

# **EXHIBIT L**

**IN THE UNITED STATES DISTRICT COURT FOR THE  
WESTERN DISTRICT OF MISSOURI  
WESTERN DIVISION**

**FEDERAL TRADE COMMISSION,** )

**Plaintiff,** )

**v.** )

**BF LABS INC., et al.,** )

**Defendants.** )

**Case No. 14-CV-0815-W-BCW**

**DECLARATION OF LINDA M. FREEMAN, CPA**

I, Linda M. Freeman, CPA, pursuant to 28 U.S.C. § 746, declare as follows:

1. I am over 18 years of age and am competent to testify about the matters discussed below.

2. I am a member of MarksNelson LLC and a Certified Public Accountant licensed in both Kansas and Missouri.

3. I, along with Lindsey A. Downey of MarksNelson, have worked with Butterfly Labs Inc. since the end of May 2013. Our work with Butterfly Labs has involved a number of Butterfly Labs executives and employees, including but not limited to Bruce Bourne, Dave McClain, Josh Zerlan, Sonny Vleisides, Jeff Ownby, and Justin Rowden.

4. I have found Butterfly Labs to be completely transparent with MarksNelson, Ms. Downey, and me during the engagement. At all times, Butterfly Labs has timely produced any and all records we have requested, and has never refused a request for records.

5. If I had witnessed any sign of wrongdoing or fraud, MarksNelson would have unquestionably ended the engagement with Butterfly Labs. I can affirmatively state that I have not witnessed any such signs.

6. When our engagement with Butterfly Labs began, the Company was in a start-up phase. MarksNelson has experience working with start-up companies, and our experience in working with Butterfly Labs was not at all uncommon.

7. From the outset, Butterfly Labs was focused on sales generation and order fulfillment. This is common for a start-up company like Butterfly Labs. Butterfly Labs was behind on recordkeeping, which is also common for a start-up.

8. We witnessed Butterfly Labs get past many of its growing pains in a short amount of time. In addition, 2013 involved a period of explosive growth for the Company, and the volume of detail associated with recordkeeping increased by at least eight to twelve times.

9. During 2013-2014, we were involved in Butterfly Labs catching up on two full years and an additional three quarters of a year of accounting. This was a major undertaking for the Company, and demonstrated a real commitment to full and accurate financial reporting.

10. We have witnessed Butterfly Labs implement multiple controls to facilitate full and accurate financial reporting and accounting. These controls include:

- Hiring additional key internal personnel to work on accounting and financial practices (e.g., Justin Rowden).
- Increased effort on monitoring daily details of operations
- Adding Bruce Bourne to the management of the Company
- Additional personnel assigned to recordkeeping
- Butterfly Labs increased their efforts to record daily bank activity and is working to become current on all financial reporting going forward
- Tracking of accounts receivable
- Linda Freeman and or Lindsey Downey with a presence at Butterfly Labs on average several times a month over the course of 2013 and 2014.
- Instituting periodic physical counts of inventory

- Improved internal reporting and credit card expenditure controls

11. As mentioned above, Ms. Downey and I have had a significant presence at the Butterfly Labs offices. The Company has encouraged and facilitated our involvement in all facets of Company operations to fulfill our engagement. Butterfly Labs is a very real company with real products, repeat orders, and controls being added on an ongoing basis.

12. As part of our work, we noted in the ledger transactions very few returns of Butterfly Labs products. We did note a few returns, but the information we were provided indicated that the equipment was repaired or replaced and returned to the customer.

13. We assisted the Company in completing all bank reconciliations through the current period. We have assisted the Company in filing its income tax returns for 2012 and 2013. All indications are that recordkeeping will be current in order to file the Company's 2014 tax returns in due course.

14. Butterfly Labs utilizes software that tracks shipping information, order information, and customer information. Efforts were made to track each customer to ensure that each customer received what had been paid for. This is true as to both preorders and in-stock orders.

15. Butterfly Labs recorded customer prepayments as a liability in connection with preorders. From an accounting standpoint, this is the conservative route - the Company is acknowledging the potential to repay these deposits up until the time that they fulfill the order, and income is then recognized at that time. Moreover, from an accounting standpoint, I did not have a concern with Butterfly Labs' preorder model because orders were being fulfilled and in certain industries a preorder model is commonly used.

16. In my experience, from an accounting and financial reporting standpoint, Butterfly Labs has made every effort at generating complete and accurate financial information.

These efforts have come at a cost, with increased internal labor and extensive involvement of outside consultants.

17. The company has worked to ensure that personal expenditures are properly recognized and given appropriate tax and accounting treatment.

18. Butterfly Labs has gone to lengths to capture all bitcoin transaction and wallet activity. Rather than witnessing attempts to conceal bitcoin-related activity, Butterfly Labs has done the opposite and has provided any and all information we have requested related to bitcoin mining, holdings, and daily transactions such as customer payments, account transfers and other operational activities.

19. I have not witnessed any activity consistent with a risk of concealment or dissipation of assets, or the destruction of company records. I am not aware of any factual basis to support any such representation to the Court.

20. We have worked since September 2014 to assist Butterfly Labs in bringing its internal accounting records for 2014 current. We have been able to accomplish the following since that time:

- We have completed almost all bank reconciliations through the current period, including bitcoin wallet activity.
- We have updated fixed assets and related depreciation calculations
- We have reconciled credit card liabilities
- We have updated any activity in the shareholder loan accounts
- We have calculated realized and unrealized gains and losses related to the bitcoins in the Company wallet accounts
- We have recorded equipment sales revenues
- We have recorded other fee revenues

- We have begun to review the general ledger for any account coding errors or other analytical review needed

21. In my view, the need to update accounting records for 2014 has nothing to do with a risk of concealment or dissipation of assets. Rather it is part of the ongoing process by Butterfly Labs to bring its accounting current.

22. In addition, in my opinion, I would not be surprised to find that the FTC's lawsuit and this Court proceeding will increase the Company's refund liability and harm the Company's financial viability due to these proceedings and receivership causing further delays in shipping, difficulty in responding to customer inquiry, and delays in processing payments to Company vendors.

I declare under penalty of perjury that the foregoing is true and correct. Executed on this 11th day of November, 2014.

  
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Linda M. Freeman