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1 A. Well, the company has no lines of credit, no debt
2 facility. It has -- the company has no means of financing its
3 operations, other than through internally generated profits at
4 this point. While they're -- the total capitalization of the
5 company at the beginning was \$10,000. And, in fact, that
6 \$10,000, you know, it's not much when you're doing \$20 million
7 of revenue and having to pay the people and buy the components
8 it takes to do that.

9 So for a company like Butterfly, or specifically
10 Butterfly, cash flow is crucial.

11 Q. So I want to shift then in the concept of this idea of the
12 prepaid orders we've been talking a little bit about that
13 today. Tell us what your opinion is about the function of
14 prepaid orders in a start-up business like Butterfly Labs.

15 A. It is -- it's sort of viewed -- any sort of prepaid
16 business model from -- from an entrepreneurial's point of
17 view, from a point of view of operating a company, it's kind
18 of the ideal or holy grail sort of business model. It is a
19 way to finance the company that doesn't involve getting
20 outside investors. It doesn't mean putting in a huge amount
21 of your own capital. It -- it provides -- assuming you've
22 been able to price your product properly to allow for some
23 profit, it ensures that the company should be viable as long
24 as you can continue to produce and sell that product. So it's
25 a -- among the different methods of financing a business, it's

1 seen as probably the most desirable.

2 Q. And when a company receives preorders, are there
3 representations made to customers about wait times or -- or
4 anything associated with the production of the product?

5 A. Specifically at Butterfly Labs?

6 Q. At Butterfly.

7 A. Yes. I -- I didn't come to the company before September,
8 but my understanding in reviewing screen shots and talking
9 with company executives is that all along they have said to
10 people, you know, this is a preorder, preorder terms,
11 nonrefundable. Delivery of your product may take quite some
12 time, two months or longer. Essentially don't order the
13 product if you're not willing to wait the amount of time it
14 takes.

15 Q. And are you aware of efforts that Butterfly Labs made to
16 try to keep customers informed through its website about what
17 was happening with the process?

18 A. Yes. With this product, in particular, there was a delay
19 from the expected initial delivery date that caused the
20 company to have to say, this -- you know, we need to do some
21 rework on the product.

22 Once they had a handle on the redesign of their chip
23 or the -- the reengineering of the power that was being
24 consumed and the heat that the chip was producing, they put an
25 advisory on their website that said, Okay. We're -- you know,

1 engaged me to help them. They've been very open to all of the
2 suggestions that I've made as recommendations.

3 Q. And -- and they have done more, they have adopted those
4 and tried to help those be a part of what the company is
5 trying to do?

6 A. We -- I mean, we have a ways to go, but yes, they have
7 done that with -- I can't think of an exception. Anything
8 that I recommended we do has been done.

9 Q. Okay. I want to touch briefly on the -- the purchase of
10 the car and the house by the company. Are you aware of that?

11 A. I am.

12 Q. Okay. Let's -- let's talk about that. What is your
13 understanding about those two assets?

14 A. So the -- the Audi was purchased, I believe in May of
15 2012. The house, as was discussed earlier, was bought in
16 December of 2012.

17 Q. And how does the company, that perhaps is showing loss on
18 its tax return, buy a house or a car?

19 A. So we talked about the prepaid sales model earlier where
20 you get cash in advance of delivering on whatever the promised
21 product is. So the actual cash available comes from those
22 presales.

23 It would -- it would certainly be unwise to spend
24 all of that money that you collected, because you have to pay
25 payroll and you have to buy parts and you have to pay your

1 Q. Okay. Now, you talked about how somebody should
2 characterize personal use of company assets. And this car was
3 bought in, you know, May or thereabouts of 2012. Was that
4 characterized as personal income to Mr. Vleisides on his 2012
5 tax return?

6 A. On -- so the -- the proper way, yes, it was. Although it
7 was not handled the preferred way from a tax reporting
8 standpoint. It should have been reported as part of his W-2
9 income as additional wages. The way that the former
10 controller handled it is that she used a 1099 miscellaneous
11 form, which is a self-employment form.

12 So they reported the value of what Mr. Vleisides
13 received and he reported it on his return. It was reported as
14 self employment income, not as wages from the company.

15 Q. And has the company as assets that it has bought to
16 improve its profitability bought houses for other employees?

17 A. It has not bought houses for any other employee.

18 Q. Okay. You said that you had asked Polsinelli to draft
19 notes to document the shareholder loans. When did you ask
20 them to do that?

21 A. About a week ago, probably.

22 Q. Okay. And you understand that Ms. Pierce asked for that
23 information in September of 2013 when you came in?

24 A. I'm not aware of that.

25 Q. Okay. And so in both circumstances, of the house and the

1 loan, it was customers' money that went to Mr. Vleisides
2 buying his house that he lives in, and to loan him and other
3 shareholders money; right? Because of this prepaid model?

4 A. It was certainly money that customers deposited, you know,
5 with the company to purchase their products. I'm not entirely
6 sure at which point legal entitlement to the money passes from
7 the customer to the -- to the company. But the -- the money
8 that any company uses, if it's not borrowed or put in by
9 investors comes from its customers. In this case it all came
10 from the customers.

11 Q. And you called it also advance pay?

12 A. I -- advances of salary, draws, payroll draws early on.
13 By the end of 2012 what they had done is in the beginning as
14 each draw was made it was added to the amount of the loan. At
15 the end of the year it was deducted from the loan and moved
16 over into salaries and wages. So by the end of 2012 no part
17 of the loan reflected the wages part of what had been advanced
18 to Mr. Vleisides.

19 Q. Well, it kind of sounds like what happened, from your
20 description, was that these shareholders were using company
21 credit cards and making personal purchases and then they just
22 turned into loans? They were turned into loans at some point?

23 A. To some extent I would say that's correct. The company --
24 the company credit cards were used for both personal and
25 business purposes, and the personal portion was shown as an

1 advance that would be -- need to be repaid by the shareholder.

2 Q. Now, should people who have company credit cards use them
3 for personal expenses?

4 A. They should not.

5 Q. All right. And so does that continue on, do you know,
6 by -- by Mr. Vleisides?

7 A. I -- I will say that it probably has continued.

8 Q. All right. Are there other employees, in particular
9 Mr. Vleisides' mother, who has a company credit card that
10 makes personal purchases on?

11 A. There are other company emp -- there are other company
12 employees who -- you know, the only one I've looked at closely
13 is Mr. Vleisides because of this issue. There are other
14 company employees who have company credit cards. I do not
15 know whether Mr. Vleisides' mother has a company credit card.

16 Q. Did you prepare the 2012 financial statements or tax
17 returns?

18 A. I reviewed the 2012 tax returns that were prepared by
19 MarksNelson. And I did not produce or review, other than for
20 informational purposes, the 2012 financial statements.

21 Q. So having worked for this company for only approximately
22 four months, you have not prepared any financial statements or
23 tax returns for -- for anybody involved here?

24 A. So I've prepared -- prepared. MarksNelson is contracted
25 to do the external accounting. Because the company lost its