



Electric Coin Co. Transparency Report

December 2020

A review of income, expenses and
use of funds in Q2 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 Q2 of 2020.



Key takeaways:

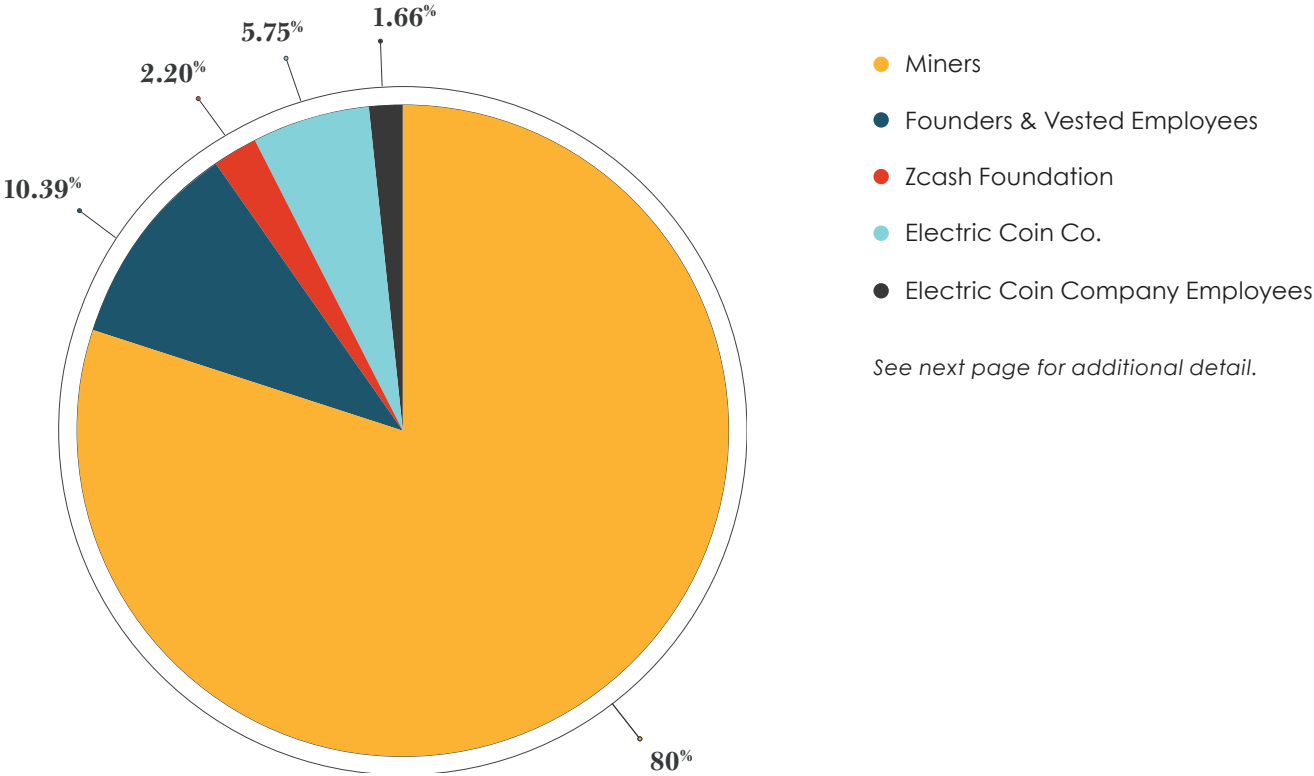
- ECC received coins valued slightly less than the operating-expense level for Q2 2020: We received coins at an average of \$563,000 a month and realized approximately \$582,000 a month in operating expenses. Additionally, we distributed \$167,000 a month in employee incentive compensation, paid in ZEC at the Q2 price of roughly \$46.03 (the average ZEC daily closing coin price during the period).
- At the end of Q2, the company held approximately \$7.1M in USD and ZEC based on the June closing price of \$51.58.
- During Q2, ECC received a grant for Halo research in the amount of \$120,000 from the Ethereum Foundation. Expenses incurred during the period associated with this grant are included in the operating expenses shown above.

Income and the mechanics of the Founders Reward

Zcash uses a Proof-of-Work consensus mechanism to produce blocks. In Q2 2020, the Zcash block reward was 6.25 Zcash (ZEC), with blocks mined every 1.25 minutes. Miners received 5 ZEC plus transaction fees as a block reward. The remaining 1.25 ZEC were split among various parties, and this was collectively called the “Founders Reward” (FR).

The FR expired in Q4 2020 at the first Zcash halvening, which occurs every four years. At that time, block rewards were halved to 3.125 and [a new development fund](#), as proposed and approved by the community, was implemented. The new dev fund stipulates that 80 percent of Zcash issuance continues to be distributed to miners, while 20 percent is devoted to Zcash development funding. Importantly, 8 percent of the total block reward (or about 40 percent of the new dev fund) goes into a grant program that will exclusively fund independent third-party developers. ECC receives 7 percent of the total rewards, and the remaining 5 percent of rewards go to support the work of the Zcash Foundation.

The distribution of FR in April, May and June 2020 is broken down in the pie chart below.



The approximate amount of total mining rewards generated each month pre halving was 218,750 ZEC. At a price of \$46.03 per coin (the average of the daily closing price of ZEC in Q2), this equated to \$10.1M.

The table below shows the approximate share of mining rewards and estimated dollar value received per month in Q2.

April-May 2020

Recipient	SHARE OF MINING REWARDS	MONTHLY USD VALUE AT ZEC PRICE OF \$46.03*
Miners	80.0%	\$8,055,250
Founders and Vested Employees	10.39%	\$1,046,403
Zcash Foundation	2.20%	\$221,519
Electric Coin Co.	5.75%	\$578,971
ECC Employee Compensation	1.66%	\$166,920

**Average of daily closing price Q2 2020*



Key

Miners

Responsible for transaction verification.

Founders & Vested ECC Employees

The company's founders — including the founding scientists — received a share of the FR for their work on the initial build of the Zcash protocol.

ECC employees also received a share of the FR as part of their compensation. ECC offered its employees Electric Coin Company LLC membership units on a vesting schedule. A share of the FR was paid to employees in proportion to their LLC ownership, equivalent options are provided for membership units.

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

Employees that were not part of the founding team were on a vesting schedule. As time passed, 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) increased.

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. In Q2 2020, it was a for-profit entity focused on building and supporting the Zcash protocol and affiliated software. It has since [shifted](#) under a 501(c)3. 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.

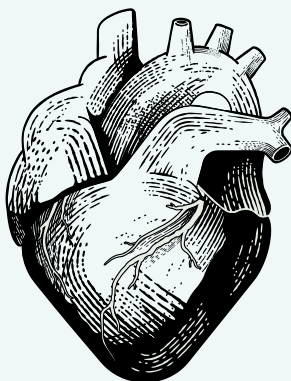
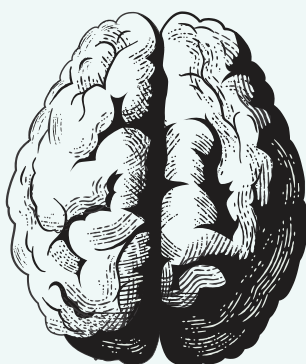
ECC income and holdings

ECC income is realized at the time of selling coins received. During Q2 2020, ECC received 12,233 ZEC (approximately \$563,000 at \$46.03 per coin) per month. ECC employee total incentive compensation from the FR was approximately 3,626 average monthly coins per month for April, May and June.

At the end of Q2, ECC held approximately \$7.1M in cash and ZEC at the June closing price of \$51.58. ECC's current holdings, at mid Dec 2020, are approximately \$9.6M in USD and ZEC.

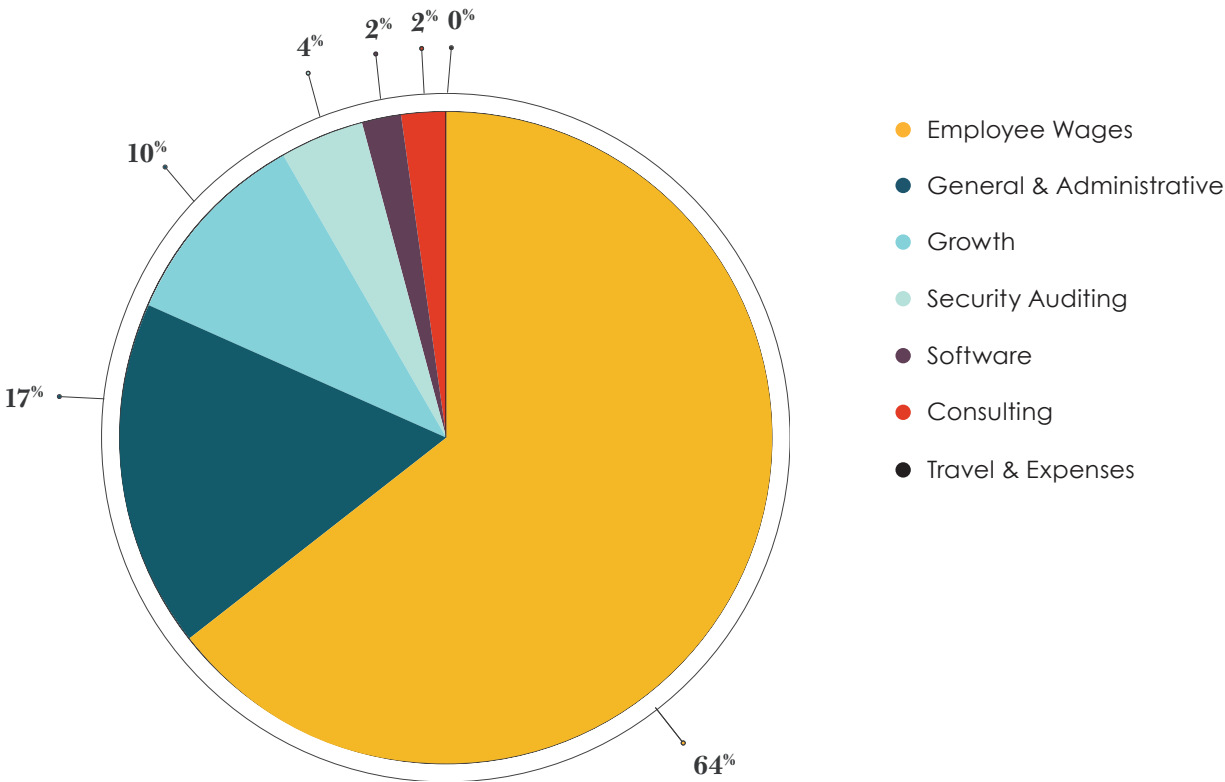
Early ECC investors

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.



Expenses and use of funds:

During Q2 2020, ECC operating expenses averaged approximately \$582,000 per month. The breakdown of operating expenses are illustrated in the graph below.



Q2 2020 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 second 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 continued to dedicate a large amount of its engineering capacity to research focused on Zcash protocol improvements and advances in cryptography. We focused on Halo, and the [paper](#) authored by Sean Bowe, Daira Hopwood and Jack Grigg was updated and extended. Halo also received a peer review in [Proof-Carrying Data from Accumulation Schemes](#), and Sean Bowe and Daira Hopwood presented ZK Study Club sessions on [Halo and Accumulation Schemes](#) and [Halo Optimizations and Constructing Graphs of Elliptic Curves](#).

Engineering

During the quarter, the ECC engineering team produced two releases of Zcashd, focused primarily on support for the Heartwood network upgrade. On April 23, we announced [version 2.1.2 of Zcashd](#). This release supported the activation of [Heartwood](#) on testnet and added Viewing Key RPC support. On May 27, we announced [version 3.0.0 of Zcashd](#), which supported Heartwood activation on mainnet. Heartwood added [FlyClient](#) support and support for [shielded coinbase](#). On June 11, we [released the source code](#) for the ECC Wallet application, a reference implementation of our iOS and Android SDKs.

Drive Adoption While Maintaining Quality (Cont'd)

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 Q2, we co-chaired the [Global Digital Finance KYC / AML / CFT working group](#), supported efforts by [TRISA](#) to develop Travel Rule standards, and contributed to the World Economic Forum's Global Blockchain Council's work on the [Presidio Principles](#).

In May, the RAND Corporation published the result of its research: [Exploring the use of Zcash cryptocurrency for illicit or criminal purposes](#). We undertook outreach and education efforts to bring this research to the attention of regulators and policy makers.

Third-party adoption

In Q2, Zcash support launched on [Gemini Pay](#), a mobile payment app that enables Zcash payments at more than 30,000 retail locations across the United States. Gemini Pay is built in partnership with the Flexa Network.

Zcash launched on [Binance Savings](#), to let users earn yield on their Zcash holdings. Both Huobi and OkEx launched Zcash perpetual swaps, which enable investors to trade Zcash on leverage. Zcash also launched on [MoonPay](#), a fiat on-ramp provider that connects to third-party wallets and exchanges.

Drive Adoption While Maintaining Quality (Cont'd)

User adoption and education

Speaking

ECC team members attended several events and spoke on various Zcash-, cryptography- and privacy-related topics. This is not an exhaustive list:

- Sean Bowe and Daira Hopwood were featured on [Zero Knowledge Podcast](#) talking about Halo research and recursive proof composition. (April)
- ECC participated in [three different talks](#) at [Consensus: Distributed](#). See [ECC videos from the Consensus conference](#). (May)
- Zooko Wilcox and Josh Swihart spoke at Messari Mainnet. Josh gave a [Zcash Project Update](#), and Zooko participated on the [Governing Chaos panel](#) with Peter Van Valkenburgh and Mario Laul. (June)
- Sean and Daira hosted two ZK Study Clubs on Halo. [Sean's ZK Study Club](#) focused on Halo and accumulation schemes. [Daira's ZK Study Club](#) session focused on Halo optimizations and constructing graphs of elliptic curves. (June)
- Josh Swihart was on the [Anonymous podcast](#) discussing privacy and economic freedom. (June)

Q4 2019 notable mentions

[Kraken](#) published a report on Zcash, and [Forbes](#) profiled Zooko and the RAND report, a study commissioned by ECC to look into the use of Zcash for illicit purposes. The report found no evidence of any substantive use of Zcash for money laundering, terrorism financing or trade in illicit goods and services. [Messari](#) and [The Block](#) also covered the story. [Coindesk](#) covered the launch of the [Zcash Developer Alliance](#).

Community

The Zcash community selected Canopy as the codename for NU4. ECC continued the monthly Zeal calls and introduced two new community calls: Gardening Club and Arborist Calls. [Gardening Club](#) is a monthly call for open-source developers building on top of Zcash. [Arborist Calls](#) are open monthly video calls about research, development and implementation of the Zcash protocol. Recordings are available on [YouTube](#).

The World Economic Forum announced the [Presidio Principles](#), dubbed the “blockchain bill of rights.” ECC, along with the Government of Colombia, Deloitte Consulting LLP, ConsenSys and the United Nations’ World Food Program are among the first signatories.

Kevin Owocki proposed [Bitcoin grants for Zcash](#) in the forum and kickstarted a [Bitcoin crowdfunding campaign](#). ECC also partnered with Bitcoin for the [Protect Privacy Hackathon](#).

Daira Hopwood was recognized as an MVP by the ZKStandard community for her work on the ZKProof workshops. [International Medical Corps](#) started accepting Zcash donations. ECC shared [new resources and documentation for light clients](#), open-sourced [ECC wallet](#) and updated [Zcash documentation](#).

Invest in the Team

Hiring In Q2, we hired Ying Tong Lai, a researcher from the Ethereum Foundation, to further our commitment to cryptographic research and advances.

HR In Q2, we completed our 2nd remote coworking week to set OKRs for Q3 2020.

We promoted the following 3 employees:

Brad Miller to Engineering Manager

Marshall Gaucher to Engineering Manager

Taylor Hornby to Senior Security Engineer

Increase Openness and Transparency

Comms Our [Transparency Report covering Q4 2019](#) was published in June, and our [Q2 newsletter](#) was distributed in June.

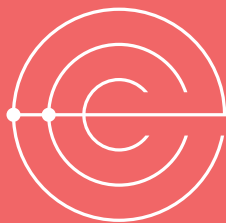
ECC's [Q2 livestream](#) took place in May.

ECC was active on [Twitter](#) and [Blockfolio](#), and we published blog posts on [shielded coinbase](#), [light client support and resources](#), [the ECC Wallet](#), [developer resources and initiatives](#), [the state of Zcash adoption](#), [economic freedom](#), [the ZDA](#), [Viewing Keys](#), [the Protect Privacy Hackathon](#), [Zcash Gitcoin Grants](#), [wallet building](#), [Zcash privacy](#) and [more](#).

“Unable to shake the rumors, last year Wilcox did something that might seem out of character for a self-described cypherpunk: he hired the Rand Corporation, the storied non-profit consulting firm and think tank that last year did \$374 million of work for state and federal agencies, most prominently the Department of Defense. Wilcox asked Rand to investigate how widely cryptocurrencies generally, and zcash specifically, were being used for criminal activities.”

From Forbes:

[Cypherpunk Zooko Wilcox Aims To Bring Anonymous Zcash To Law-Abiding Masses](#)



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