card transactions, we believe strong encryption will in time become standard on public blockchains to protect cryptocurrency transactions. Strong encryption is necessary to protect individuals, businesses, and nations on an increasingly hostile and invasive Internet. That’s why we invented Zcash.”

Zooko Wilcox and Josh Swihart
Nakamoto

January 2020



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