Electric Coin Co. Transparency Report

March 2021

A review of income, expenses and use of funds in Q3 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 Q3 of 2020.

***Note:** ECC is now a wholly owned entity of the 501(c)3 Bootstrap. As noted in the initial announcement from October 2020, ECC retains its previous structure, including management, employees, and operations. Though this will be the final ECC Transparency Report, we remain committed to transparency and will report annual financial details through IRS Form 990 moving forward.*
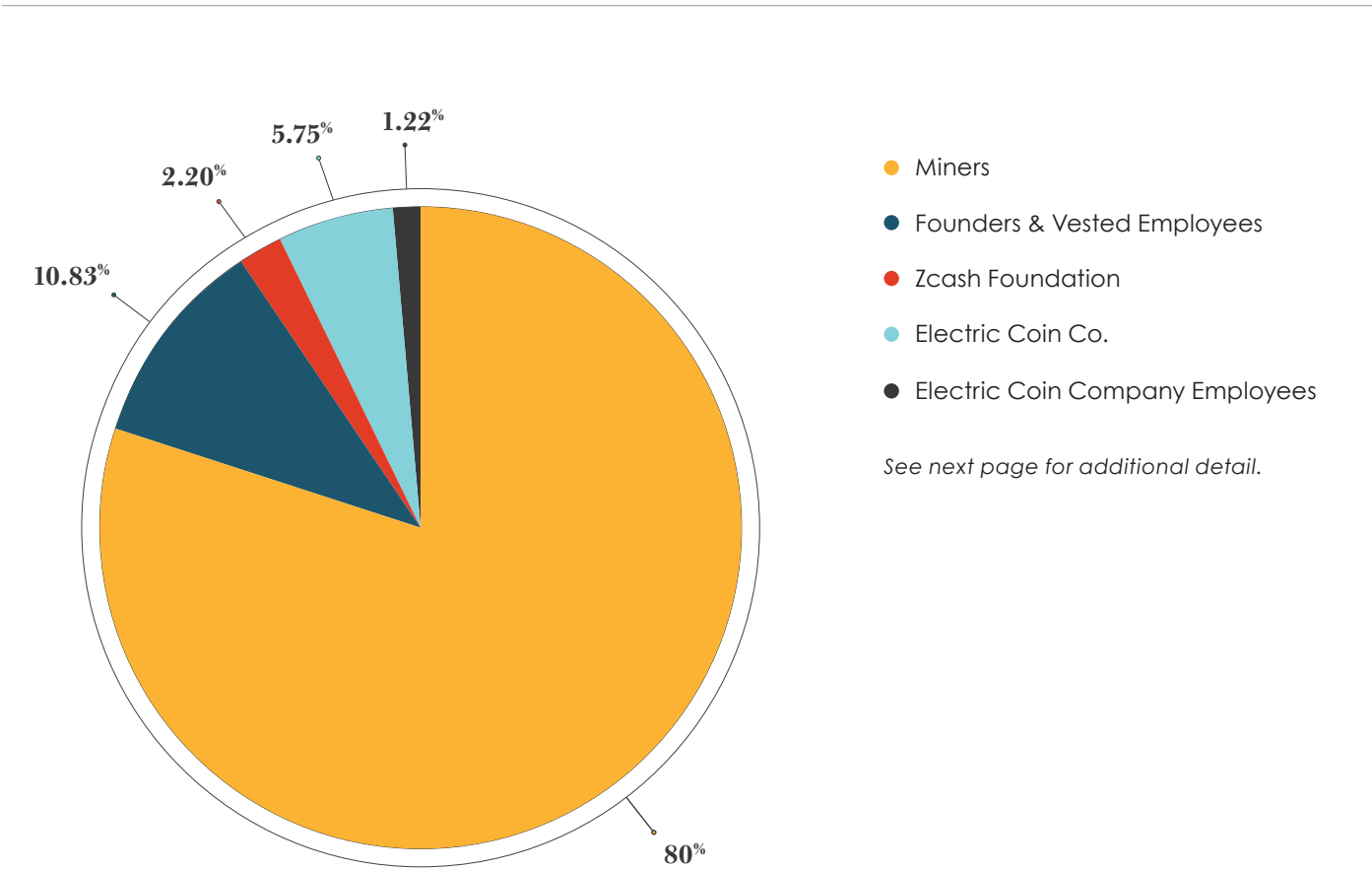
Key takeaways:

- ECC received coins at a value above the operating-expense level for Q3 2020: We received coins at an average of $761,000 a month and realized approximately $553,000 a month in operating expenses. Additionally, we distributed $162,000 a month in employee incentive compensation, paid in ZEC at the Q3 price of roughly $60.47 (the average ZEC daily closing coin price during the period).

- At the end of Q3, the company held approximately $8.8M in USD and ZEC based on the September closing price of $58.25.

- 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 Q3 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 to ZOMG, a grant organization that exclusively funds 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 July, August and September 2020 is broken down in the pie chart below.

Legend:
- Miners
- Founders & Vested Employees
- Zcash Foundation
- Electric Coin Co.
- Electric Coin Company Employees

See next page for additional detail.

Pie chart values: 80%, 10.83%, 2.20%, 5.75%, 1.22%

The approximate amount of total mining rewards generated each month pre halving was 218,750 ZEC. At a price of $60.47 per coin (the average of the daily closing price of ZEC in Q3), this equated to $13.2M.

The table below shows the approximate share of mining rewards and estimated dollar value received per month in Q3.

July-September 2020

Recipient	SHARE OF MINING REWARDS	MONTHLY USD VALUE AT ZEC PRICE OF $60.47*
Miners	80.00%	$10,582,250
Founders and Vested Employees	10.83%	$1,432,266
Zcash Foundation	2.20%	$291,012
Electric Coin Co.	5.75%	$760,599
ECC Employee Compensation	1.22%	$161,686

Average of the Daily closing price Q3 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 in Q3 was used as compensation for ECC employees. This category represents compensation paid for unvested shares and fluctuated relative to vesting.

ECC income and holdings

ECC income is realized at the time of selling coins received. During Q3 2020, ECC received 12,578 ZEC (approximately $761,000 at $60.47 per coin) per month. ECC employee total incentive compensation from the FR was approximately 2,674 average monthly coins per month for July, August and September.

At the end of Q3, ECC held approximately $8.8M in cash and ZEC at the September closing price of $58.25. ECC's current holdings, at mid March 2021, are approximately $11.7M in USD and ZEC.
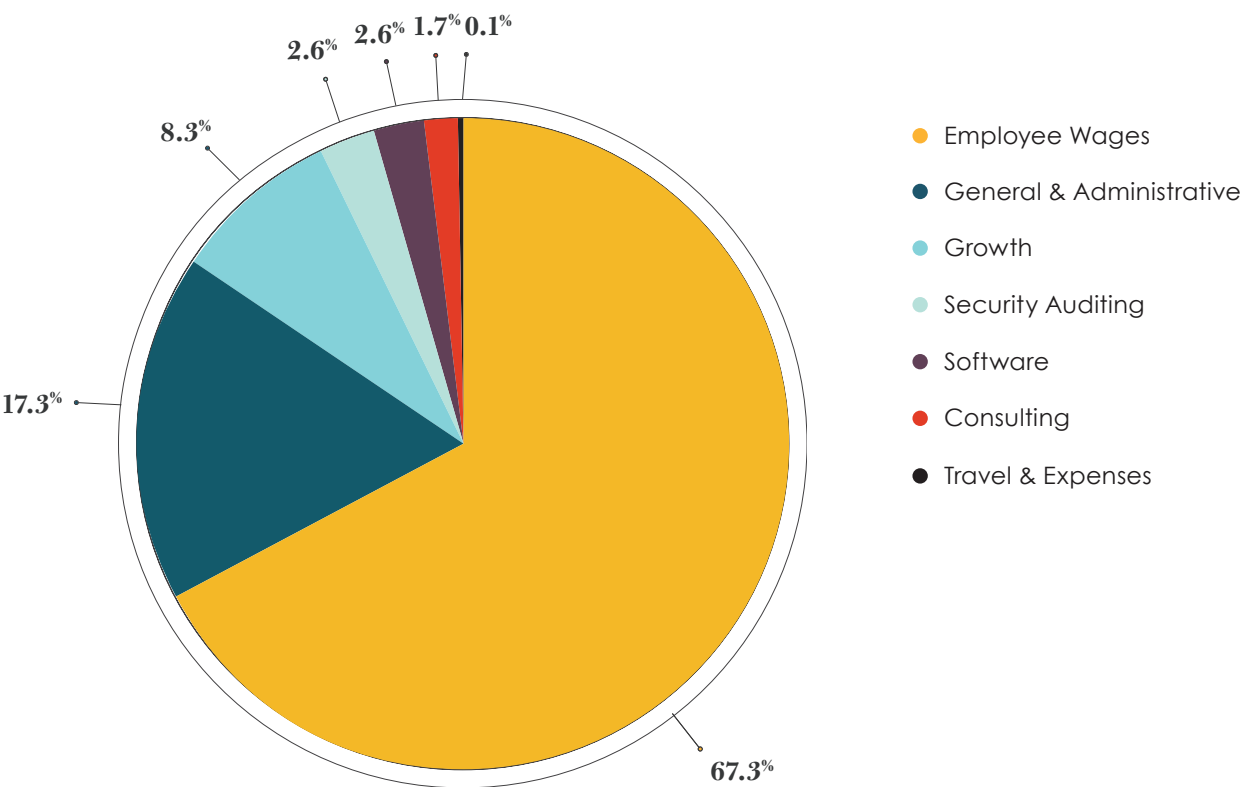
Early ECC investors

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.
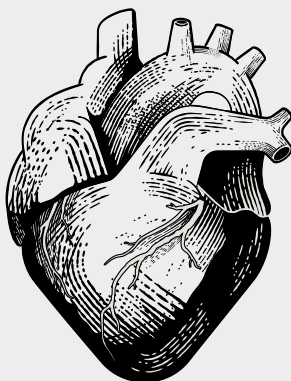
Expenses and use of funds:

During Q3 2020, ECC operating expenses averaged approximately $553,000 per month. The breakdown of operating expenses are illustrated in the graph below.

- Employee Wages
- General & Administrative
- Growth
- Security Auditing
- Software
- Consulting
- Travel & Expenses

2.6% 2.6% 1.7% 0.1%

8.3%

17.3%

67.3%

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 third 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 primarily on Halo, and the source code for Halo 2 was released under the TGPPL license. Sean Bowe also authored a Halo 2 Technical Explainer, and we continued to make progress on Halo 2 implementation and design.
Engineering	During the quarter, the ECC engineering team produced two releases of Zcashd, focused primarily on support for the Canopy network upgrade. On July 30, we announced version 3.1.0 of Zcashd. This release supported the activation of Canopy on testnet and included numerous reliability and RPC improvements. On September 2, we announced version 4.0.0 of Zcashd, which supported Canopy activation on mainnet. Canopy added support for the Dev Fund ZIPs (207, 214, 251) and the first phase of Sprout pool deprecation by disabling new value to the pool. Additionally, on July 16, Heartwood, our third network upgrade, activated successfully on the Zcash mainnet.
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, briefings, providing feedback on proposed legislation and regulation, and educational activities; 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 Q3, we co-chaired the Global Digital Finance KYC / AML / CFT working group, supported efforts by TRISA to develop Travel Rule standards, briefed a number of US congressional offices on Zcash and privacy-related matters, led and participated in events for "user adoption and education," and coordinated with various industry leaders on a response to the anticipated FinCEN NPRM on unhosted wallets.

Third-party adoption

Shielded adoption was a priority for Q3. During the quarter, Gemini enabled withdrawals to a Zcash shielded address, validating months of coordination across regulatory, engineering and business development.

Luxor activated support for shielded coinbase, which was a feature in the Heartwood network upgrade that allows miners to mine directly to a shielded address. This contributes to the anonymity set and improves the privacy of the entire network.

Zcash third-party adoption was also supported in the following ways:

- Zcash perpetual swaps were added to FTX, a popular cryptocurrency exchange.

- Zcash was added to EtoroX, a cryptocurrency exchange regulated under Gibraltar's DLT license.

- Bidali expanded gift card support to India, enabling Zcash holders to buy groceries, clothing, phone top ups, and shop at 120+ brands.

User adoption and education

Heartwood activated successfully with broad 3rd party support at the beginning of Q3 2020. Coindesk covered the story. Later in the quarter, educational and outreach efforts centered around Canopy, with activities and content in the 12 weeks leading up to NU4 activation (11/18).

This quarter, ECC began Arborist calls: monthly protocol development meetings focused on tracking upcoming protocol deployment logistics, consensus node implementation issues, and protocol research. ECC is now up to three monthly community calls. Here are the recordings from Q3 2020: Gardening Clubs from July, August, September, Zeal Call from July, and ECC Livestream, September.

ECC announced winners from the Gitcoin Hackathon in this blog post. ECC paid bounties to five main projects and eight contributions to our repos. Entries ranged from one-line bug fixes to complete working demos of projects.

ECC announced the Crypto in Context program with partners including Binance, Brave, DCG, Flexa, Gemini, Local Bitcoins, Messari and Reciprocity. The story was picked up by Decrypt and Cointelegraph.

ECC made meaningful improvements to Zcash's documentation and developer resources, including an updated Zcash guide, mining guide and videos.

ECC team members participated in a number of events and conferences this quarter:

- Daira Hopwood and Sean Bowe participated in ZK Study Clubs (Daira: pt 1, pt 2 and Sean), explaining Halo, accumulation schemes, Halo optimizations and elliptic curves.

- Andre Serrano participated in Coinbase's MoneyTalks series.

- Elena Giralt helped moderate MGRC Candidate Q&A sessions that took place ahead of MGRC elections in August.

- Jack Gavigan presented at FutureProof summit.

- Josh Swihart was on a panel at FIN/SUM (Japanese crypto summit for financial regulators).

- Elena Giralt participated in a panel during the Congressional Hispanic Caucus conference.

- Elena Giralt participated in a panel during the Blockchain for Social Impact conference.

- ZDA's Q3 meeting summary was shared in the forum.

- Zooko Wilcox participated in a live Twitter Q&A with Gemini founders Cameron and Tyler Winklevoss.

- Elena contributed to Coindesk a perspective on "Why the Internet Must Learn to Collaborate to Survive."

Invest in the Team

Hiring

In Q3 2020 we hired Janie Swingle as our new HR + Growth Coordinator, to work closely with both PeopleOps and the Growth team.

HR

Our team continued to work fully remotely.

In Q3, we completed our third remote coworking week to set OKRs for Q4 2020.

Increase Openness and Transparency

Comms

ECC's newsletter went out in June, July and August; and our Q3 livestream took place in September.

The release of Heartwood was live streamed in July.

ECC was active on Twitter and Blockfolio, and we published blog posts on the Protect Privacy Hackathon, Crypto in Context, Canopy, Luxor becoming the first to mine to shielded coinbase, Halo 2 and a Halo 2 explainer, TGPPL, security assessments, FATF's plans, the ECC mission, the MGRC (now ZOMG), Gemini becoming the first regulated institution to support shielded Zcash withdrawals, and more.

The ECC digital hub, electriccoin.co, was relaunched in September with a new look and new content.

In September, we responded to Perkins Coie's publication of "Anti-Money Laundering Regulation of Privacy-Enabling Cryptocurrencies."

"We envision a world where large amounts of value is privately stored on Zcash, with myriad integrations into smart-contract protocols and vibrant digital economies. … It's not just the engineering chops that draw us to Zcash; it's the heart and commitment to the societal cause, with a multi-decadal plan to succeed. Because in this case, failing to provide all of us privacy and economic freedom isn't an option."

Chris Burniske
[Placeholder](#)

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