3/29/22

Meeting with Steve, Wayne, John, and Brandon

* Ideas on the adilas trust
* Steve went and met with the CPA (Bob Hamby) – Write offs are limited for employees. Owners are allowed a number of higher write offs.
* John – asking about a multi member LLC and then splitting percentages.
* Steve – CPA said that we could even split percentages up to a 1/10 of a percentage.
* We need a doc that states what is required and then those things become a possible write off.
* We recently went through an audit where the state of Colorado wanted adilas to be a standard employer – looking at possible options. Our current plan is to contest this judgement as most of our guys and gals are independents and 1099 folks.
* ESOP (employee stock ownership plan) – usually an exit strategy for owners and employees
* Guaranteed payments and pro rata pieces – these are some of the pro rata pieces - tax liabilities and distributions
* Owners get a K-1 – trying to push this corporation or entity out to a perpetual entity – partners
* Wayne was saying that there could be some really flexible options due to the structure, payouts, percentages, etc. Operating agreement of sorts.
* Current ownership is: Steve 40%, Brandon 40%, and MSAI 20% (fully owed by Steve)
* Currently, some of the guaranteed payments come out on the 1st, 5th, 10th, 15th, 20th, and 25th of the month. Six smaller payments spread out over the month.
* Each person’s amounts are figured individually. Okay to be different as agreed upon.
* Steve was talking about percentages and how those would flow out (given or bought) and also what happens when someone leaves or dies (no longer part of the primary team).
* There are possibly a lot of options – owners, partners, 1099 or independent, and even employees
* Items for write off – printers, desks, chairs, computers, cables, routers, office supplies, vehicles, etc. Not sure – Steve was also saying that we could make the list semi flexible.
* Entrance – could be a number of different ways of investing. Time, money, services, or gifted. Also, there may be frontend requirement such as time served or hours worked or whatever.

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3/29/22 – later meeting with Steve, Brandon, Cory, and Shari O.

* From Bob, we need to contest the judgement that was put against us
* Steve got a phone number for “Employee Counsel” – they help with employer/employee relations. This is an outside 3rd party.
* Standard deductions for normal employees – very limited
* If we choose to keep 1099 works, we will need to get an attorney to help us get everything straight.
* Deductions and liabilities that we (adilas) would be liable for – SUTA, FUTA, workers compensation, social security, and medicare
* These liabilities could be around 17% (up or down a bit)
* There are some options if we change everything over to a straight employee vs 1099 stuff.
* Shari O. has already done some homework on liabilities and other numbers. See other sheet from Shari O.
* Still from Bob – if we change from an LLC with percentages to a C-corp with shares – what would happen? Steve was telling Bob that we want to preserve the ability to do write offs and such. Bob was recommending that we maybe look at flipping into a multi member or multi partner LLC and then split percentages as needed. Including even fractions of a percent. Real numbers are recommended but fractions are allowed (say a tenth of a percent). 1/10 of a percent is 1/1,000 of a share. Anybody with a percentage is considered an owner, not an employee.
* LLC may have better tax benefits
* By laws and operating agreement – if new, there may be some sort of special requirements.
* Every owner gets a K-1. Pro rata things are part of this process. There are pro rata tax liabilities and pro rata distributions. Everybody has to play along with the pro rata pieces.
* There are lots of ways of controlling the income and profit levels.
* Guaranteed payments could be any number, regardless of the percentage levels of ownership. There is a level of trust and some of the hours are not specific clock in/outs – kinda like a general salary or something along those lines.
* We need a special write off document – these are things that owners are responsible for paying – You are responsible for buying or purchasing… (fill in the blank) according to our list. This could be pretty deep. This is a perk for owners. We could alter this document as needed. The more in-depth the document is, the better. This is our responsibility or fiduciary responsibility.
* Draft an operating agreement – amendments to our current one or draft a whole new one. We can prep it and then load it up into the secretary of the state’s website. Try to think of all of the different scenarios and put them in.
* In the operating agreement we need to cover – existing owners, new owners, owners that need to leave (in some form or another).
* Adilas would be able to buy back a percentage if someone leaves and/or dies. Possibly for a discounted price (wish list).
* Evaluations or valuations could change if we need to. For example: originally, we did a $100 deposit and Steve did $40, Brandon $40, and MSAI did $20 = $100. Recently, Steve bought the rest of the MSAI shares based on a $25,000 per percentage for $200,000 (8%) for David’s kids after David’s passing.
* We have to make some decisions… Do we pay the audit? Do we switch the company structure (employees, 1099, owners, etc.)? Do we contest the judgement?
* Steve was talking about guaranteed payments and how to make that happen, even retro actively.
* Cory wanted to make sure that we were fully legal and not trying to pull a fast one. Meaning, flipping our corporation or business structure.
* Steve is recommending that we pay the possible back fees that are due. Then we change things and go forward.
* Cory had some good questions – do we all have to be owners? Could we do ownership, 1099, and have actual employees? The 1099 folks would need their own companies and would need to play along with certain rules.
* Cory wants to know what the liabilities are as an owner? Steve was saying that most of the liabilities are dealing with profits and losses. There seems to be a magic number of 20% owner, if yes, you may have more liability. If below that magic number, you may not be included in certain liabilities.
* What if someone wants to sell their percentage? We could make it so that adilas has the first option or something like that. We would also like to have an option to buy percentages at a reduced price (write it into the by laws).
* Management would be some sort of a board, council, team, management agency, or something of that nature.
* Just an idea… are there certain rules if a percentage is gifted vs earned or purchased? Maybe an internal offering first, then if not used or purchased, allowed to go to the public market.
* Cory wanted to know if Bob thought that this was a good idea? Steve said yes. Also, we would like to keep some of our players as real 1099 folks.
* We have reoccurring revenue. We could also setup some sort of retirement plan or some sort of internal bank or bank type account. We already have a section in the site that allows for special accounts.
* Timeframes – maybe a generation of payments, even if an owner dies. For example: Say a 5% owner passes away. We set a timeframe that the family or named person (entity) would get proceeds from us for a certain timeframe. When the timeframe comes up, they could sell their percentages or some other actions could take place.
* Possible perks to owners – unknown but very possible – all kinds of stuff
* If we are playing with guaranteed payments, we would want those to be stable or fairly stable – almost a budget with guaranteed salaries – it may be a challenge to figure out these numbers or we on purpose we set it in our by laws to be able to set those values per month or per quarter. Budgetting stuff. Maybe certain owners with a percentage below x could become a variable on the guaranteed payments. Just for fun, Steve was also saying something of the nature… payments in excess of x are variable
* Write it into our by laws that certain values and guaranteed payments could be set per quarter or some specific timeframe. That allows us to change things as needed, but it would be tied to a specific budget meeting, decisions, and some sort of communication or notification. We need to define this better.
* Small side note – keep the developers focused on one thing and then get it finished.
* Maybe we need to run a scenario or multiple scenarios to figure out guaranteed payments and expectations of hours and how much will be required.
* When other people have ownership, they tend to care more and may be willing to push on things. It becomes an asset and brings in equity for the owners. We want this whole thing to work.
* Covid – may have changed the environment and that’s why everybody is getting audited. They need to make some money back for the government.
* Shari O. is doing some due diligence on figuring numbers, until we make a physical change to our business structure. Currently, there are a lot of ideas bouncing back and forth. For example: Pay the fines and go forward. Contest the judgement and restructure our business model. We still may need to pay some fees for past years. We are not exactly sure where things are at. In the meantime, Shari O. is trying to make sure that we are all good and all ok.
* We may need to come up with the rules, by laws, the expectations, the benefits, and the liabilities of switching over to a multi partner LLC with ownership percentages. Get some communication going on and get physical and actual buy-in on where we are headed.

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Alan joined and we tried to bring him up to speed

* Shari O. was telling Alan that it was a state level audit vs a federal audit
* Steve was telling Alan about some of Bob’s recommendations and the outcome of that meeting with our CPA.
* Steve was saying that if we go as the full employer route, we would have to comply with all kinds of things. Timeclocks, full payroll, full quarterly liabilities and tax withholdings, admin, managers, etc. It could get pretty deep.
* Steve is really glad for this audit and that it is pushing us in a good direction. We have wanted to do this for years.
* Alan – he would like some education on how to play the game and make it work? Liabilities, benefits, rules, and how it affects year end tax stuff.
* Steve and Brandon are willing to share some of the ownership and thus the potential for growth.
* We could figure out a balance between payments made and expectations and involvement. This could be set on a quarterly basis. For example: Guaranteed payments of x for y amount of involvement (or even a range – from y to z).
* Steve was talking about virtual slush fund type levels where we could setup our own retirement plans or some sort of reoccurring value.
* Who knows, if we end up really needing full time employees for certain tasks, we could fully set that up or hire an outside party that had the employees, not us. Third party or sub-contractor options.
* Just for fun, Steve was talking about a probation period where we issue a certain percentage as a probational period. If things work out, great. If not, we could setup rules and payoff values if things don’t pan out within the probational period. We could even stack the probational periods… Say someone needed to leave or didn’t work out. You could setup ranges within 0-1 month, 1-3 months, 3-6 months, 6-9 months, 9-12 months. Each level might have a fixed buyback rate up until the 12 month or 1 year. After that, it could go to a different rate. This is a way to still provide ownership but if it doesn’t work out, there is still an easy option to allow for that (allowing somebody to exit smoothly).
* Our primary asset is our code, database structure, and data held in the database.
* Alan wanted to know about a home office space and how that works on a duction range or level? It gets kinda interesting as an owner with percentages. Lots of options, including possible multiple offices or locations. We can write it in and then it’s just part of our company by laws.
* Alan was recommending that maybe we could setup a session with Bob (CPA) and get the ins and outs of some of these company structure changes. Steve was saying that he could setup a meeting with Bob and we could all join in over Zoom or GoToMeeting (or all just be there in person – being silly).
* Some of these tax laws almost want you to spend money. They want you to push things. It helps the economy by spending and moving money.
* There could be a way to setup new developers as strict 1099 person (and they have to follow the 1099 rules) and then allow for them to move into ownership after a certain amount of time. This could be the probationary period. More options might be available.

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There were some other notes from 3/31/22 (Steve, Brandon, and Shari O.)

- Steve and I were talking about options for percentages. Buy backs, selling, buying and selling within the company (percentages), approval processes, and other options.

- Some of our guys want x, we may only be able to provide y. This becomes a partial - on ownership and a partial on guaranteed payments (salary)

- We may need good 1099 options and good owner (percentage) options. We are really leaning toward the owner and percentage option. That would totally cut out 1099ers and employee. We would just have owners.

- If someone is brand new - they could go 1099 (have to check all the boxes) or we could gift them 1/10 of a percent and then set a buy back schedule for the first year. Say $100/month. 1=$100, 2=$200, 3=$300, etc. Up to a year. Once it passes a year, it has matured and will be real or have a real value (market value or valuation value). We give it to you for $0 and we are able to buy it back for $100/month of service up to one year.

- What about allowing people to buy more percentages - yes, no, maybe - values change but that might be an option. It may be a case-by-case basis.

- Adilas will get first right of refusal (buy back option).

- We are trying to focus our efforts going forward. Any water under the bridge is just that, water under the bridge. We are switching over to owners and a multi member LLC.

- Currently, we are not looking for any new places - job openings or new team members. Our only major need, right this minute, is on the sales side of things.

- Our guaranteed payments may need to be looked at and possibly altered on a monthly basis. Based on a budget. Time is money. We may want to write something like this into our by laws. We may need to look into options to figure out how to flex some of our guaranteed payments.

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New meeting with Steve on 4/4/22

* Steve was reporting on a meeting with Eric. Wanting potential projects and doing some sales. He has been great to work with.
* Steve and I would like to come up with some offers. We don’t know what that is yet, but coming…
* Talking timelines and strategy – we can either go along with them (dealing with the audit), deal with the avalanche of inquiries, lots of possible cause and effects. Or we can come up with something new.
* On the 1099 stuff, we have to set specific values on a certain project. There are lots of other little checkboxes that will need to be monitored, checked, and verified.
* We really want to get these people called “dependables” – that is our goal.
* We did talk briefly about different levels: Owners/partners (%), 1099, and W-2 levels (employees). Possible hybrid type model.
* What about losing any of our current clients – money amounts, servers, etc.? We don’t know all of these pieces. We almost have to just assume and go forward. Talking about dealing with unknowns.
* We’d like to clone my dad – he is great at networking, finding, and being a virtual talent scout. Good facilitator and good cheerleader.
* Both Sean and Marisa have been super busy on deployments. That is awesome!
* We need to crank hard on the sales side of things.
* If we can, it would be good to get things dated and started at 1/1/22. That way they wouldn’t have to be 1099 for a couple of months and then owners for the rest of the year. Not sure on timing and values. This is a recommendation from our accountant and CPA advisor.
* Looking at gains taxes and possibilities – values, costs, sales, revenue, tax liabilities, tax laws, company by laws.
* Thinking of a baseline of 1/10 of a percent or 0.001. At a $10 million valuation for the adilas company, that would be a rough value of $10,000 per 1/10 of a percentage or $100,000 per full single percent (1%).
* Our industry is Fintech (financial technology). People will always need both operations and accounting. That is what we do.
* Steve was talking about loans back and forth on buying shares (percentages). For example: Say we gift a certain amount, then we sell another certain percentage back to the person. We pay the guaranteed payments and they pay back (payment plan) to virtually buy additional percentages. Just talking options.
* Monthly have a budget meeting that we re-instate the guaranteed payments. Currently, we need to keep things flexible.
* On the 1099 stuff – maybe we need to change the commission stuff – instead of us sending out the commissions, maybe they send us a bill and then we pay that bill.
* What about flexible guarantees – based on budgets per month. We just flip them as we need to. We then stick to that budget for the month.
* Time or money invested into the company. We are open to this type of investment and playing the game with us.
* Percentages won’t move around that much – our guaranteed payments may flip per month, based on budgets and custom projects that come in.
* We may need to figure out what percentage value gets a vote or has a say. It may even be on a per owner basis. For example, if we are giving our fractions of a percent… does that person get to have a vote or say or do they need to be at a certain level? Just asking questions.
* We may need to give some of our guys a small percentage but may not be in the guaranteed payment realm ($0 guaranteed payments but still have ownership). It could get interesting. We have really had some great team players. They really deserve to have some ownership. The biggest problem is just making the budgets match and all work out correctly.
* If the percentages are sold, how does that affect tax liabilities? It could be deep or get deep. We may need to put an actual value (say $1 or some value) to the sale. Just to show that a transaction took place.
* We would like to meet up with Alan and pick his brain on some ideas that he might have.

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Meeting on 4/5/22 – Phone call between Brandon and Steve

- Trying to get our guys and gals to focus on one thing and getting it all the way finished. From top to bottom. We have a lot of stuff that feels 50-75% done. We want to get it all the way across the finish line. Our goal is to give them a single project so that they can get it all the way finished before moving on. We are hoping that if we extend them some ownership in the company that it will help to motivate them to play the game.

- Need for more news and updates. We also thought that it would be good to do some internal news and updates for our internal staff. That idea came from Steve.

- We need someone who is able to get into some deep JavaScript stuff and really help out there. We have a number of projects that are very heavy in that area and need some loving.

- We chatted about different developers and their skill levels. As a side note, the deeper we get, the more things start breaking down into smaller and smaller pieces. So many interweaving and interlocking pieces. Lots of dependencies and requirements.

- Kelly seems to follow trends very well. It's almost one of her skill sets. In the book, "Who Moved My Cheese", there are two mouse like characters. One is Sniff and the other is Scurry. Kelly seems to have those type of instincts.

- Divesting possible ownership and management options to an outside company. Just playing with options.

- For our internal team, we have been talking about a price of $1,000 per percent of adilas. That is about 1/100 of its actual value. On the open market, 1% would be somewhere between $50,000 to $100,000 at a $10 million dollar valuation.

- Steve was mentioning options for an operating company, a holding company, a management company, and maybe a retirement company. Just talking possible options, down the road.

- There seems to be a huge gap between sales and demos. If we get the demo and get to talk to people and show them what we have, we shine, and they want it. If we can't make it that far, it doesn't go very fast. Kinda interesting but logical.

- We are trying to stir the pot on the sales side of things. We talked about doing a sales sprint, daily sales standup meeting, and getting some of our guys really going and focused there. We really want to manage it properly as well. It is one thing to say go, it is another thing to have a plan, accountability, and be able to measure efforts. We really want to lean on the manage it properly type level.

- As far as sales and travel. We were talking that if they log their miles, we could pay $0.25 per mile. That covers gas and some light wear and tear on the vehicles. We would have them log those miles inside of adilas. Ideally, we would tie that into a general budget for what they are charging us or what we are budgeting for their help.

- We would like our salespeople to stay as local as possible so we don't burn up tons of travel costs. This is at least true for getting started out and getting things up and running.

- One of the goals would be to help the guys and gals be more accountable. Along with that, dealing with sales, we need them to log the contacts, touches, and daily standup meetings. Ideally, we want to record these notes as real-time as possible, while they are fresh in your minds.

- Sales is a game of numbers. The numbers should tell the story.

- I'm going to reach out to Shawn and get his instructions for his sales and contacts that need to be logged into adilas, in the CRM (customer relationship management) section of the site. See attached.

- Both Steve and Sean would be the main contacts for the sales guys. The main adilas morning meeting would have a small standup for sales everyday.

- For me, keep pushing out gift cards as we get them - perks for the guys and gals.

- Steve and I went over some percentages and who was going to be selling what percentages. We made a list on a spreadsheet. Our initial internal offering is going to be 5% from Steve and 5% from Brandon. These will be sales made to us as individuals - checks made out to Brandon or to Steve vs adilas llc. We will come up with a promissory note of sorts to document the sales of those percentages.

- There is huge value in getting in there, out there, doing it and learning from your mistakes and successes. We build and break, we build and break. Don't overthink it! Just keep going!

- When we present our offer to the guys and gals, Steve wants it to be pretty simple. This is the deal. If you want to play, great. If not, here are the options. Keep it as simple as possible.

- In closing, Steve was making some comments on having sufficient money to play and make other plans. Hinting at some other fun things to come... It just keeps going!

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Meeting on 4/7/22 with Shari O., Cory, Steve, and Brandon

* Steve and Brandon were sharing some of the info with Shari O. and Cory. Small discussion on 1099’s and K-1’s. Lots of review of some of the items that are listed up higher on this document.
* On timing – make changes as of first of the year (back dating them) or when it really happens (current date is 4/7/22). The entire year makes a better tax return vs 1099 for x number of months and then a K-1 for y number of months. We are going off of the recommendation from our CPA.
* As far as the audit. We see if we can settle things for the 2 years in question. We then change things over so that we are either full K-1’s (owners with percentages) or full 1099 (able to check all of the boxes). Shari O. and I would like to meet with the auditor and get a full list of what is needed on the 1099 side of the fence. Internal education for us.