Electric Coin Co. Transparency Report

March 2023

A review of income, expenses, and use of funds in Q3 2022

5.1 economic freedom 5.2.0 osterity Fund

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 2022.

ECC is a wholly-owned subsidiary of The Bootstrap Org., Inc. (Bootstrap), a nonprofit public charity under Internal Revenue Code Section 501(c)(3). ECC, located in the United States and headquartered in Denver, Colorado is the d/b/a of Zerocoin Electric Coin Company LLC, which is incorporated in Delaware.

Key takeaways:

- Bootstrap received coins at a value below the ECC operating-expense level for Q3 2022. During this time, Bootstrap received coins at an average of $461,000 a month (at the Q3 average ZEC price, $60, for each of the three months' distribution dates), and Bootstrap and ECC incurred average monthly expenses of approximately $766,000.

- At the end of Q3 2022, Bootstrap and ECC collectively held approximately $3.0M in USD and approximately 116.9K ZEC.

- As of March 16, 2023, the company held approximately $1.3M in USD and approximately 110K ZEC.

Income and the mechanics of the development fund

The Founders Reward (FR), Zcash's original development funding mechanism, expired in November 2020 at the first Zcash halvening. At that time, block rewards were halved to 3.125 ZEC and a new development fund, as proposed and approved by the community, was implemented. The new 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 development fund) goes to the Zcash Community Grants (ZCG), a program that funds independent, third-party developers. Bootstrap receives 7 percent of the total rewards, and the remaining 5 percent supports the work of the Zcash Foundation. The Zcash Foundation and ZCG are completely separate and independent from Bootstrap and ECC, and there is no overlap in directors, officers, or staff.
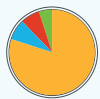

● Miners

● Zcash Community Grants

● Bootstrap

● Zcash Foundation

See next page for additional detail.
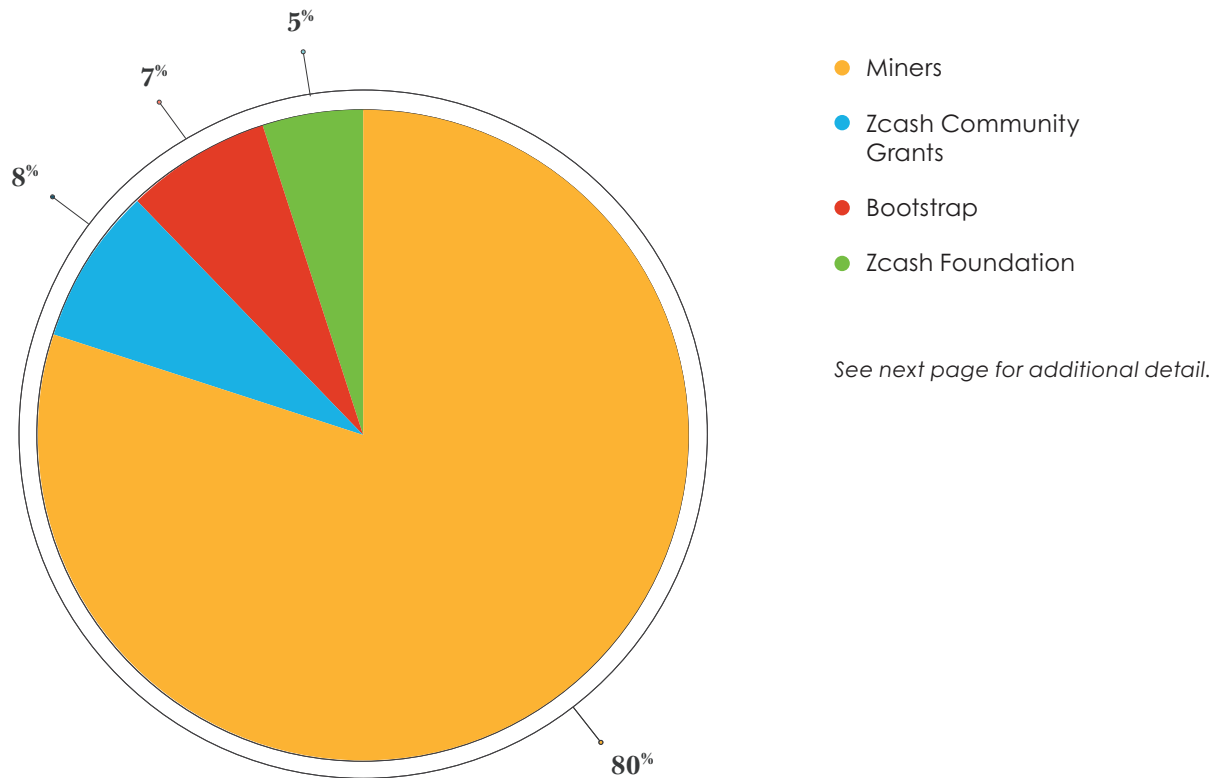
The approximate amount of total mining rewards generated each month post-halving was 109,375 ZEC. At a price of $62.23 per coin (the average of the ZEC daily closing price for Q3 2022), this equated to $6.8M.

The table below shows the approximate share of mining rewards and estimated dollar value received per month for July through September 2022.

July-September 2022

Recipient	SHARE OF MINING REWARDS	MONTHLY USD VALUE AT ZEC PRICE OF **$62.23***
Miners	80%	$5,445,125
Zcash Community Grants	8%	$544,513
Bootstrap	7%	$476,448
Zcash Foundation	5%	$340,320

Average of the daily closing price July - September 2022

Key

Miners

Responsible for transaction verification.

Zcash Community Grants

Zcash Community Grants exists to fund projects that advance the usability, security, privacy, and adoption of Zcash. ZCG is a technology advisory board that constitutes a committee of the Zcash Foundation, under its bylaws. Grants are chosen by a committee of five members who were elected by the Zcash Community Advisory Panel.

Bootstrap

ECC is the author of this report. Until Q4 2020, ECC was a for-profit entity focused on building and supporting the Zcash protocol and affiliated software. In November 2020, it shifted to being wholly owned by The Bootstrap Org. Inc., a 501(c)(3). A breakdown of ECC activities and expenses are included in this report.

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.

Income and holdings

Since the beginning of the Zcash development fund, Bootstrap revenue/income is recognized at the market price for the coins received on the day they were received. The coins are held as an asset on Bootstrap's books at the market price established on the day received. At the point of a subsequent sale of any of those coins, a sale price above or below will create a gain or a loss to be recognized depending on the price at the time of sale.

The first development fund distribution of 7,656 ZEC coins was received by Bootstrap in December 2020, and Bootstrap has continued to receive the same distribution of coins each month.

At the end of Q3 2022, Bootstrap and ECC collectively held approximately $3.0M in USD and approximately 116.9K ZEC. As of March 16, 2023, the company held approximately $1.3M in USD and approximately 110K ZEC.

In the December 2021 transparency report, we provided an update on additional material holdings, or assets, on Bootstrap's books, including two investments/assets and one debt/ liability. In 2018, ECC invested in two companies focused on areas deemed to be complementary to ECC's mission. The first was Agoric Systems, LLC, and the second was Starkware Industries Ltd. Additionally, in August 2019, Bootstrap/ ECC received 100,000 shares, vesting over time, in Bolt Labs.

In 2021, Bootstrap received 42.6M BLD tokens for our investment in Agoric, which includes certain lock-up requirements. Recently, Bootstrap elected to receive approximately 12.7M Starknet tokens related to our Starkware investment, which also includes certain lock-up requirements. Any revenue resulting from the sale of these tokens will go to the Bootstrap treasury.

Bootstrap has a single material liability for $3.75M, which comes due in 2024. In order to fund the continued operation of ECC in 2016, the company agreed with Least Authority Enterprises (LAE) to purchase a portion of LAE's right to its share of ZEC from the Founders reward (10/2016 through 11/2020), in return for $250k up front and $3.75M payable in September of 2024. This debt, along with all of ECC's material assets were assumed by Bootstrap, the 501(c)(3) parent of ECC, in 2020 at its inception. Zooko Wilcox is an LAE shareholder. The total assets reflected on Bootstrap's balance sheet far exceed the LAE liability, which will be paid at its maturity.

Expenses and use of funds

During Q3 2022, Bootstrap and ECC operating expenses averaged approximately $766,000. We do not generally experience large variations in the departmental expense breakdown quarter over quarter.

In an effort to motivate and retain a highly valued team we have implemented an employee-retention plan denominated in ZEC. These funds are periodically granted to employees and distributed over a four-year vesting period. During Q3 2022, the Bootstrap Board of Directors set aside an additional 10,000 ZEC to fund future retention grants.

Shown below is the ECC functional department expense grouping. All expenses attributed to each department are included in the percentage.

Department	2022 Q3	2022 Q2
Development	44%	41%
Growth and Regulatory	34%	29%
General and Admin	19%	27%
Security/Audit	3%	3%

Q3 2022 use of funds

ECC used funds received to develop and support Zcash technology and its adoption. 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, policy, regulation, adoption, and demand generation. The activities below included **work in the third quarter of 2022**. 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	Work continued on novel solutions to improve wallet sync performance while maintaining security and privacy between zcashd, lighwalletd, and any wallet apps that leverage the SDK.
	ECC continued its internal focus on wallet requirements with a product-driven approach to better align to target-user market-adoption needs.
Engineering	In October, zcashd v5.3.0 provided performance improvements that helped reduce memory usage of the batch scanner. Additional limitations were added to the scanner's memory usage to reduce the chance of an out-of-memory (OOM) scenario.
	The engineering teams have continued focus on addressing the performance of wallets given the increased transaction load on-chain. In addition, work continues on the mobile SDK and reference wallet app.
U.S. policy/ regulatory relations	Gary Weinstein, a former Assistant Attorney General, Acting General Counsel, and Chief Privacy Officer, joined ECC on August 8, 2022, to lead Global Regulatory Relations. Since then, he has been actively building global regulatory connections to establish ECC as a leader, viewed by global regulators, exchanges, and other stakeholders as a high-integrity organization.

U.S. policy/
regulatory
relations
(cont.)

We continued to hold monthly PGP* (Pretty Good Policy) for Crypto Breakfast and Roundtable meetings with support from The Blockchain Association and the CyberSMART Research Center at Georgetown University. These PGP meetings are monthly gatherings for policy professionals, think tank scholars, academics, non-profit advocates, and others to enjoy breakfast ("Pretty Good Pancakes") and engage in informal, off-the-record discussions among friends interested in good policy for cryptocurrency. Two PGP meetings were held in Q3 (July 20 and September 14). The "PGP" reference is in homage to Pretty Good Privacy encryption and is carried over from Electric Coin Co.'s longstanding Pretty Good Pancakes breakfasts, held in conjunction with industry events.

We participated in the following meetings and conferences during the period:

- CyberSMART Research and Industry Advisory Board Meeting

- Blockchain Governance Initiative Network (BGIN) Block #6

- Zcon3 Presentation: State of Legislation, Regulation and Policy

- Technology Policy Institute Aspen Forum

- Symposium on Economic Crime, Cryptocurrency and Blockchain AML Summit, Cambridge, UK

- American University College of Law / GBBC Panel Presentation: Emphasized the importance of safeguards to protect consumers and maintain privacy.

- Mainnet Conference Panel Presentation (together with the US Department of Justice): Discussed the importance of preserving privacy for citizens and protecting national security interests.

- Unfinished Live 2022 Conference

Drive Adoption While Maintaining Quality (Cont'd)

User adoption and education

The ECC team hosted a Crypto in Context session on September 23rd and 24th in partnership with The Zahn Innovation Center at City College [insert photos] A total of 27 students attended the two day session in Harlem, New York which included speakers from Flexa, Coinbase, Gemini, Metaplex, Edge Wallet, and more. The focus of the sessions included teaching foundational use of crypto with real-world application and activities, as well as introductory sessions about emerging technologies such as NFT's.

New Partners

- Arctic Wallet adds support for Zcash

- NowNodes adds support for Zcash

- ChangeNOW exchange adds support for Zcash

Invest in the Team

Hiring

In Q3 2022, we hired Greg Pfeil as Senior Software Engineer and Gary Weinstein as Head of Global Regulatory Relations.

HR

In Q3 2022, we completed our T3 2022 planning week to set objectives and key results for the term.

Comms

Highlights:

Zooko Wilcox joined Vitalik Buterin and Ryan Selkis on stage, Gary Weinstein participated in a regulatory panel with the US Department of Justice, and the ECC team hosted a Zcash booth and happy hour at Mainnet.

ECC was active at Zcon3 in August. Speakers included Zooko Wilcox, Josh Swihart, Nate Wilcox, Chris Tomeo, Paul Brigner, Pacu Gindre and Joseph Van Geffen, Ying Tong, Jack Grigg, and Daira Hopwood. Videos can be found here.

Our comms and engineering teams worked with the Filecoin Foundation to put out a call for grant proposals.

Zooko Wilcox appeared on UpOnly in July.

We provided community updates via Twitter Spaces in July, August, and September, covering ECC engineering, regulatory, and growth initiatives.

ECC issued a response to the US Treasury's sanctions on Tornado Cash.

Nate Wilcox introduced the Zcash Posterity Fund in early August.

ECC gave ongoing updates on wallet issues and increased transaction load.

In addition to the list above, ECC was active on our blog, the forum, Twitter, LinkedIn and other social channels.

"I believe the topics we talked about in the Crypto and Context sessions over the last two days were a fantastic introduction to the different kinds of solutions, and the different ways that crypto can impact different social groups, can impact different communities, can provide financial services, banking services, community services in ways that we haven't seen yet. And I firmly believe that we are still just scratching the surface."

Chris Bobko

Executive Director at the Zahn Innovation Center,
City College of New York

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