

**CASE NOS. 18-4150 and 18-4119**

UNITED STATES COURT OF APPEALS  
FOR THE TENTH CIRCUIT

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UNITED STATES OF AMERICA,

Plaintiff – Appellee,

v.

RAPOWER-3, LLC, INTERNATIONAL AUTOMATED SYSTEMS, INC.,  
LTB1, LLC, R. GREGORY SHEPARD, NELDON JOHNSON,

Defendants – Appellants.

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On Appeal from the United States District Court  
For the District of Utah, Central Division  
The Honorable Judge David Nuffer  
D.C. No. 2:15-cv-00828-DN

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**APPELLANTS' APPENDIX VOL. IV**

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Respectfully submitted,

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10-K 1 iaus10k20090630.htm INTERNATIONAL AUTOMATED SYSTEMS, INC. FORM 10-K JUNE 30, 2009

U.S. SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended June 30, 2009.  
or

TRANSITION REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 33-16531-D

INTERNATIONAL AUTOMATED SYSTEMS, INC.  
(Name of small business issuer in its charter)

Utah  
State or other jurisdiction of incorporation or organization

87-0447580  
I.R.S. Employer Identification No.

326 North SR 198, Salem, Utah 84653  
(Address of principal executive offices)

Registrant's telephone number, including area code: (801) 423-8132

Securities registered pursuant to Section 12(b) of the Act: None

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
N/A	N/A

Securities to be registered under section 12(g) of the Act: None

Check whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such report(s)), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Check if disclosure of delinquent filers in response to Item 405 of Regulations S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. Check one:

Large accelerated filer       Accelerated filer       Non-accelerated filer       Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

EXHIBIT 371  
WIT: BVCK  
DATE: 2-15-19  
CitiCourt, LLC

2/14/2017 faus10k20090630.htm  
State the registrant's net revenue for its most recent fiscal year: \$0.00. The aggregate market value of voting stock held by non-affiliates of the registrant on September 30, 2009, was approximately \$16,936,518

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date:

As of September 30, 2009, there were 38,846,140 outstanding shares of registrant's Common stock, no par value per share.

Documents incorporated by reference: Exhibits

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**PART I**

**Forward-Looking Statements**

In this report, references to "International Automated Systems," the "Company," "we," "us," and "our" refer to International Automated Systems, Inc.

This annual report on Form 10-K contains certain forward-looking statements and for this purpose any statements contained in this annual report that are not statements of historical fact are intended to be "forward-looking statements" with the meaning of the Private Securities Litigation Reform Act of 1995. Without limiting the foregoing, words such as "may," "will," "expect," "believe," "anticipate," "estimate" or "continue" or comparable terminology are intended to identify forward-looking statements. These statements by their nature involve substantial risks and uncertainties, and actual results may differ materially depending on a variety of factors, many of which are not within our control. These factors include but are not limited to economic conditions generally and in the markets in which we may participate, competition within our chosen industry, technological advances and failure by us to successfully develop business relationships.

We caution readers not to place undue reliance on any forward-looking statements, which speak only as of the date made, are based on certain assumptions and expectations which may or may not be valid or actually occur and which involve various risks and uncertainties.

Unless otherwise required by applicable law, we do not undertake, and specifically disclaim any obligation, to update any forward-looking statements to reflect occurrences, developments, unanticipated events or circumstances after the date of such statement.

**ITEM 1. DESCRIPTION OF BUSINESS**

**THE COMPANY**

Exact corporate name:	International Automated Systems, Inc.
State and date of incorporation:	Utah- September 26, 1986.
Street address of principal office:	326 North SR 198 Salem, Utah 84653
Company telephone number:	(801) 423-8132
Fiscal year:	June 30

International Automated Systems, Inc. ("the Company", was organized under the laws of the State of Utah on September 26, 1986. In April 1988 the Company filed a registration statement for a public offering under the provisions of the Securities Act of 1933 ("1933 Act") to sell a maximum of 1,074,000 units at a price of \$.50 per unit. Each unit was comprised of one share of common stock and one common stock purchase warrant. The Company sold approximately 200,000 units at the offering price of \$.50 per unit realizing total proceeds of approximately \$100,000. All warrants expired without exercise.

Over time, the Company, for the most part, has acquired its technologies from its president.

**OVERVIEW**

International Automated Systems, Inc., a Utah corporation (hereinafter "Registrant" or "Company") based in Salem, Utah, seeks to design, produce and market leading edge technology products. The Company has a production model of a patented turbine which uses the expansion of steam to generate a rotational force. This force can then be used to generate power. The Company feels the turbine could be used in, but not limited to, the production of electricity, hydrogen or in the transportation industry. Though some testing has been done using pure steam and geothermal steam, more testing will be done. There are risks that a commercial turbine may never be accepted.

The Company has a solar energy thermal system which can be used in conjunction with the Company's bladeless turbine to generate power. The system tracks the sun as it concentrates the solar energy onto a receiver and this energy is captured and used to propel the bladeless turbine. A typical system will use multiple concentrators to supply a single turbine.

The Company has developed an automated self-service check-out system and management software. This system allows retail customers to ring up their purchases without a cashier or clerk. The system is primarily designed for grocery stores, but may be applicable in other retail establishments.

The Company has an Automated Fingerprint Identification Machine ("AFIM") which has the capability of verifying the identity of individuals. Potential AFIM applications include products for employee time-keeping and security, access control, and check, debit or credit card verification. Registrant purports that its identity verification system has a variety of uses and applications for both commercial and governmental users. The Company also purports that it has developed technology that transmits information and data using different wave patterns, configurations and timing in the electromagnetic spectrum. The Company refers to this technology as digital wave modulation ("DWM"). The Company believes that if the technology is implemented and applied commercially, the technology has the capability to significantly increase the amount of information which can be transmitted. The Company is continuing the development of this technology and the commercial feasibility of the technology has not been demonstrated. The Company believes it has many competitors in the communications, information data transfer and data storage industries which have greater capital resources, more experienced personnel and technology which is more established and accepted in the market place.

The first anticipated product using this technology for commercialization is a high-speed modem. The modem is projected to be faster than modems currently in use. Generally modems are used for purposes of transmitting data over telephone lines, on telecommunications systems and over wireless mediums such as satellite transmissions and other line- of-sight transmission mediums.

The Company has a modem prototype. Additional development to achieve a commercial product is on going. In addition, the Company intends to apply the digital wave modulation technology in other areas. The Company has not established a plan or order of priorities for any future commercial product development. Because this technology is sophisticated and new, the Company may not be successful in its efforts to have commercial exploitable products because of difficulties and problems associated with development. Possible problems could be inability to design, construct and manufacture commercial products; and the Company's lack of funding and financial resources and experienced personnel. Competitors may develop technologies which are superior and will make the DWM technology obsolete even before the Company has completed its development of any commercial products. Cost will also be a factor in both the development and the commercialization of any new product. It is anticipated that if a commercially viable modem is developed, the Company will have to expend funds to develop a marketing plan and introduce the product into the market. Costs to offer new products and to establish the proper marketing strategy will be significant. The Company has not made any projections regarding any anticipated costs. There are risks that no commercially viable products will be developed from the technology and any products developed may not be accepted or successful in the marketplace. In addition, the Company may not have sufficient funds to develop, manufacture and market any products.

#### Propulsion Steam Turbine

The Company has a new patented bladeless turbine production model. It uses the expansion of steam, through propulsion, to create a rotational force.

The production model has been tested using pure steam created by a gas heat exchanger. The Company feels their propulsion design has many advantages over current bladed turbines. The Company believes their turbine is at least as efficient as traditional turbines, is smaller in size, requires less maintenance, is mass producible and therefore less expensive to manufacture. It also doesn't require cooling towers, thus making it more mobile, more economical and water conserving.

The Company believes that the turbine will be marketable in the utility power industry, hydrogen production and transportation. There are also risks that the Company will not be able to manufacture a commercially marketable turbine because of lack of financing, government interference, industry non-acceptance or many other conditions not under the Company's control.

The Company has a model of a solar thermal system which can be used to produce steam to drive the Company's bladeless turbine. The Company believes that the possible advantage over other similar systems is its ability to be mass produced, thus reducing its overall cost as compared to other systems. The Company has developed proprietary structural and lens designs in preparation for mass production of the solar thermal system.

#### Automated Self-Service Check-Out System.

In 1988 a patent was granted for the automated self-service check-out system (hereinafter referred to as the "Self-Check System" or "System"). In retail operations, the System allows customers to check-out the items selected for purchase.

#### Description of the Self-Check System.

The Self-Check System is an automated check-out system for customers of retail establishments and provides for self-service check-out lines, stations or lanes. The System has a scanner to read the bar codes of items purchased and a scale to weigh the items scanned and placed in the receiving basket. As each item is scanned by the bar code reader, the scale verifies the accuracy of the item scanned and placed in the basket by comparing the weight of the item scanned with the weight change recorded in the receiving basket. If the weights differ or if other problems arise, a clerk is summoned to assist the customer and resolve any problem.

The Self-Check System is designed to replace clerk operated cashier registers that are used in retail and grocery stores. In addition, the Self-Check System, when fully and completely implemented, is intended to allow a store manager to maintain accurate inventory on a contemporaneous basis. The contemporaneous inventory assists in reordering and restocking. It is believed that the System may simplify price verification and may provide customers with better and faster service.

*Operation of System.*

The Self-Check System operates as follows. Customers make their selections for purchase. A customer places the grocery cart at the head of the System, removes the products from the grocery basket and scans the bar codes on the products across the reader. The bar code provides, as a data base index, the product description, weight and price. This information is then relayed on an item by item basis to the computer and the computer transmits the data in its memory to the check-out terminal. The product information, item description and price, are then displayed on the screen. A running subtotal for all items purchased is also shown. Each item scanned is placed into a receiving basket or cart on a sensitive scale. The weight of the item scanned and placed in the receiving basket is compared to the weight for that item as recorded in the computer. The computer compares the weight of the scanned item with the weight for that item in the database. If the weight differs, an error code is displayed and an attendant is summoned to assist the customer or to override the System. Once all the items are scanned, a final tally is made. Payment is then made to the attendant either through a debit or credit card, check or cash. A payment may also be made without an attendant through the use of the "AFIM" which will verify the identity of the person making the transaction and automatically debit their account electronically.

The Self-Check System interfaces with computers and data is transferred back and forth between the check-out terminals and the main computer. The interface may be compatible with various scanners and scales so the Self-Check System may be adaptable to equipment already from other manufacturers. The System allows one clerk to handle simultaneously multiple check-out stations or lanes.



*Possible Advantages.*

Management believes the Self-Check System may have several possible advantages over conventional retail check-out systems to operators and customers. For operators the advantages are: reduced labor costs, more accurate inventory, theft reduction, theft deterrence, decreased check fraud, and decreased transaction costs. Also, the retailer can serve more customers during peak traffic. For customers the advantages are: faster service, greater convenience, less time waiting in line and more privacy. A retail establishment may not need as many cashiers with the Self-Check System.

Management believes that the market for the Self-Check System may include several types of retail establishments, including grocery stores, drug stores, discount stores and fast food restaurants. If operating properly the Self-Check system lessens the impact of having too many attendants or cashiers available. Customer traffic volume is difficult to predict and retail operators wanting to reduce the time customers wait in line must have sufficient clerks or cashiers available.

The Self-Check System uses proprietary software developed by the Company. The System also offers a hand-held unit to be used for price verification and taking physical inventory counts. The hand-held unit reads the bar codes and verifies the price in the database. This hand-held unit also is used to take physical counts for inventory control. The System may also include a check-in station at the loading dock. Items delivered are checked and the prices verified against purchase orders allowing greater control. Price verification can be done using the hand-held unit while the products are on the shelf.

For the Self-Check System to operate efficiently at least 95% of the items offered for sale must have bar codes. In the past few years virtually all packaged goods have bar codes. Items purchased across the counter, such as bakery, meat and deli products usually have no bar code. Grocery stores or other retail operations using the System may have to install scales and labelers to place barcodes on items with no bar code. As an option the Company offers scales and labelers for produce and delicatessen items which interface with the Self-Check System. Management believes that the Self-Check System may help reduce theft. For instance, one clerk cannot check-out another clerk's or friend's purchases using incorrect and understated prices. A portion of the theft in supermarkets is attributable to employees doing what is called "sweet- hearting" by checking-out the purchases of other employees or friends at reduced prices.

Another market being tested is automatic ordering and payment for use in restaurants and fast-food establishments. Where the customer would use a touch screen, connected to a computer, to place an order, pay for the order with cash, check, credit, or debit card using Company's technologies including AFIM and then have the order automatically sent to the cook for preparation.

*Competition*

Competitors offer a similar Self-Check System. The success of these other entities and the system used may, individually or collectively, significantly affect the Company's attempt to commercialize its Self-Check System. The Company has no market studies to determine its relative position with its competitors in the market place. Some competitors have been in business longer, have more experienced personnel, have greater financial resources and better name recognition in the marketplace.

Automatic Fingerprint Identification Machine.

The company has an Automated Fingerprint Identification Machine ("AFIM") which verifies an individual's identity. The AFIM digitizes the unique characteristics of a person's fingerprint and then stores the information on a magnetic strip similar to the strip on the back of a credit card or on other storage medium. The identity verification process is simple, quick, easy, and reliable. AFIM connects to and operates with a personal computer. AFIM has unique software. Management believes that AFIM is better than other bio-metric and fingerprint based identification systems. The Company is continuing to make modifications to the AFIM technology to increase the speed and to reduce the cost and size of the units.

*Operation.*

To use the AFIM the person whose identity will be verified has the fingerprint read by the AFIM. The finger is placed on the lens and AFIM reads the print, digitizes, and stores the digitized fingerprint. To verify a person's identity AFIM reads the fingerprint and compares it to the digitized fingerprint on the magnetic strip or other storage medium. A match verifies the person's identity. The AFIM is connected to a personal computer which processes the information read by the AFIM and makes the comparison to the digitized fingerprint on the magnetic strip or other storage medium. The Company believes that it has the ability to connect AFIMs in series so that multiple stations or readers can be connected and operated by a single personal computer.

*Possible Commercial Applications.*

Different commercial applications of the AFIM are under development. One application is a time clock. The digitized fingerprint stored on the magnetic strip on the back of a card like a credit card must match the person's fingerprint that is recording his arrival at or departure from the workplace. Because the AFIM system validates the identity of the person using the time clock, fellow workers can not make in or out entries for other workers.

Also, AFIM with appropriate software may be used with a database of fingerprints. The fingerprint is read by the AFIM and then verified against the database for identification and, where appropriate or required, for access control purposes. Searching the database requires additional time to verify the identity of the individual using the fingerprint stored in the database. To date the full marketing of the AFIM time clock has been delayed as development of the product is continuing and modifications to the AFIM are made.

The Company has no comprehensive study or evaluation to determine the reliability of the AFIM or the frequency of false positives. A false positive is where a verification is sought and the person is identified as correct when it is not the person claimed. Management believes, based on the limited experience available, that AFIM does not yield false positives or false negatives at unsatisfactory levels.

Another application of the AFIM technology is door or entry security. The AFIM would read a card on which the fingerprint of the person seeking entry would be encoded. The fingerprint of the person seeking entry as read by the AFIM would have to match the fingerprint digitized and encoded on the card. To be successful the Company believes that the door security adaptation must be compatible with or adaptable to other door entry security systems already in place.

Another application of the AFIM technology is a vending machine which will allow items to be purchased which now require age and identity verification.

Another product based on AFIM technology is identity verification on computer networks or identification when data is transmitted or accessed. The AFIM would read the fingerprint to validate the identity of the user. Depending on the system protocols the person would then be allowed access to data, files, information or programs. Also, the identity verification, if development is completed, may validate the identity of the person either receiving or sending information.

Another application of the AFIM technology is fingerprint secured financial transactions. A card user designates which personal account he/she would like to use. Upon positive AFIM verification, the Company's software sends the transaction information via ACH protocols to the Company's bank and the Company's bank debits the customer's bank account. The funds are then deposited into the participating retailer's account.

For future development and possible commercialization of the AFIM technology and the possible application the Company may attempt to enter into licensing agreements or joint ventures. Presently the Company is merely considering the possibility of licensing agreements or joint venture agreement. At this time there are no agreements to which the Company is a party for licensing, royalties or joint venture projects.

*Competition.*

The AFIM based products compete with a broad spectrum of products which verify identity. Competitors offer products based on some form of bio-metrics. Some competitors offer fingerprint based systems. The success of these other entities and the system used may, individually or collectively, significantly affect the Company's attempt to commercialize AFIM. The Company has no market studies to determine its relative position with its competitors in the market place. Some competitors have been in business longer, have more experienced personnel, have greater financial resources and better name recognition in the marketplace.

*Possible Advantages.*

The Company believes that the AFIM products will be quicker, more reliable, and more cost-effective than other identification systems. The Company has no empirical data or statistics to support its belief.

Digital Wave Modulation Technology.

Digital Wave Modulation ("DWM") technology may provide a new way of transmitting data. Basically different wave patterns are generated on the magnetic spectrum which may increase flows of data and information transmission and communication. More data will be transmitted in a shorter time period and speed may be increased.

DWM technology is based on the transmission of symmetrical, asymmetrical, and reference waves that are combined and separated. The Company has a modem prototype that has the capability of sending and separating combined multiple waves. Depending upon frequencies and other factors, the Company believes it can achieve transmission rates in excess of modems currently in use. Data transmission speed will depend on such factors as the transmission medium, frequencies used and wave combinations. The rate of data transmission varies significantly depending on the communication medium used. When using plain old telephone system commonly known as "POTS", transmission rates will be slower. DWM is not compatible with the technology used in other modems.

DWM can be used to transmit over any analog media including wireless. Because wave frequencies may be higher when sent through the air, wireless data transmission using DWM technology may transmit information at higher rates.

Preliminary evaluations indicate that DWM technology may be used for data storage media which are magnetic based, such as floppy disks, hard drives, video cassettes, tapes etc. Because various forms of magnetic media store in analog format, DWM may increase the storage capacity of some magnetic based devices. DWM storage enhancement applications have not been fully developed and tested and may ultimately prove infeasible and impractical.

DWM must be developed from a prototype to a commercially viable product. Even though the Company has a prototype, the Company makes no assurance that the DWM technology can be developed into a commercially viable product or products.

If the research and development of the modem is successful and the Company then has a commercially viable product, the Company will consider various alternatives. It may seek a joint venture partner or it may license the technology to another company and attempt to structure a royalty payment to the Company in the licensing agreement. No plan has been adopted regarding the manufacturing, marketing, or distributing of the modem, when and if commercialization is achieved. No assurance can be given that the commercialization efforts for the modem will be successful or that the Company will be able to effectively penetrate and capture a share of the modem market. Any possible ventures are predicated on the Company developing a commercially viable product. Presently, the Company's efforts regarding DWM are directed primarily toward the DWM modem.

Management believes that because of the increased amount of information that can be transmitted, other applications in the telecommunications industry may be feasible and beneficial. Again because of the sophisticated and high technology nature of this technology other applications may not ultimately be successful.

The Company is a development stage company and its business is subject to considerable risks. The Company's activities have not developed sufficient cash flows from business operations to sustain itself. The Company is small and has an extremely limited capitalization. Many of its actual and potential competitors have greater financial strength, more experienced personnel and extensive resources available. Also, the Company is engaged in technological development. It is expensive to do research and development on new products or applications of new or existing technology. Resources can be used and depleted without achieving the desired or expected results. Also, because of the rapid development of technology, the Company's products may become obsolete. Some of the Company's technology is revolutionary in that it is based on unconventional technological theories. The Company's business activities are subject to a number of risks, some of which are beyond the Company's control. The Company's future is dependent upon the Company developing technologically complex and innovative products. The Company's future depends on its ability to gain a competitive advantage. Product development based on new technology is complex and uncertain. New technology must be applied to products that can be developed and then successfully introduced into and accepted in the market. The Company's results could be adversely affected by delay in the development or manufacture, production cost overruns and delays in the marketing process.

To the extent that this report contains forward-looking statements actual results could vary because of difficulties in developing commercially viable products based on the Company's technologies. The Company undertakes no obligation to release publicly the revisions of any forward-looking statements or circumstances or to report the non-occurrence of any anticipated events.

Management of the Company has had limited experience in the operation of a public company and the management of a commercial enterprise large in scope.

The Company's business, if its technological development is successful, will require the Company to enter new fields of endeavor and even new industries. Entry into new markets will have many risks and require significant capital resources. If the Company seeks funds from other sources, such funds may not be available to the Company on acceptable terms. Success will be dependent on the judgment and skill of management and the success of the development of any new products.

The Company's success depends, and is expected to continue to depend, to a large extent, upon the efforts and abilities of its managerial employees, particularly Neldon Johnson, President of the Company. The loss of Mr. Johnson would have a substantial, material adverse effect on the Company. The Company has entered into an agreement with Neldon Johnson to act as President and Chief Executive Officer for a period of ten years beginning in July 2000.

The Company is not insured against all risks or potential losses which may arise from the Company's activities because insurance for such risks is unavailable or because insurance premiums, in the judgment of management, would be too high in relation to the risk. If the Company experiences an uninsured loss or suffers liabilities, the Company's operating funds would be reduced and may even be depleted causing financial difficulties for the Company.

Patents and Trade Secrets.

The Company has been assigned or will be assigned the rights to several U.S. patents. One patent granted in November 1988 deals with the Self-Check System. The patent pertains to an apparatus attached to a computer which has in its database the weights and prices of all items for sale. Four patents pertaining to the AFIM technology granted January 1997, February 2001, July 2001, and September 2002, seven patents relate to the DWM technology granted May 1996, June 1997, November 1997, July 2000, September 2000, October 2000, and May 2001, one patent pertaining to shelf tag granted September 2003, and four patents relating to the turbine granted March 2003, January 2004, February 2006 and November 2007. One patent pertaining to the solar energy technology granted in October 2007.

The Company has not sought or received an opinion from an independent patent attorney regarding the strength of the patents or patents pending and the ability of the Company to withstand any challenge to the patent or any future efforts by the Company to enforce its rights under a patent or patents against others. One of the AFIM patents was deemed invalid per a court decision in January 2008. See further discussion in Item 3.

The Company believes that it has trade secrets and it has made efforts to safeguard and secure its trade secrets. There can be no assurance that these safeguards will enable the Company to prevent competitors from gaining knowledge of these trade secrets and using them to their advantage and to the detriment of the Company.

The Company relies heavily on its proprietary technology in the development of its products. There can be no assurance that others may not develop technology which competes with the Company's products and technology.

#### Future Funding

Because the Company is a development stage company and currently has no revenue, it will continue to need additional operating capital either from borrowing or the sale of additional equities. The Company has no present plans to borrow money or issue additional shares for money. In the past, the Company has received funds from its president and his relatives in the form of cash advances. The Company received \$557,101 in cash advances from its president during the year ended June 30, 2009. The cash advances are unsecured, payable on demand and non-interest bearing. No assurance can be given that the Company will continue to receive funds from its president. No agreements or understandings exist regarding any future contributions. In addition, during the year ended June 30, 2009, the Company settled \$630,000 of the cash advances by issuing 1,575,000 shares of common stock to the officer upon the exercise of options; and the Company paid \$173,744 of the cash advances. As of June 30, 2009 and 2008, the cash advances, included in the related party payable balance, was \$440,382 and \$774,001, respectively.

#### General

From its inception the Company's primary activity has been the Development of different technologies. Since its formation, the Company has developed technologies which are in different stages of development. To date the Company has not marketed a commercially acceptable product.

#### Employees

The Company has thirteen full-time employees. Our employees are not represented by any labor union, and we believe our relations with employees are good.

#### Company Headquarters

The Company's office is located at 326 North SR 198, Salem, Utah 84653. The Company's office costs \$12,200 per month and is rented from the Company's president and a third party. The monthly rent includes a 200 square foot office space.

#### Warranty

The Company warrants that its Alternate Solar Energy Systems ("System") will remain in good operating condition for a thirty-five year period commencing on the installation date and that it will be responsible for all material, equipment and labor costs incurred to complete such maintenance and repair work during that period.

#### Marketing

The Company has not finalized its marketing strategy for all its products at this time.

The Company has received deposits of \$1,676,250 from unrelated parties toward the purchase of approximately 200 Systems.

For the marketing of the Self-Check System, the Company has developed a product named OrderXCEL which had been installed in a restaurant in Orem, Utah and since closed.

For the DWM technology the Company has not determined any definite marketing plan.

The Company may seek joint venture partners, may license the product to others, or may seek to establish distribution channels. It is anticipated that any marketing efforts will require time and capital to develop.

### Competition

Because the Company's products are distinct, its products will face different competitive forces.

The Bladeless Turbine and System has competition from larger well-established companies that already have a history and name recognition. Though the turbine has many potential uses, especially in the area of electrical generation, there is no assurance that the marketing strategies will be successful.

AFIM competes with all forms and systems of identity verification. End users have different needs including cost, sophistication, degree of security, operational requirements, time for individual verification and convenience. The Company believes that no firm dominates the identity verification market.

If the Company successfully completes the development of a commercially viable modem, the Company will face competition from large, well-established firms. These firms offer products with immediate name recognition and are established in the market place and are compatible with other modems. The Company believes because of the speed at which its modem may operate it may have a competitive advantage. The Company has no marketing studies or market research reports to determine the acceptance of the modem in the market place or the best marketing strategy to follow. Further, no assurance can be given that the Company will be successful in its further development of the DWM products.

The Company has no market share for any products at this time.

In marketing the Self-Check System the Company faces competition from major companies with established systems in the point of sale terminal market some of which are also developing and testing self checkout systems. Overcoming reluctance to change may be difficult. In addition, the System may not be compatible with or applicable to all types of retail operations.

The Company may rely on prospects known to management or developed by word of mouth. The Company may develop a franchise program as a means to market and distribute the Self-Check System or OrderXCEL system.

### Manufacturing and Raw Materials

The manufacturing of the turbine has been done mostly by the Company up to this point but if needed, the design could be easily outsourced. The solar thermal technology will be mostly manufactured by established companies in their fields, with much of the assembling done on site.

For production of the initial AFIM units the Company did the assembly. If the Company was successful in its marketing efforts and demand for the AFIM was to increase, the Company intends to use independent contract assemblers. AFIM is comprised of off the shelf components and proprietary components developed by the Company which are then assembled. The Company's proprietary software controls AFIM's operations. The Company has no agreement with any independent contract assemblers. The Company has entered into agreements regarding the AFIM technology, but these agreements have been inactive pending further AFIM development.

Management believes that the supplies and parts are readily available from sources presently used by the Company or from alternative sources which can be used as needed. The Company has no backlog.

The Self-Check and OrderXCEL Systems are comprised mostly of off-the-shelf parts and components. These parts are assembled into the systems. The Company's proprietary software ties together the individual components and operates the System. Scanners, video display terminals, and computers are available from several sources. The software used in the System is proprietary developed by the Company.

### Research and Development

The Company's primary activity is the development of its technologies. The industries may be subject to rapid and significant technological change. Future growth for the Company may be dependent on its ability to innovate and adapt its technologies to the changing needs of a marketplace. In the past the Company's activities have primarily consisted of its efforts in research and development. During fiscal years ended June 30, 2009 and 2008, research and development expenses were \$704,889 and \$760,798, respectively. Although no precise dollar amount has been determined, the Company will continue to allocate resources to product development. The Company expenses development costs as they occur. The Company intends to work closely with prospective customers to determine design, possible enhancements and modifications.

### Immediate Plans

Over the next twelve months the Company intends to continue the research and development of its technologies, primarily focusing on its Bladeless Turbine and solar thermal energy technology. The Company intends to have its solar thermal energy technology, which utilizes the Bladeless Turbine, operational in the next twelve months. The Company plans to broadly market the technology to companies seeking alternative energy sources.

Renewable Energy Development Corporation ("REDCO"), pursuant to an executed twenty year Power Purchase Agreement ("PPA") with the Needles Public Utility Authority, will develop and operate a 5-megawatt solar thermal power plant in Needles, CA to provide the city with power and the required Renewable Energy Certificates. REDCO plans to purchase the Company's solar thermal equipment, including turbines, to build and operate the 5-megawatt solar thermal power plant. REDCO is in the planning stages of a 49-megawatt solar project in Needles and plans to add an additional 150-200 megawatts over the next 3-5 years; REDCO is currently in discussions with several potential power purchasers for these projects. REDCO plans to utilize the Company's solar thermal technology on all of its planned solar projects in Needles.

### Acquisition of Technology

In May 2004, the Company entered into an agreement with its president, in which the Company acquired from the president patents, patents pending, designs and contracts related to the bladeless turbine, solar and chemical thermal technologies and electronic shelf tag technology developed by the president. As consideration for these patents, patents pending, designs and contracts, the Company issued warrants to purchase 100,000,000 shares of common stock and agreed to pay the president a 10% royalty of total gross sales of products related to the patents.

### Government Regulation

The Company's activities may be subject to government regulation. Depending on the nature of its activities in data transmission and power production, the Company may need approval or authorization from Federal, State, or Local authorities.

## ITEM 1A. RISK FACTORS

*You should carefully consider the risks, uncertainties and other factors described below, in addition to the other information set forth in this Annual Report on Form 10-K, because they could materially and adversely affect our business, operating results, financial condition, cash flows and prospects, as well as adversely affect the value of an investment in our Common Stock. Also, you should be aware that the risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties that we do not yet know of, or that we currently think are immaterial, may also impair our business operations. You should also refer to the other information contained in and incorporated by reference into this Annual Report on Form 10-K, including our financial statements and the related notes. The Company's business operations are highly speculative and involve substantial risks. Only investors who can bear the risk of losing their entire investment should consider buying our shares. Some of the risk factors that you should consider are the following:*

### The Company is in the Development Stage

The Company is a development stage company. The Company has limited assets and has had limited operations since inception. The Company can provide no assurance that its current and proposed business will produce any material revenues or that it will ever operate on a profitable basis.

### We Have a History of Significant Losses, and We May Never Achieve or Sustain Profitability

We are focused on product development and have generated minimal revenues of \$111,226. Since inception, we have incurred operating losses each year of our operations and we expect to continue to incur operating losses for the next several years. We may never become profitable. The process of developing our products requires significant development. In addition, commercialization of our targeted products will require the establishment of sales, marketing and manufacturing capabilities, either through internal hiring or through contractual relationships with others. We expect our research and development and general and administrative expenses will increase over the next several years and, as a result, we expect our losses will increase. As of June 30, 2009, our cumulative net loss was \$35,334,617. Our net loss was \$6,637,337 for the fiscal year ended June 30, 2009. Our continued operational loss may lower the value of our common stock and may jeopardize our ability to continue our operations.

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#### The Company May Experience Fluctuations in Operating Results

The Company's operating results are likely to fluctuate in the future as a result of a variety of factors. Some of these factors may include economic conditions; the amount and timing of the receipt of sale of the Company's current developments such as the solar lens; the success of the Company's development projects; the success of the Company's marketing strategy; capital expenditures and other costs relating to the development of the Company's products; and the cost of advertising and related media. Due to all of the foregoing factors, the Company's operating results in any given quarter may fall below expectations. In such an event, any future trading price of the Company's common stock would likely be materially and adversely affected.

#### The Company's Business Model May Change or Evolve

The Company and its prospects must be considered in light of the risks, as identified in the Risk Factors section of this filing, expenses and difficulties frequently encountered by companies in the development stage. Such risks for the Company include, but are not limited to, an evolving business model. To address these risks the Company must, among other things, develop strong business development and management activities, develop the strength and quality of its operations, develop and produce high quality products that can be marketed and distributed. There can be no assurance that the Company will be successful in meeting these challenges and addressing such risks, and the failure to do so could have a material adverse effect on the Company's business, financial condition and result of operations.

#### The Company's Auditors Opinion Expresses Doubt About the Company's Ability to Continue as a Going Concern

The independent auditor's report issued in connection with the audited financial statements of the Company for the period ended June 30, 2009, expresses "substantial doubt about its ability to continue as a going concern," due to the Company's status as a development stage company and its lack of significant operations. If the Company is unable to get its solar thermal energy technology operational, the Company may have to cease to exist, which would be detrimental to the value of the Company's common stock. The Company can make no assurances that its business operations will develop and provide the Company with significant cash to continue operations.

#### Customers with Deposits May Request a Return of Their Deposits

The Company has received deposits from customers to purchase its alternate solar energy technology system totaling \$1,757,250. The agreements provide that the Company will deliver, install and startup the solar energy technology system on or prior to June 30, 2009. The Company has delivered, installed and started up the alternate solar energy system, but the energy output has not been verified. Therefore, for these agreements, the customers could request a return of their deposits since the Company has not verified the energy output. If many of the customers request a return of their deposits, the Company may not have sufficient funds to return the deposits.

#### The Company May Need Future Capital and May Not be Able to Obtain Additional Financing

The Company may need future capital and may not be able to obtain additional financing. If additional funds are needed, funds may be raised as either debt or equity. There can be no assurance that such additional funding will be available on terms acceptable to the Company, or at all. The Company may be required to raise additional funds through public or private financing, strategic relationships or other arrangements. There can be no assurance that such additional funding, if needed, will be available on terms acceptable to the Company, or at all. If adequate funds are not available on acceptable terms, the Company may be unable to develop or enhance its services and products, take advantage of future opportunities or respond to competitive pressures, any of which could have a material adverse effect on its business, financial condition, results of operations and prospects.

#### Future Capital Raised Through Equity Financing May be Dilutive to Stockholders

Any additional equity financing may be dilutive to stockholders. If additional funds are raised through the issuance of equity securities, the percentage ownership of the stockholders of the Company will be reduced, stockholders may experience additional dilution in net book value per share and such equity securities may have rights, preferences or privileges senior to those of the holder of the Company's common stock.

Future Debt Financing May Involve Restrictive Covenants that May Limit the Company's Operating Flexibility

Furthermore, a debt financing transaction, if available, may involve restrictive covenants, which may limit the Company's operating flexibility with respect to certain business matters. If additional funds are raised through debt financing, the debt holders may require the Company to make certain agreements, covenants, which could limit or prohibit the Company from taking specific actions, such as establishing a limit on further debt, a limit on dividends, limit on sale of assets, or specific collateral requirements. Furthermore, if the Company raises funds through debt financing, the Company would also become subject to increased interest and principal payment obligations. In either case, if the Company was unable to fulfill either the covenants or the financial obligations, the Company may risk defaulting on the loan, whereby ownership of the firm's assets could be transferred from the shareholders to the debt holders.

Executive Management has Limited Management Experience of an Operating Company

The Company's officers have limited experience in managing an operating company. If the Company develops a marketable product, this lack of experience may make it more difficult to establish the contacts and relationships and implement operating procedures necessary to successfully operate the Company.

The Company's Success is Dependent on Management

The Company's success is dependent, in large part, on the active participation of its Executive Officers. The loss of their services would materially and adversely affect the Company's development activities and future business success.

The Company's Success is Dependent on our Patents and Proprietary Rights

The Company's future success depends in part on our ability to protect our intellectual property and maintain the proprietary nature of our technologies through a combination of patents and other intellectual property arrangements. The protection provided by our patents and patent applications, if issued, may not be broad enough to prevent competitors from introducing similar products. In addition, our patents, if challenged, may not be upheld by the courts of any jurisdiction. Patent infringement litigation, either to enforce our patents or to defend us from infringement suits, would be expensive and, if it occurs, could divert our resources from other planned uses. Any adverse outcome in such litigation could have a material adverse effect on our ability to market, sell or license the related products. Patent applications filed in foreign countries and patents in such countries are subject to laws and procedures that differ from those in the U.S. Patent protection in such countries may be different from patent protection under U.S. laws and may not be as favorable to us. We also attempt to protect our proprietary information through the use of confidentiality agreements and by limiting access to our facilities. There can be no assurance that our program of patents, confidentiality agreements and restricted access to our facilities will be sufficient to protect our proprietary technology.

Executive Officers Maintain Significant Control Over the Company and its Assets

Our executive officers maintain control over the Company's board of directors and also control the Company's business operations and policies. In addition, Neldon Johnson, the Company's President, and two of his sons, Randale Johnson and LaGrand Johnson, control approximately 82% of the voting rights of the Company. As a result, these three individuals will be able to exercise significant influence over all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions.

The Company is Unlikely to Pay Dividends in the Foreseeable Future

It is unlikely that the Company will pay dividends on its common stock in the foreseeable future, resulting in an investor's only return on an investment in the Company's common stock being the appreciation of the per share price. The Company can make no assurances that the Company's common stock will ever appreciate.

Risks of "Penny Stock"

Our common stock may be deemed to be "penny stock" as that term is defined in Rule 3a51-1 of the SEC. Penny stocks are stocks (i) with a price of less than five dollars per share; (ii) that are not traded on a "recognized" national exchange; (iii) whose prices are not quoted on the NASDAQ automated quotation system (NASDAQ-listed stocks must still meet requirement (i) above); or (iv) in issuers with net tangible assets less than \$2,000,000 (if the issuer has been in continuous operation for at least three years); or \$5,000,000 (if in continuous operation for less than three years); or with average revenues of less than \$6,000,000 for the last three years.

Section 15(g) of the Exchange Act and Rule 15g-2 of the SEC require broker dealers dealing in penny stocks to provide potential investors with a document disclosing the risks of penny stocks and to obtain a manually signed and dated written receipt of the document before effecting any transaction in a penny stock for the investor's account. Potential investors in our common stock are urged to obtain and read such disclosure carefully before purchasing any shares that are deemed to be "penny stock."

Moreover, Rule 15g-9 of the SEC requires broker dealers in penny stocks to approve the account of any investor for transactions in such stocks before selling any "penny stock" to that investor. This procedure requires the broker-dealer to (i) obtain from the investor information concerning his, her or its financial situation, investment experience and investment objectives; (ii) reasonably determine, based on that information, that transactions in penny stocks are suitable for the investor, and that the investor has sufficient knowledge and experience as to be reasonably capable of evaluating the risks of penny stock transactions; (iii) provide the investor with a written statement setting forth the basis on which the broker-dealer made the determination in (ii) above; and (iv) receive a signed and dated copy of such statement from the investor, confirming that it accurately reflects the investor's financial situation, investment experience and investment objectives. Compliance with these requirements may make it more difficult for investors in our common stock to resell their shares to third parties or to otherwise dispose of them.

No Assurance of a Liquid Public Market for our Common Stock.

There can be no assurance as to the depth or liquidity of any market for our common stock or the prices at which holders may be able to sell their shares. As a result, an investment in our common stock may not be totally liquid, and investors may not be able to liquidate their investment readily or at all when they need or desire to sell.

## ITEM 2. DESCRIPTION OF PROPERTIES

The Company's principal executive offices are located at 326 North SR 198, Salem, Utah 84653. The Company rents the office space from its president at a cost of \$6,000 per month and from a third party at a cost of \$6,200 per month. The monthly rent includes a 200 square foot office space, plus additional store front and warehouse space. Our primary use of this the space is for offices.

The Company owns approximately 600 acres of land in Delta, Utah which was purchased in August 2006. The Company is currently building a solar energy plant on the land utilizing its solar energy technology system. The Company also entered into a lease agreement in November 2006 for research and development space in Delta, Utah, to be close to where it is building its solar energy technology system. The lease expires in November 2016 and requires annual lease payments of \$7,500.

The Company also owns approximately 6 acres of land in California. This land is currently not being used, but the Company plans to build a small energy plant utilizing the alternate solar energy technology system. Permits will need to be obtained prior to utilizing this land for this purpose.

The Company believes that its current office and research and development space will be adequate to meet current needs. The Company may, however, require additional facilities in the future depending upon being able to produce and market its solar energy technology system.

## ITEM 3. LEGAL PROCEEDINGS

The Company filed a patent infringement lawsuit against Digital Persona, Inc and Microsoft Corporation in January 2006. This lawsuit was based upon an alleged infringement, by the above mentioned parties, of United States Patent No. 5,598,474 ("the 474 patent") for certain fingerprint technology invented by Neldon P. Johnson and assigned to Company. Each defendant responded to the complaint denying all counts, raising affirmative defenses and asserting counterclaims of non-infringement and invalidity. In January 2008, the court entered an order declaring the 474 patent invalid. Subsequent to the order, all claims and counter claims were settled between the Company and Digital Persona, Inc and Microsoft Corporation.

The Company filed a patent infringement lawsuit against IBM; IBM Corporation; IBM Personal Computing Division; Lenovo (United States) Inc.; Lenovo Group Ltd; and John Does 1-20 in February 2006. UPEK, Inc. was subsequently added as a defendant. This lawsuit was also based upon an alleged infringement, by the above mentioned parties, of the 474 patent. In January 2008, this case was consolidated with the above mentioned Digital Persona and Microsoft Corporation case. In June 2008 UPEK filed a motion for further declaration of patent invalidity. UPEK also filed a separate motion for attorneys' fees and costs based upon assertions that the case is an "exceptional case" under 35 U.S.C. §285.

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The Company filed a motion to dismiss in August 2008. The Court issued a Memorandum Decision and Order denying the defendant's motion for summary judgment and denying the motion for an award of attorney fees. The Court made a limited award of \$45,000 for reasonable attorney fees incurred by the defendant, which was paid by the Company in April 2009.

Additional litigation to enforce patents, to protect proprietary information, or to defend the Company against alleged infringement of the rights of others may occur. Such litigation would be costly, could divert our resources from other planned activities, and could have a material adverse effect on our results of operations and financial condition.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

No matters were submitted to a vote of security holders.

**PART II**

**ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS**

Presently Registrant's common stock is traded on the NASD Electronic Bulletin Board under the symbol "IAUS". The table below sets forth the closing high and low bid prices at which the Company's shares of common stock were quoted during the quarters indicated. The trades are in U. S. dollars but may be inter-dealer prices without retail mark-up, mark-down or commission and may not necessarily represent actual transactions in the common stock.

Fiscal 2009	<u>High</u>	<u>Low</u>
June 30, 2009	\$0.69	\$0.38
March 31, 2009	\$0.67	\$0.22
December 31, 2008	\$0.40	\$0.18
September 30, 2008	\$0.50	\$0.34
Fiscal 2008	<u>High</u>	<u>Low</u>
June 30, 2008	\$0.65	\$0.40
March 31, 2008	\$0.63	\$0.34
December 31, 2007	\$1.06	\$0.35
September 30, 2007	\$1.08	\$0.62

The Company's shares are significantly volatile and subject to broad price movements and fluctuations. The Company's shares should be considered speculative and volatile securities. The stock price may also be affected by broader market trends unrelated to the Company's activities.

At June 30, 2009, the Company had approximately 995 shareholders of record.

As of June 30, 2009, Registrant had 34,501,322 issued and outstanding, net of 4,344,818 held in an escrow account. Of these shares, approximately 29,003,000 shares were free trading shares. There were approximately 5,497,000 shares of restricted common stock but most of these shares may be available for resale pursuant to the provisions of Rule 144 promulgated under the 1933 Act. As of June 30, 2009, at least 100 shareholders hold not less than 1,000 restricted shares of common stock and have held the shares for not less than two years. At least twenty-five shareholders own not less than 10,000 or more restricted shares of common stock and have held the shares for not less than one year. These shareholders satisfy the one year holding period under Rule 144 promulgated under the 1933 Act. Rule 144(k) allows a restricted legend to be removed after two years have elapsed from the date of purchase and provides that certain provisions of Rule 144 are not applicable.

Sales pursuant to the provisions of Rule 144 sold into the trading market could adversely affect the market price. The Company's shares trade on the NASD Electronic Bulletin Board. The per share price in an auction market is based in part on supply and demand. If more shares are available for sale into the market by holders of restricted shares who satisfy the conditions of Rule 144 and in particular subsection 144(k), the market price of the shares of common stock of the Company will be adversely affected.

Dividend Policy

To date, registrant has not declared or paid any dividends to holders of its common stock. In the future it is unlikely that the Company will pay any dividends.

Recent Sales of Unregistered Securities

During the period covered by this report the Company issued 1,575,000 shares of common stock to the Company’s president upon the exercise of options in exchange for settlement of \$630,000 in related party payables.

We issued all of these securities to persons who were “accredited investors” as those terms are defined in Rule 501 of Regulation D of the Securities and Exchange Commission; and each such person had prior access to all material information about us. We believe that the offer and sale of these securities were exempt from the registration requirements of the Securities Act, pursuant to Sections 4(2) and 4(6) thereof, and Rule 506 of Regulation D of the Securities and Exchange Commission. Registration of sales to “accredited investors” are preempted from state regulation, though states may require the filing of notices, a fee and other administrative documentation like consents to service of process and the like.

Resales of the shares noted above must be made through an available exemption such as Rule 144 or Section 4(1) of the Securities Act in "routine trading transactions." Any person who acquires any of these securities in a private transaction may be subject to the same resale requirements. (See below for a general discussion on Rule 144).

Rule 144

The following is a summary of the current requirements of Rule 144:

	Affiliate or Person Selling on Behalf of an Affiliate	Non-Affiliate (and has not been an Affiliate During the Prior Three Months)
Restricted Securities of Reporting Issuers	<p><u>During six-month holding period</u> – no resales under Rule 144 Permitted.</p> <p><u>After Six-month holding period</u> – may resell in accordance with all Rule 144 requirements including:</p> <ul style="list-style-type: none"> <li>•Current public information,</li> <li>•Volume limitations,</li> <li>•Manner of sale requirements for equity securities, and</li> <li>•Filing of Form 144.</li> </ul>	<p><u>During six- month holding period</u> – no resales under Rule 144 permitted.</p> <p><u>After six-month holding period but before one year</u> – unlimited public resales under Rule 144 except that the current public information requirement still applies.</p> <p><u>After one-year holding period</u> – unlimited public resales under Rule 144; need not comply with any other Rule 144 requirements.</p>
Restricted Securities of Non-Reporting Issuers	<p><u>During one-year holding period</u> – no resales under Rule 144 permitted.</p> <p><u>After one-year holding period</u> – may resell in accordance with all Rule 144 requirements including:</p> <ul style="list-style-type: none"> <li>•Current public information,</li> <li>•Volume limitations,</li> <li>•Manner of sale requirements for equity securities, and</li> <li>•Filing of Form 144.</li> </ul>	<p><u>During one-year holding period</u> – no resales under Rule 144 permitted.</p> <p><u>After one-year holding period</u> – unlimited public resales under Rule 144; need not comply with any other Rule 144 requirements.</p>

**ITEM 6. SELECTED FINANCIAL DATA**

The following selected financial data should be read in conjunction with “Item 7 - Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Item 8 - Financial Statements and Supplementary Data.”

	<u>June 30, 2009</u>	<u>June 30, 2008</u>
<b>Results of Operations:</b>		
Revenue	\$ -	\$ -
Loss from operations	(6,627,114)	(7,804,599)
Other income (expenses)	(10,223)	(11,104)
Net loss	(6,637,337)	(7,815,703)
Basic and diluted net loss per share	(0.20)	(0.27)
<b>Cash Flow and Balance Sheet Data:</b>		
Net cash used in operating activities	\$ (843,908)	\$ (1,525,399)
Cash	47,537	144,429
Total Assets	1,029,603	935,729
Total Current Liabilities	2,913,638	2,104,145
Accumulated deficit	(35,334,617)	(28,697,280)
Total Stockholders' deficit	(1,980,717)	(1,277,071)

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS**

General

The following discussion and analysis provides information which management believes is relevant to an assessment and understanding of the Company’s results of operations and financial condition. The discussion should be read in conjunction with the financial statements and notes thereto. This discussion contains forward looking statements regarding the Company's plans, objectives, expectations and intentions. All forward looking statements are subject to risks and uncertainties that could cause the Company's actual results and experience to differ materially from such projections.

Historically, the Company's activities have been dominated by its research and development activities. As a result, there have not been revenues associated with operations. The Company has limited experience regarding profit margins or costs associated with operating a business.

Plan of Operation

The Company’s plan of operation for the next 12 months is to: (i) continue to build its alternate solar energy system and get the system operational to begin producing saleable energy; (ii) market and sell the alternate solar energy system to entities who desire to produce solar energy; and (iii) continue to develop marketable products for its technologies.

During the next 12 months, additional financing will be required to fund the building of the alternate solar energy system and the development of marketable products. To date, the Company has primarily financed operations by the receipt of advances from the Company’s president, deposits from customers for the alternate solar energy system and through the private placement of equity securities. The president and the Company have no formal agreement as to any future advances. However, it is anticipated that the Company will continue to receive additional financing from receipt of advances from its president to help fund continuing operations. The Company also anticipates receiving additional financing through the private placement of equity securities.

The Company does not expect a significant change in the number of employees during the next 12 months. However, if the Company is successful in getting the alternate solar energy system operational, additional employees may be necessary depending on the demand for the system and how the Company determines to produce the system. The Company plans to evaluate the possibility of contracting with suppliers to produce and install the systems.

Results of Operations

Fiscal year ended June 30, 2009 compared to fiscal year ended June 30, 2008

The Company has not generated a profit since inception. Operations during the years ended June 30, 2009 and 2008, primarily pertained to research and development and other activities. Research and development expenses decreased by \$55,909 or 7% from \$760,798 in fiscal year 2008 to \$704,889 primarily due to purchasing less research and development materials for the solar thermal and bladeless turbine during the fiscal year 2009 as compared to fiscal year 2008.

General and administrative expenses decreased by \$1,099,062 or 16% from \$7,021,287 in fiscal year 2008 to \$5,922,225 in fiscal year 2009. The decrease in general and administrative expenses is primarily due to many options fully vesting in fiscal year 2008 resulting in a decrease in stock-based compensation for fiscal year 2009.

Total revenue and cost of sales were \$0 for fiscal years 2009 and 2008. Other expenses remained relatively constant in fiscal years 2009 and 2008. Net loss decreased by \$1,178,366 from \$7,815,703 in fiscal year 2008 to \$6,637,337 in fiscal year 2009 primarily related to the decrease in stock-based compensation.

Liquidity and Capital Resources

Historically, our principal use of cash has been to fund ongoing research and development activities. To date, we have primarily financed our operations by the receipt of loan advances from the Company's president and through the private placement of equity securities. The president and the Company have no formal agreement as to any future loans or advances. The Company has no line of credit with any financial institution. The Company believes that until it has consistent operations and revenues, it will be unable to establish a line of credit from conventional sources.

The Company's liquidity is substantially limited given the current rate of expenditures. More funds will be required to support ongoing product development, finance any marketing programs and establish any distribution networks. The Company had \$47,537 in cash as of June 30, 2009, representing a decrease of \$96,892 from June 30, 2008. The decrease relates to net cash used in operations and investing of \$843,908 and \$23,358, respectively, offset by net cash provided by financing activities of \$770,374.

As of June 30, 2009, the Company has current assets of \$59,370 and total assets of \$1,029,603. Current liabilities were \$2,913,638 and total liabilities of \$3,010,320. The ratio of current assets to current liabilities is approximately 0.02. If the Company continues to have a negative cash flow or if the Company is unable to generate sufficient revenues to meet its operating expenses, the Company will continue to experience liquidity difficulties.

*Stock issuance*

The Company has shares of common stock in escrow accounts. Proceeds from the sale of stock from these escrow accounts are placed in separate escrow accounts to be used at the Company's and the trustee's discretion. During the year ended June 30, 2009, 1,245,000 shares were sold for proceeds of \$432,502 at prices ranging from \$0.16 to \$0.67 per share. During the year ended June 30, 2008, 1,116,100 shares were sold for proceeds of \$529,676 at prices ranging from \$0.34 to \$0.92 per share. The proceeds were used to pay professional fees, rent, operating expenses and accrued liabilities. At June 30, 2009 and 2008, there was a balance of 4,344,818 and 5,589,818 shares, respectively, in the escrow accounts.

During the year ended June 30, 2009, the Company issued 50,000 shares of common stock to a company in exchange for services valued at \$29,500 and issued 505,000 shares of common stock, valued at \$126,250, to employees for compensation. During the year ended June 30, 2008, the Company issued 150,000 shares of common stock to an individual in exchange for \$45,000 in cash at \$0.30 per share.

Critical Accounting Policies

The Company's significant accounting policies are discussed in Note 1 to the Financial Statements. The application of certain policies requires significant judgments or an estimation process that can affect our results of operations, financial position and cash flows, as well as the related footnote disclosures. We base our estimates on historical experience and other assumptions, as discussed below, that we believe is reasonable. If actual amounts are ultimately different from previous estimates, the revisions are included in our results of operations for the period in which the actual amounts become known. The accounting policies and estimates with the greatest potential to have a significant impact on our operating results, financial position, cash flows and footnote disclosures are as follows.



*Long-Lived Assets*

The Company regularly evaluates whether events or circumstances have occurred that indicate the carrying value of its long-lived assets may not be recoverable. When factors indicate the asset may not be recoverable, we compare the related undiscounted future net cash flows to the carrying value of the asset to determine if impairment exists. If the expected future net cash flows are less than the carrying value, an impairment charge is recognized based on the fair value of the asset. The estimates of future cash flows involve considerable management judgment and are based upon assumptions about expected future operating performance. The actual cash flows could differ from management's estimates due to changes in business conditions, operating performance and economic conditions. Furthermore, the Company makes periodic assessments about each patent and related technology to determine if it plans to continue to pursue the technology and if the patent has value. As a result of these assessments, the Company wrote off \$0 and \$22,972 of patents during the years ended June 30, 2009 and 2008, respectively.

*Stock-Based Compensation*

The Company adopted Statement of Financial Accounting Standards ("SFAS") No. 123(R), "Share-Based Payment", on July 1, 2007, which requires us to measure compensation expense for all outstanding unvested share-based awards at fair value and recognize compensation expense over the service period for awards expected to vest. The estimation of stock awards that will ultimately vest requires judgment, and to the extent actual results differ from estimates, such amounts will be recorded as an adjustment in the period estimates are revised. The Company considers many factors when estimating expected forfeitures, including types of awards, employee class, and historical experience. Actual results may differ from these estimates.

Contractual Obligations and Commitments

The following table summarizes our contractual obligations as of June 30, 2009 and the effect such obligations and commitments are expected to have on our liquidity and cash flow in future periods:

Contractual Obligations	Payments due by Fiscal Year						Total
	2010	2011	2012	2013	2014	Thereafter	
Long-term debt arrangements (1)	\$ 52,543	\$ 12,704	\$ 13,594	\$ 14,545	\$ 15,564	\$ 40,275	\$ 149,225
Operating leases (2)	7,500	7,500	7,500	7,500	7,500	17,500	55,000
Total contractual obligations	<u>\$ 60,043</u>	<u>\$ 20,204</u>	<u>\$ 21,094</u>	<u>\$ 22,045</u>	<u>\$ 23,064</u>	<u>\$ 57,775</u>	<u>\$ 204,225</u>

(1) The Company has two notes payable to financing companies due in annual statements that are collateralized by land and both mature in fiscal year 2017. The Company also has a note payable maturing in fiscal 2010 for equipment.

(2) The Company entered into a lease agreement for research and development space in October 2006. The term of this lease is from November 1, 2006 to November 1, 2016.

The Company has also entered into several solar lease bonus fee contracts with many of the customers who made deposits on the alternate solar energy system discussed further in Note 1 and Note 9 to the financial statements. As additional consideration for making the deposit and making the alternate solar energy system available to the Company as a reference for marketing and sales purposes to show and demonstrate, the Company has agreed to pay many of the customers a referral fee of .009% on the first one billion dollars of total gross sales revenue received by the Company for the sale of power generation equipment. The Company will be obligated to pay this bonus fee if it is able to produce and then sell its alternate solar energy system.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, results of operations or cash flows.

### Recent Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 141 (revised 2007), “Business Combinations” (“SFAS 141R”) and SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements, an amendment of Accounting Research Bulletin No. 51” (“SFAS 160”). SFAS 141R will change how business acquisitions are accounted for and will impact financial statements both on the acquisition date and in subsequent periods. SFAS 160 will change the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity. SFAS 141R and SFAS 160 are effective for the Company beginning July 1, 2009. Early adoption is not permitted. These statements will affect the Company for combinations after July 1, 2009.

In June 2008, the FASB issued FASB Staff Position Emerging Issues Task Force (EITF) No. 03-6-1, “Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities” (“FSP EITF No. 03-6-1”). Under FSP EITF No. 03-6-1, unvested share-based payment awards that contain rights to receive nonforfeitable dividends (paid or unpaid) are participating securities, and should be included in the two-class method of computing EPS. FSP EITF No. 03-6-1 is effective for the Company beginning July 1, 2009, and is not expected to have a significant impact on the Company’s financial statements.

In April 2009, the FASB released FASB Staff Position (“FSP”) SFAS 107-1 and Accounting Principles Board (APB) Opinion No. 28-1, “Interim Disclosures about Fair Value of Financial Instruments” (“SFAS 107-1 and APB 28-1”). This FSP amends FASB Statement No. 107, “Disclosures about Fair Values of Financial Instruments,” to require disclosures about fair value of financial instruments in interim financial statements as well as in annual financial statements. The FSP also amends APB Opinion No. 28, “Interim Financial Reporting,” to require those disclosures in all interim financial statements. This proposal is effective for interim periods ending after June 15, 2009, but early adoption is permitted for interim periods ending after March 15, 2009. The Company plans to adopt SFAS 107-1 and APB 28-1 and provide the additional disclosure requirements for the first quarter for fiscal year end 2010.

In April 2009, the FASB released FSP SFAS 157-4, “Determining Whether a Market Is Not Active and a Transaction Is Not Distressed” (“SFAS 157-4”). This FSP provides additional guidance in determining whether a market for a financial asset is not active and a transaction is not distressed for fair value measurement purposes as defined in SFAS 157, “Fair Value Measurements.” SFAS 157-4 is effective for interim periods ending after June 15, 2009, but early adoption is permitted for interim periods ending after March 15, 2009. The Company plans to adopt the provisions of SFAS 157-4 during first quarter 2010, but does not believe this guidance will have a significant impact on the Company’s financial statements.

In April 2009, the FASB released FSP SFAS 115-2 and SFAS 124-2, “Recognition and Presentation of Other-Than-Temporary Impairments.” This proposal provides guidance in determining whether impairments in debt securities are other than temporary, and modifies the presentation and disclosures surrounding such instruments. This FSP is effective for interim periods ending after June 15, 2009, but early adoption is permitted for interim periods ending after March 15, 2009. The Company plans to adopt the provisions of this Staff Position during the first quarter 2010, but does not believe this guidance will have a significant impact on the Company’s financial statements.

In May 2009, the FASB issued statement No. 165, “Subsequent Events” (“SFAS 165”). SFAS 165 modifies the definition of what qualifies as a subsequent event—those events or transactions that occur following the balance sheet date, but before the financial statements are issued, or are available to be issued—and requires companies to disclose the date through which it has evaluated subsequent events and the basis for determining that date. SFAS 165 is effective for fiscal years and interim periods ending after June 15, 2009. The Company adopted the provisions of SFAS 165 for the year ended June 30, 2009 and have evaluated any subsequent events through October 13, 2009. The Company does not believe there are any material subsequent events which would require further disclosure as discussed in Note 14.

In June 2009, the FASB issued SFAS No. 166, “Accounting for Transfers of Financial Assets – an amendment of FASB Statement No. 140” (“SFAS 166”). SFAS 166 amends SFAS 140 by including: the elimination of the qualifying special-purpose entity (QSPE) concept; a new participating interest definition that must be met for transfers of portions of financial assets to be eligible for sale accounting; clarifications and changes to the derecognition criteria for a transfer to be accounted for as a sale; and a change to the amount of recognized gain or loss on a transfer of financial assets accounted for as a sale when beneficial interests are received by the transferor. Additionally, the standard requires extensive new disclosures regarding an entity’s involvement in a transfer of financial assets. Finally, existing QSPEs (prior to the effective date of SFAS 166) must be evaluated for consolidation by reporting entities in accordance with the applicable consolidation guidance upon the elimination of this concept. SFAS 166 is effective for the Company beginning on July 1, 2010. The Company has not yet determined the impact that adoption of SFAS 166 will have on its financial statements.

In June 2009, the FASB issued SFAS No. 167, "Amendments to FASB Interpretation No. 46(R)" ("SFAS 167"). Among other items, SFAS 167 responds to concerns about the application of certain key provisions of FIN 46(R), including those regarding the transparency of the involvement with variable interest entities. SFAS 167 is effective for the Company beginning on July 1, 2010. The Company has not yet determined the impact that adoption of SFAS 167 will have on its financial statements.

In June 2009, the FASB issued SFAS No. 168, "The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162" ("SFAS 168"). SFAS 168 establishes the FASB Accounting Standards Codification™ (Codification) as the source of authoritative U.S. GAAP to be applied by nongovernmental entities. While not intended to change U.S. GAAP, the Codification significantly changes the way in which the accounting literature is organized. The Company will adopt this new accounting standard for its financial statements for the quarterly period ending September 30, 2009. The Company does not expect the adoption of SFAS 168 to have a material impact on its financial statements.

The Company has reviewed all other recently issued, but not yet adopted, accounting standards in order to determine their effects, if any, on its results of operation, financial position or cash flows. Based on that review, the Company believes that none of these pronouncements will have a significant effect on its financial statements.

#### ITEM 8. FINANCIAL STATEMENTS

The financial statements required by this item are after the signature pages.

#### ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

#### ITEM 9A(T). CONTROLS AND PROCEDURES

##### Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) as of the end of the period covered by this report. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of the end of the period covered by this report were effective such that the information required to be disclosed by us in reports filed under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding disclosure. A controls system cannot provide absolute assurance, however, that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

##### Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes of accounting principles generally accepted in the United States.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance of achieving their control objectives.

Our management, with the participation of the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's internal control over financial reporting as of June 30, 2009. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control — Integrated

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Framework. Based on this evaluation, our management, with the participation of the Chief Executive Officer and Chief Financial Officer, concluded that, as of June 30, 2009, our internal control over financial reporting was effective.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

Changes in Internal Control Over Financial Reporting

During the most recent quarter ended June 30, 2009, there has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**ITEM 9B. OTHER INFORMATION**

None

**PART III**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

Directors and Officers

The executive officers and directors of the Company are as follows:

<u>Name</u>	<u>Age</u>	<u>Position with the Company</u>
Neldon Johnson	63	Chairman of the Board of Directors, President and CEO
Randale Johnson	40	Secretary, Vice President
LaGrand Johnson	43	CFO
Bruce Barrett	79	Director
Blain Phillips	47	Director

All Directors hold office until a successor has been elected. All officers are appointed by the Board of Directors and serve at the discretion of the Board until a new officer is appointed.

Directors will be reimbursed by the Company for any expenses incurred in attending Directors' meetings. The Company also intends to obtain Officers and Directors liability insurance, although no assurance can be given that it will be able to do so.

*Background of Executive Officers and Directors*

Neldon Johnson is the founder of the Company and the primary inventor of the Self-Check system, AFIM, DWM, and turbine technologies. Mr. Johnson directs the Company's research and development program. Mr. Johnson studied physics and mathematics at Brigham Young University in Provo, Utah, and graduated from Utah Technical College's Electronics Technology Program in 1964. He has taken training courses and has taught courses in electronics programming, microwave and wave switch programs. From 1965 to 1968 he worked for American Telephone and Telegraph, Inc., as an engineer.

From 1983 to the present, Mr. Johnson has been developing the Self-Check System, AFIM, DWM, and turbine technologies. Also, from 1975 to 1990 he worked at a Ream's Grocery Store and had management responsibilities for operations. Mr. Johnson has real estate holdings, one of which is a building of approximately 25,000 square feet in Salem, Utah.

Randale P. Johnson is the son of Neldon Johnson. He has been an officer since June 1996. His responsibilities include marketing and administration. Mr. Johnson holds an associate degree in Computer Science and has four years of experience in the computer industry. He joined the Company in 1996.

LaGrand T. Johnson is the son of Neldon Johnson. He has worked with the Company since 1987 but started full time in 1996. He graduated with a Bachelor's Degree in chemistry in 1991. He received his Doctor of Osteopathy degree in 1995 from Western University of Health Sciences. He works as CFO and General Manager of the Company and in research and development.

Bruce Barrett graduated from Brigham Young University with a degree in Marketing and Business Management in 1958. After graduating he continued to work for BYU. He was Manager of Married Student Housing, Manager of Material Handling, Director of Textile Cleaning Services, and Director of Auxiliary Services before retiring in 1995.

Blain Phillips has been employed at Union Pacific Railroad since 1991.

None of the officers or directors of the Company has during the past five years, been involved in any events such as criminal proceedings or convicted of proceedings relating to securities violations.

#### Corporate Governance

##### *Nominating Committee*

We have not established a Nominating Committee because, due to our development of operations and the fact that we only have three directors and executive officers, we believe that we are able to effectively manage the issues normally considered by a Nominating Committee. Following the entry into any business or the completion of any acquisition, merger or reorganization, a further review of this issue will no doubt be necessitated and undertaken by new management.

If we do establish a Nominating Committee, we will disclose this change to our procedures in recommending nominees to our board of directors.

##### *Audit Committee*

We have not established an Audit Committee because, due to our development of operations and the fact that we only have three directors and executive officers, we believe that we are able to effectively manage the issues normally considered by an audit committee. Following the entry into any business or the completion of any acquisition, merger or reorganization, a further review of this issue will no doubt be necessitated and undertaken by new management.

### **ITEM 11. EXECUTIVE COMPENSATION**

The table below summarizes the total compensation paid to or earned by each of the named executive officers for the fiscal years ended June 30, 2009 and 2008.

Name and Principal Position	Fiscal Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)(1)	Option Awards (\$)(2)	Non-Equity Incentive Plan Compensation (\$)	Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)
<b>Neldon Johnson</b>									
President, CEO and Director	2009	125,000	-	-	4,687,007	-	-	-	4,812,007
	2008	-	-	122,478	5,613,494	-	-	-	5,735,972
<b>Randale Johnson</b>									
Secretary and Vice President	2009	54,600	-	-	14,216	-	-	-	68,816
	2008	54,667	-	-	28,269	-	-	-	82,936
<b>LaGrand Johnson</b>									
CFO	2009	44,100	-	-	14,216	-	-	-	58,316
	2008	31,925	-	-	28,269	-	-	-	60,194

- (1) The amount in the stock awards columns represents the value of the 1,000,000 Series 1 Class A Preferred Stock granted as compensation for services performed in 2008 lieu of cash compensation.
- (2) The amounts in the option awards column reflect the dollar amount recognized for financial statement reporting purposes for the indicated fiscal years ended June 30, in accordance with SFAS 123(R) and thus include amounts from options granted in prior years. No options were granted in the current year.

Employment Agreements

The Company has entered into an agreement with Neldon Johnson to act as President and CEO of the Company for a period of ten years starting in July 2000. Per the agreement, Neldon is to be paid \$100,000 per annum and shall increase each calendar year by the percentage increase in the Consumer Price Index. Neldon may terminate the agreement, but must give the Company 6 months advance notice. The Company can not voluntarily terminate Neldon's employment for any reason. No additional payments are outlined in the agreement for a change in control.

Outstanding Equity Awards at Fiscal Year-End

(a) Name	Option Awards					Stock Awards			
	(b) Number of Securities Underlying Unexercised Options (#) Exercisable	(c) Number of Securities Underlying Unexercised Options (#) Unexercisable	(d) Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	(e) Option Exercise Price (\$)	(f) Option Expiration Date	(g) Number of Shares or Units of Stock That Have Not Vested	(h) Market Value of Shares or Stock That Have Not Vested	(i) Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested	(j) Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested
Neldon Johnson	29,300,000	65,000,000 (1)	—	\$0.40	12/31/2034	—	—	—	—
Randale Johnson	450,000	50,000 (2)	—	\$3.00	8/22/2010	—	—	—	—

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LaGrand Johnson	450,000	50,000 (2)	—	\$3.00	8/22/2010	—	—	—	—
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- (1) These options were granted on May 14, 2004 and vest on January 1, 2010.
- (2) These options were granted on August 24, 2000 and vest on August 24, 2009.



Compensation of Directors

The Company's Directors currently are not compensated for their time and there are no payment arrangements. The Company anticipates that it will need to compensate Directors at some point in the future.

**ITEM. 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth certain information known to the Company regarding beneficial ownership of the Company's Common Stock as of June 30, 2009, by (i) each person known by the Company to own, directly or beneficially, more than 5% of the Company's Common Stock, (ii) each of the Company's directors, and (iii) all officers and directors of the Company as a group. Except as otherwise indicated, the Company believes that the beneficial owners of the Common Stock listed below, based on information furnished by such owners, have sole investment and voting power with respect to such shares, subject to community property laws, where applicable.

Beneficial ownership is determined in accordance with the rules of the SEC. In computing the number of shares beneficially owned by a person or a group and the percentage ownership of that person or group, shares of our common stock issuable currently or within 60 days of June 30, 2009, upon exercise of options or warrants held by that person or group is deemed outstanding. These shares, however, are not deemed outstanding for computing the percentage ownership of any other person. Except as indicated by footnote, and subject to community property laws where applicable, the stockholders named in the table below have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them. Percentage ownership is based on 64,801,322 shares of common stock outstanding as of June 30, 2009, together with applicable options and warrants for each stockholder. Unless otherwise indicated, the address of each person listed below is in the care of International Automated Systems, Inc., 326 North SR 198, Salem, Utah 84653.

<u>Name and Title</u>	<u>Shares Beneficially Owned</u>	
	<u>Number (4)</u>	<u>Percent</u>
Neldon Johnson, President, CEO and Director	30,869,920 (1)	47.6%
Randale Johnson, Secretary and Vice President	750,000 (2)	1.2%
LaGrand Johnson, CFO	650,000 (3)	1.0%
Bruce Barrett, Director	100,000	0.2%
Blain Phillips, Director	-	0.0%
All officers and directors as a group (5 persons)	32,369,920	50.0%

- (1) Includes warrants to purchase 29,300,000 shares of common stock exercisable within 60 days of June 30, 2009.
- (2) Includes options to purchase 500,000 shares of common stock exercisable within 60 days of June 30, 2009.
- (3) Includes options to purchase 500,000 shares of common stock exercisable within 60 days of June 30, 2009.
- (4) Does not include 2,000,000 shares of Series 1 Class A Preferred Stock held by Neldon Johnson, 1,150,000 shares of Series 1 Class A Preferred Stock held by LaGrand Johnson, or 1,150,000 shares of Series 1 Class A Preferred Stock held by Randale Johnson. Each share of the Series 1 Class A Preferred Stock has ten votes per share and votes with the shares of common stock on all matters with the exception of 1,000,000 of the Series 1 Class A Preferred Stock held by Neldon Johnson which has 100 votes per share and votes with the shares of common stock on all matters. Mr. Neldon Johnson has approximately 70%, LaGrand Johnson 6%, and Randale Johnson 6% of the voting control of the Company when the voting power of the shares of preferred stock, common stock and vested options are considered together.

Changes in Control

There are no additional present arrangements or pledges of the Company's securities which may result in a change in control of the Company. However, there are no provisions in our Articles of Incorporation or Bylaws that would delay, defer or prevent a change in control.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE**

On May 14, 2004, the Company entered into an agreement with Neldon Johnson, the Company's president, in which the Company acquired from Mr. Johnson patents, patents pending, designs and contracts related to the bladeless turbine, solar and chemical thermal technologies, and electronic shelf tag technology developed by Mr. Johnson. As consideration for these patents, patents pending, designs and contracts, the Company issued warrants to purchase 100,000,000 shares of common stock and 10% of total gross sales in royalties of the Company.

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During the year ended June 30, 2003, the Company commenced leasing office and research and development space on a month-to-month basis from its president, for \$6,000 per month. The amount payable to the president for rent at June 30, 2009 was \$65,000.

The Company received cash advances of \$557,101 from its president during the year ended June 30, 2009. The Company settled \$630,000 of the cash advances by issuing 1,575,000 shares of common stock to the officer upon the exercise of warrants; paid \$173,744 of the cash advances; and settled \$86,977 of the cash advances through the transfer of in-process patent rights at cost during the year ended June 30, 2009. The balance was \$440,382 at June 30, 2009 and is unsecured, payable on demand and non-interest bearing.

During December 2005, the Company entered into a purchase and installation contract with Solar Renewable Energy-1, LLC for a solar thermal power plant. The contract is contingent on several factors and provides for certain progress payments. As of June 30, 2009, the Company has not provided any services or equipment required under this agreement and has received no money and recognized no revenues.

#### Resolving Conflicts of Interest

The Company's directors must disclose all conflicts of interest and all corporate opportunities to the entire board of directors. Any transaction involving a conflict of interest will be conducted on terms not less favorable than that which could be obtained from an unrelated third party.

#### Director Independence

The Company has two independent directors serving on its board of directors.

### ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Our financial statements for the years ended June 30, 2009 and 2008 have been audited by our principal accountant, Mantyla McReynolds, LLC. Each year the Chief Executive Officer pre-approves all audit and tax related services prior to the performance of services by Mantyla McReynolds, LLC. The percentage of hours expended on the audit by persons other than full time, permanent employees of Mantyla McReynolds, LLC was zero.

#### Audit Fees

Aggregate fees for the year ended June 30, 2009 for professional services by Mantyla McReynolds, LLC, our principal accountant, for the audit of our annual financial statements and review of our interim financial statements were approximately \$48,325.

Aggregate fees for the year ended June 30, 2008 for professional services by Mantyla McReynolds, LLC, our principal accountant, for the audit of our annual financial statements and review of our interim financial statements were approximately \$37,329.

#### Audit-Related Fees

Audit-related fees, not included in the previous paragraphs, for the years ended June 30, 2009 and 2008 for assurance and related services by Mantyla McReynolds, LLC were \$655 and \$130, respectively.

#### Tax Fees

\$0 and \$728 of fees were billed to us for years ended June 30, 2009 and 2008, respectively, for professional services by Mantyla McReynolds, LLC for tax compliance, tax advice, and tax planning. A firm, other than our principal accountant, prepares all income tax returns.

**ITEM 15. EXHIBITS AND REPORTS ON FORM 8-K**

a. Exhibits

- 31.1 Certification by the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification by the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification by the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350 Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification by the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

b. Reports on Form 8-K.

During the period ended June 30, 2006, Registrant filed two reports on Form 8-K and one report on 8-K/A.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

INTERNATIONAL AUTOMATED SYSTEMS, INC.

/s/ Neldon Johnson  
NELDON JOHNSON  
Title: President,  
Chief Executive Officer

Date: October 13, 2009

DIRECTORS

/s/ Neldon Johnson  
NELDON JOHNSON  
Title: Director

Date: October 13, 2009

/s/ Blain Phillips  
BLAIN PHILLIPS  
Title: Director

Date: October 13, 2009

/s/ Bruce Barrett  
BRUCE BARRETT  
Title: Director

Date: October 13, 2009

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**INTERNATIONAL AUTOMATED SYSTEMS, INC.  
(A Development Stage Company)**

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders  
International Automated Systems, Inc.

We have audited the accompanying balance sheets of International Automated Systems, Inc. (the Company) as of June 30, 2009 and 2008, and the related statements of operations and cash flows for the years ended June 30, 2009 and 2008 and for the period from July 1, 2006 through June 30, 2009, and the statement of stockholders' deficit for the period from July 1, 2006 through June 30, 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of International Automated Systems, Inc. for the period from inception [September 26, 1986] through June 30, 2005, were audited by other auditors whose report dated September 28, 2005, except for the Note 1 restatement which was dated February 20, 2006, expressed an unqualified opinion on those statements. Others audited the financial statements of the Company from inception (September 26, 1986) through June 30, 1990, whose reports dated October 21, 1988 and April 30, 1991, were qualified subject to the effects of such adjustments, if any, as might have been required had the outcome of certain uncertainties referred to in the related notes been known. Our opinion, in so far as it relates to the period from September 26, 1986 through June 30, 2005, is based solely on the reports of the other auditors.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company has determined that it is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of June 30, 2009 and 2008 and the results of operations and cash flows for the years ended June 30, 2009 and 2008, and for the period from inception (September 26, 1986) through June 30, 2009, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has accumulated losses from inception and has negative working capital as of June 30, 2009. These factors raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

*Mantyla McReynolds, LLC*

Salt Lake City, Utah  
October 13, 2009

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**INTERNATIONAL AUTOMATED SYSTEMS, INC.**  
 (A Development Stage Company)  
 Balance Sheets

	June 30, 2009	June 30, 2008
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 47,537	\$ 144,429
Prepaid expenses	11,833	-
<b>Total Current Assets</b>	<b>59,370</b>	<b>144,429</b>
Alternate solar energy systems	413,520	151,859
Property and equipment, net of accumulated depreciation of \$291,390 and \$202,965, respectively - Note 1	481,512	471,614
Patents, net of accumulated amortization of \$20,825 and \$15,176, respectively	75,201	167,827
<b>TOTAL ASSETS</b>	<b>\$ 1,029,603</b>	<b>\$ 935,729</b>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 417,136	\$ 335,413
Accrued liabilities	181,327	72,391
Related party payable - Note 3	505,382	882,001
Customer deposits - Note 1 and Note 9	1,757,250	803,250
Notes payable-current portion - Note 5	52,543	11,090
<b>Total Current Liabilities</b>	<b>2,913,638</b>	<b>2,104,145</b>
Long-term notes payable - Note 5	96,682	108,655
<b>TOTAL LIABILITIES</b>	<b>3,010,320</b>	<b>2,212,800</b>
Commitments and contingencies - Note 11		
<b>STOCKHOLDERS' EQUITY (DEFICIT)</b>		
Preferred stock, Class A, no par value; 22,000,000 shares authorized, 4,400,000 shares issued and outstanding	417,264	417,264
Preferred stock, Class B, no par value, 3,000,000 shares authorized, 300,000 shares issued and outstanding	-	-
Common stock, no par value, 225,000,000 shares authorized, 34,501,322 and 31,146,722 issued and outstanding, net of 4,344,818 and 5,589,818 shares held in escrow account, respectively - Note 7	32,936,636	27,002,945
Deficit accumulated during the development stage	(35,334,617)	(28,697,280)
<b>Total Stockholders' Deficit</b>	<b>(1,980,717)</b>	<b>(1,277,071)</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT</b>	<b>\$ 1,029,603</b>	<b>\$ 935,729</b>

The accompanying notes are an integral part of these financial statements



**INTERNATIONAL AUTOMATED SYSTEMS, INC.**  
(A Development Stage Company)  
Statements of Operations

	For the Years Ended June 30,		For the Period From Inception (September 26, 1986) Through June 30, 2009
	2009	2008	
<b>REVENUES</b>			
Sales	\$ -	\$ -	\$ 111,226
Income from related party	-	-	32,348
<b>Total Revenues</b>	<b>-</b>	<b>-</b>	<b>143,574</b>
<b>COST OF SALES</b>			
Cost of sales	-	-	81,927
Write down of carrying value of inventory	-	-	233,131
<b>Total Costs of Sales</b>	<b>-</b>	<b>-</b>	<b>315,058</b>
<b>GROSS LOSS</b>	<b>-</b>	<b>-</b>	<b>(171,484)</b>
<b>OPERATING EXPENSES</b>			
General and administrative	5,922,225	7,021,287	28,228,935
Research and development	704,889	760,798	7,622,839
Impairment of patents	-	22,972	140,577
License fees	-	-	270,634
Loss (gain) on disposal of property and equipment	-	(458)	16,901
<b>Total Operating Expenses</b>	<b>6,627,114</b>	<b>7,804,599</b>	<b>36,279,886</b>
<b>LOSS FROM OPERATIONS</b>	<b>(6,627,114)</b>	<b>(7,804,599)</b>	<b>(36,451,370)</b>
<b>OTHER INCOME (EXPENSES)</b>			
Loss on impairment of assets	-	-	(583)
Forfeiture of deposits	-	-	(236,803)
Interest income	127	1,570	26,489
Interest expense	(8,371)	(12,769)	(23,097)
Other income (expenses)	(1,979)	95	(31,276)
<b>Total Other Income (Expenses)</b>	<b>(10,223)</b>	<b>(11,104)</b>	<b>(265,270)</b>
<b>LOSS BEFORE EXTRAORDINARY GAIN</b>	<b>(6,637,337)</b>	<b>(7,815,703)</b>	<b>(36,716,640)</b>
Extraordinary gain on sale of patents	-	-	1,382,023
<b>NET LOSS</b>	<b>\$ (6,637,337)</b>	<b>\$ (7,815,703)</b>	<b>\$ (35,334,617)</b>
Net loss per common share			
Basic and diluted	\$ (0.20)	\$ (0.27)	
Weighted average common shares outstanding			
Basic and diluted	32,733,279	29,251,202	

The accompanying notes are an integral part of these financial statements

**INTERNATIONAL AUTOMATED SYSTEMS, INC.**  
 (A Development Stage Company)  
 Statement of Stockholders Equity / (Deficit)

	Preferred Stock		Common Stock		Stock Purchase Rights	Deficit Accumulated During Development Stage	Total Stockholder's Deficit
	Shares	Amount	Shares	Amount			
<b>Balance - September 26, 1986 (Date of Inception)</b>	-	\$ -	-	\$ -	\$ -	\$ -	\$ -
Common stock issued for cash							
September 1986 - \$0.002 per share	-	-	5,100,000	11,546	-	-	11,546
September 1988 (net of \$38,702 offering costs) - \$0.32 per share	-	-	213,065	67,964	-	-	67,964
December 1988 (net of \$6,059 offering costs) - \$0.32 per share	-	-	33,358	10,641	-	-	10,641
March 1989 (net of \$4,944 offering costs) - \$0.32 per share	-	-	27,216	8,681	-	-	8,681
June 1989 (net of \$6,804 offering costs) - \$0.32 per share	-	-	37,461	11,950	-	-	11,950
Common stock issued for services							
September 1986 - \$0.002 per share	-	-	300,000	679	-	-	679
June 1989 - \$0.32 per share	-	-	5,000	1,595	-	-	1,595
Net loss for the period from September 26, 1986 through June 30, 1990	-	-	-	-	-	(192,978)	(192,978)
<b>Balance - June 30, 1990</b>	-	-	<u>5,716,100</u>	<u>113,056</u>	-	<u>(192,978)</u>	<u>(79,922)</u>
Class A Preferred and Common Stock issued for technology 1990-1996- \$0.02 per share	1,000,000	292,786	6,000,000	175,672	-	-	468,458
Class A Preferred Stock issued for services							
July 2000 - \$0.001 per share	2,000,000	2,000	-	-	-	-	2,000
August 2000 - \$0.00 per share	400,000	-	-	-	-	-	-
Class B Preferred stock issued for services							
August 2000 - \$0.00 per share	300,000	-	-	-	-	-	-
Common Stock issued for cash							
January 1994 - \$0.40 per share	-	-	59,856	23,942	-	-	23,942
May 1994 - \$0.20 per share	-	-	137,500	27,500	-	-	27,500
January 1996 (net of \$24,387 offering costs) - \$3.86 per share	-	-	179,500	693,613	-	-	693,613
November 1997 - \$1.43 per share	-	-	35,000	50,000	-	-	50,000
May 1998 - \$1.20 per share	-	-	250,000	300,000	-	-	300,000
October 1999 - \$2.00 per share	-	-	50,000	100,000	-	-	100,000
September 2000 - \$1.67 per share	-	-	11,500	19,236	-	-	19,236
October through Dec 2000 - \$1.03 per share	-	-	140,100	144,546	-	-	144,546
January through March 2001 - \$1.30 per share	-	-	39,900	51,920	-	-	51,920
April through June 2001 - \$0.98 per share	-	-	120,100	117,684	-	-	117,684

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July through December 2001 - \$0.86 per share	-	-	138,400	119,287	-	-	119,287
December 2001 - \$0.71 per share	-	-	28,000	20,000	-	-	20,000
January 2002 - \$1.39 per share	-	-	50,000	35,910	-	-	35,910
May through June 2002 - \$0.25 per share	-	-	500,000	125,000	-	-	125,000
Common Stock issued for services							
April 1991 - \$0.10 per share	-	-	300,000	30,000	-	-	30,000
January 1995 - \$1.00 per share	-	-	100,000	100,000	-	-	100,000
May 1997 - \$4.13 per share	-	-	14,000	57,750	-	-	57,750
June 1997 - \$2.94 per share	-	-	5,000	14,690	-	-	14,690
December 1997 - \$1.13 per share	-	-	6,000	6,750	-	-	6,750

The accompanying notes are an integral part of these financial statements

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**INTERNATIONAL AUTOMATED SYSTEMS, INC.**  
 (A Development Stage Company)  
 Statement of Stockholders Equity / (Deficit), continued

	Preferred Stock		Common Stock		Stock Purchase Rights	Deficit Accumulated During Development Stage	Total Stockholder's Deficit
	Shares	Amount	Shares	Amount			
October 1999 - \$1.26 per share	-	-	50,000	63,147	-	-	63,147
August 2000 - \$2.25 per share	-	-	268,000	603,000	-	-	603,000
May 2001 - \$1.12 per share	-	-	3,000	3,360	-	-	3,360
February and March 2001 - \$1.55 per share	-	-	350,000	542,500	-	-	542,500
October 2001 - \$1.44 per share	-	-	150,000	216,000	-	-	216,000
February 2002 - \$1.14 per share	-	-	25,000	28,500	-	-	28,500
Common stock issued for financing transactions							
November 2000 - \$0.90 per share	-	-	50,000	45,000	-	-	45,000
December 2000 - \$0.90 per share	-	-	10,000	9,000	-	-	9,000
January 2001 - \$0.84 per share	-	-	30,000	25,320	-	-	25,320
June 2001 - \$1.16 per share	-	-	120,000	139,200	-	-	139,200
Common stock issued to satisfy liabilities							
June 1991 - \$0.03 per share	-	-	2,700,000	78,101	-	-	78,101
Grant of stock purchase rights							
May 1994 - \$0.50 per share	-	-	-	6,750	13,500	-	6,750
June 1995 - \$3.00 per share	-	-	-	95,283	31,761	-	95,283
August 1995 - \$5.00 per share	-	-	-	25,000	5,000	-	25,000
Stock purchase rights exercised							
May 1997	-	-	36,761	-	(36,761)	-	-
June 1997	-	-	13,500	-	(13,500)	-	-
Redemption and retirement of treasury stock							
December 1991 - \$0.49 per share	-	-	(5,000)	(2,425)	-	-	(2,425)
December 1992 - \$0.49 per share	-	-	(1,856)	(900)	-	-	(900)
Adjustment for additional shares issued 1990-2002	-	-	68,973	-	-	-	-
Contributed capital - cash and settlement of liability, no shares issued, 1990-2002	-	-	-	5,762,419	-	-	5,762,419
Capital distribution of related party receivable, 1990-2002	-	-	-	(1,577,674)	-	-	(1,577,674)
Net loss for the period from July 1, 1990 through June 30, 2002	-	-	-	-	-	(8,705,191)	(8,705,191)
<b>Balance - June 30, 2002</b>	<u>3,700,000</u>	<u>294,786</u>	<u>17,749,334</u>	<u>8,388,137</u>	<u>-</u>	<u>(8,898,169)</u>	<u>(215,246)</u>
Common stock issued for cash							
July 2002 - \$0.20 per share	-	-	150,000	30,000	-	-	30,000
August 2002 - \$0.26 per share	-	-	316,000	82,000	-	-	82,000
January 2003 - \$0.32 per share	-	-	80,000	25,600	-	-	25,600
July through September 2002 - \$0.39 per share	-	-	217,000	84,204	-	-	84,204

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October through December 2002 - \$0.33 per share	-	-	200,000	66,407	-	-	66,407
January through March 2003 - \$0.26 per share	-	-	150,000	38,617	-	-	38,617
April through June 2003 - \$0.24 per share	-	-	240,000	57,234	-	-	57,234
Common stock issued for services							
July 2002 - \$0.50 per share	-	-	3,806	1,903	-	-	1,903
October 2002 - \$0.45 per share	-	-	885,000	398,250	-	-	398,250
November 2002 - \$0.35 per share	-	-	65,000	22,750	-	-	22,750
May 2003 - \$0.15 per share	-	-	10,000	1,500	-	-	1,500

The accompanying notes are an integral part of these financial statements

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**INTERNATIONAL AUTOMATED SYSTEMS, INC.**  
 (A Development Stage Company)  
 Statement of Stockholders Equity / (Deficit), continued

	Preferred Stock		Common Stock		Stock Purchase Rights	Deficit Accumulated During Development Stage	Total Stockholder's Deficit
	Shares	Amount	Shares	Amount			
Common stock issued as part of share value guarantee							
August through May 2003	-	-	260,000	-	-	-	-
Contributed capital - no shares issued							
July through June 2003	-	-	-	39,682	-	-	39,682
Capital distribution of related party receivable- July through June 2003	-	-	-	(52,606)	-	-	(52,606)
Net loss	-	-	-	-	-	(1,017,055)	(1,017,055)
<b>Balance – June 30, 2003</b>	<u>3,700,000</u>	<u>294,786</u>	<u>20,326,140</u>	<u>9,183,678</u>	<u>-</u>	<u>(9,915,224)</u>	<u>(436,760)</u>
Common stock issued for cash							
August 2003- \$0.50 per share	-	-	132,400	66,200	-	-	66,200
September 2003- \$0.50 per share	-	-	148,000	73,000	-	-	73,000
December 2003- \$0.25 per share	-	-	34,000	8,500	-	-	8,500
July through September 2003 - \$0.72 per share	-	-	84,000	60,880	-	-	60,880
October through December 2003 - \$0.34 per share	-	-	111,200	37,731	-	-	37,731
January through March 2004 - \$0.36 per share	-	-	91,500	32,560	-	-	32,560
April through June 2004 - \$0.38 per share	-	-	104,800	40,337	-	-	40,337
Contributed capital - no shares issued							
July through June 2004	-	-	-	98,204	-	-	98,204
Net income	-	-	-	-	-	443,183	443,183
<b>Balance – June 30, 2004</b>	<u>3,700,000</u>	<u>294,786</u>	<u>21,032,040</u>	<u>9,601,090</u>	<u>-</u>	<u>(9,472,041)</u>	<u>423,835</u>
Common stock issued for cash							
August 2004 - \$0.25 per share	-	-	132,000	32,546	-	-	32,546
July through September 2004 - \$0.37 per share	-	-	103,050	38,165	-	-	38,165
October through December 2004 - \$0.34 per share	-	-	233,200	79,201	-	-	79,201
January through March 2005 - \$0.47 per share	-	-	225,000	106,701	-	-	106,701
April through June 2005 - \$0.40 per share	-	-	170,500	66,279	-	-	66,279
Contributed capital - no shares issued							
Common stock issued for services	-	-	1,100,000	429,000	-	-	429,000
Net loss	-	-	-	-	-	(1,442,880)	(1,442,880)
<b>Balance - June 30, 2005</b>	<u>3,700,000</u>	<u>294,786</u>	<u>22,995,790</u>	<u>10,446,859</u>	<u>-</u>	<u>(10,914,921)</u>	<u>(173,276)</u>

Common stock issued for cash

July through September 2005 - \$0.56 per share	-	-	722,500	407,817	-	-	407,817
October through December 2005 - \$0.43 per share	-	-	124,000	52,761	-	-	52,761
January through March 2006 - \$0.88 per share	-	-	411,900	361,140	-	-	361,140
April through June 2006 - \$0.69 per share	-	-	968,432	641,730	-	-	641,730
Common stock issued for services - \$0.30 per share	-	-	50,000	15,000	-	-	15,000
Common stock issued for services - \$0.34 per share	-	-	60,000	20,400	-	-	20,400
Common stock issued for settlement of debt - \$0.69 per share	-	-	200,000	138,000	-	-	138,000
Net loss	-	-	-	-	-	(1,473,256)	(1,473,256)
<b>Balance - June 30, 2006</b>	<u>3,700,000</u>	<u>294,786</u>	<u>25,532,622</u>	<u>12,083,707</u>	-	<u>(12,388,177)</u>	<u>(9,684)</u>

The accompanying notes are an integral part of these financial statements

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**INTERNATIONAL AUTOMATED SYSTEMS, INC.**  
 (A Development Stage Company)  
 Statement of Stockholders Equity / (Deficit), continued

	Preferred Stock		Common Stock		Stock Purchase Rights	Treasury Stock		Deficit Accumulated During Development Stage	Total Stockholder's Deficit
	Shares	Amount	Shares	Amount		Shares	Amount		
<b>Balance - June 30, 2006</b>	3,700,000	\$294,786	25,532,622	\$12,083,707	\$ -	- \$	-	\$ (12,388,177)	\$ (9,684)
Common stock issued for cash									
July through September 2006 - \$0.63 per share	-	-	143,000	89,900	-	-	-	-	89,900
October through December 2006 - \$0.52 per share	-	-	402,580	208,252	-	-	-	-	208,252
January through March 2007 - \$0.68 per share	-	-	136,920	93,309	-	-	-	-	93,309
April through June 2007 - \$0.74 per share	-	-	4,500	3,322	-	-	-	-	3,322
Amortization of stock-based compensation	-	-	-	6,548,839	-	-	-	-	6,548,839
Common stock issued for cash - \$0.40 per share	-	-	400,000	160,000	-	-	-	-	160,000
Options exercised for settlement of related party borrowings - \$0.40 per share	-	-	1,725,000	690,000	-	-	-	-	690,000
Treasury stock issued for settlement of debt - \$0.51 per share	-	-	-	-	-	(625,000)	(318,750)	-	(318,750)
Treasury stock issued for settlement of debt - \$0.65 per share	-	-	-	-	-	(500,000)	(325,000)	-	(325,000)
Reissuance of treasury stock for cash - \$0.86 per share	-	-	-	200,055	-	575,000	293,250	-	493,305
Net loss	-	-	-	-	-	-	-	(8,493,400)	(8,493,400)



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**Balance - June 30, 2007**      3,700,000    294,786    28,344,622    20,077,384      -    (550,000)    (350,500)    (20,881,577)    (859,907)

Class A Preferred Stock issued for compensation - \$0.12 per share	1,000,000	122,478	-	-	-	-	-	-	122,478
Common stock issued for cash									
July through September 2007 - \$0.76 per share	-	-	24,600	18,665	-	-	-	-	18,665
October through December 2007 - \$0.59 per share	-	-	22,700	31,894	-	-	-	-	31,894
January through March 2008 - \$0.59 per share	-	-	146,600	57,667	-	-	-	-	57,667
April through June 2008 - \$0.44 per share	-	-	372,200	163,182	-	-	-	-	163,182
Amortization of stock-based compensation	-	-	-	5,864,405	-	-	-	-	5,864,405
Common stock issued for cash - \$0.30 per share	-	-	150,000	45,000	-	-	-	-	45,000
Options exercised for settlement of related party borrowings - \$0.40 per share	-	-	2,000,000	800,000	-	-	-	-	800,000
Common stock issued for services - \$0.43 per share	-	-	86,000	36,980	-	-	-	-	36,980
Reissuance of treasury stock for cash - \$0.46 per share	-	-	-	(92,232)	-	550,000	350,500	-	258,268
Net loss	-	-	-	-	-	-	-	(7,815,703)	(7,815,703)
<b>Balance - June 30, 2008</b>	<b>4,700,000</b>	<b>417,264</b>	<b>31,146,722</b>	<b>27,002,945</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(28,697,280)</b>	<b>(1,277,071)</b>

Common stock issued for cash									
July through September 2008 - \$0.38 per share	-	-	227,000	86,173	-	-	-	-	86,173
October through December									

2008 - \$0.27 per share	-	-	398,900	109,385	-	-	-	-	109,385
January through March 2009 - \$0.27 per share	-	-	316,000	86,019	-	-	-	-	86,019
April through June 2009 - \$0.50 per share	-	-	303,100	150,925	-	-	-	-	150,926
Common stock issued for compensation - \$0.25 per share	-	-	505,000	126,250	-	-	-	-	126,250
Amortization of stock-based compensation	-	-	-	4,715,439	-	-	-	-	4,715,439
Common stock issued for services - \$0.59 per share	-	-	50,000	29,500	-	-	-	-	29,500
Options exercised for settlement of related party borrowings - \$0.40 per share	-	-	1,575,000	630,000	-	-	-	-	630,000
Common stock retired	-	-	(20,400)	-	-	-	-	-	-
Net loss	-	-	-	-	-	-	-	(6,637,337)	(6,637,337)
<b>Balance - June 30, 2009</b>	<u>4,700,000</u>	<u>\$417,264</u>	<u>34,501,322</u>	<u>\$32,936,636</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>\$ (35,334,617)</u>	<u>\$ (1,980,717)</u>

The accompanying notes are an integral part of these financial statements

**INTERNATIONAL AUTOMATED SYSTEMS, INC.**  
(A Development Stage Company)  
Statements of Cash Flows

	For the Years Ended		For the Period
	June 30,		From Inception
	2009	2008	(September 26, 1986) Through June 30, 2009
<b>Cash flows used in operating activities</b>			
Net loss	\$(6,637,337)	\$(7,815,703)	\$ (35,334,617)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	94,074	85,110	575,648
Stock based compensation	4,841,689	5,986,883	20,063,218
Forfeiture of deposits	-	-	236,803
Write down of carrying value of inventory	-	-	16,945
Write off of equipment to research and development	-	-	23,900
(Gain) / loss on disposal of equipment	-	(458)	17,484
Impairment of patents and abandonment of in-process rights to technology	-	22,972	387,128
Extraordinary gain on sale of patents	-	-	(1,382,023)
Gain on settlement of debt	-	-	(6,123)
Stock issued for services	19,667	36,981	120,247
Changes in current assets and liabilities:			
(Increase) / decrease in prepaid expenses	(2,000)	320	(2,000)
(Increase) / decrease in alternate solar energy systems	(261,661)	(65,272)	(413,520)
Increase / (decrease) in customer deposits	954,000	90,000	1,757,250
Increase / (decrease) in accounts payable	81,723	48,987	417,136
Increase / (decrease) in related party payable	(42,999)	70,652	65,001
Increase / (decrease) in accrued liabilities	108,936	14,129	281,326
Net cash used in operating activities	<u>(843,908)</u>	<u>(1,525,399)</u>	<u>(13,176,197)</u>
<b>Cash flows used in investing activities</b>			
Purchase of property and equipment	(23,358)	(116,898)	(754,536)
Purchase of rights to technology	-	(11,882)	(706,643)
Organization costs	-	-	(1,880)
Net cash advanced to related party	-	-	(1,644,988)
Commitments and contingencies - Note 6	-	-	44,220
Proceeds from sale of equipment	-	2,500	2,500
Repayment of cash loaned to related party	-	-	53,254
Net proceeds from sale of patents	-	-	1,382,023
Net cash used in investing activities	<u>(23,358)</u>	<u>(126,280)</u>	<u>(1,626,050)</u>
<b>Cash flows provided by financing activities</b>			
Proceeds from issuance of common stock	432,502	316,408	5,789,231
Proceeds from reissuance of treasury stock	-	258,268	751,573
Contributed capital	-	-	6,270,559
Payments for treasury stock	-	-	(3,325)
Payments for stock offering costs	-	-	(56,509)
Proceeds from net borrowings from related party	557,101	730,805	2,399,121
Payments on borrowings from related party	(173,744)	(99,537)	(273,281)
Proceeds from notes payable	-	-	29,857
Payments on notes payable and capital lease obligations	(45,485)	(5,217)	(213,101)
Proceeds from related party deposits	-	-	224,400
Purchases of equipment held for distribution	-	-	(68,741)
Net cash provided by financing activities	<u>770,374</u>	<u>1,200,727</u>	<u>14,849,784</u>
Net change in cash	(96,892)	(450,952)	47,537
Cash at beginning of period	144,429	595,381	-

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Cash at end of period	\$ 47,537	\$ 144,429	\$ 47,537
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The accompanying notes are an integral part of these financial statements

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**INTERNATIONAL AUTOMATED SYSTEMS, INC.**  
 (A Development Stage Company)  
 Statements of Cash Flows  
 (Continued)

	For the Years Ended June 30,	
	2009	2008
<b>Supplemental non-cash flow information</b>		
Acquisition of property and equipment with note payable	\$ 74,965	\$ -
Settlement of borrowings from related party in exchange for exercise of options	\$ 630,000	\$ 800,000
Settlement of related party borrowings in exchange for patent rights	\$ 86,977	\$ -
Stock issued for services and included in prepaids	\$ 9,833	\$ -
 <b>Supplemental cash flow information</b>		
Cash payments for interest	\$ 9,105	\$ 4,920
Cash payments for income taxes	\$ 100	\$ 100

The accompanying notes are an integral part of these financial statements

**International Automated Systems, Inc.**  
(A Development Stage Company)  
Notes to the Financial Statements  
June 30, 2009 and 2008

**NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization** - International Automated Systems, Inc. (the “Company” or “IAS”) was incorporated in the State of Utah on September 26, 1986. The Company’s activities to date have consisted of developing a business plan, raising capital through the issuance of debt and equity instruments, obtaining the rights to certain technology related to an automated self check-out system for retail stores, developing other electronic security and communication equipment and developing power generation equipment.

The Company is considered to be in the development stage as defined in Financial Accounting Standards Board Statement No. 7. It has yet to commence full-scale operations and continues to develop its planned principle operations.

**Use of Estimates** - The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the balance sheet and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Basis of Presentation / Going Concern** - The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As of June 30, 2009, the Company had \$47,537 of available cash and a working capital deficit of \$2,854,268. For the years ended June 30, 2009 and 2008, the Company had no revenue, no operating income, used net cash for operating activities of \$843,908 and \$1,525,399, respectively. As of June 30, 2009 the Company’s losses accumulated from inception totaled \$35,334,617. These factors, among others, indicate that the Company may be unable to continue as a going concern for the next twelve months. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amount and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. The Company’s ability to continue as a going concern is dependent upon its ability to obtain additional financing as may be required, and ultimately to attain sufficient cash flow from operations to meet its obligations on a timely basis. Management is in the process of negotiating various sales agreements and believes these sales will generate sufficient cash flow for the Company to continue as a going concern. If the Company is unsuccessful in these efforts and does not attain sufficient sales to permit profitable operations or if it cannot obtain sufficient additional financing, it may be required to substantially curtail or terminate its operations.

**Concentration Risks** - The Federal Deposit Insurance Corporation (FDIC) insures cash deposits in most general bank accounts for up to \$250,000 per institution. The Company had no cash deposits that exceeded insured amounts for the years ended June 30, 2009 and 2008, respectively.

**Cash Equivalents** - The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

**Fair Value of Financial Instruments** - The Company’s financial instruments consist of cash and cash equivalents, payables, and notes payable. The carrying amount of cash and cash equivalents and payables approximates fair value because of the short-term nature of these items. The carrying amount of the notes payable approximates fair value as the individual borrowings bear interest at rates that approximate market interest rates for similar debt instruments.

**Impairment** - The Company records impairment losses on property and equipment and patents when indicators of impairment are present and undiscounted cash flows estimated to be generated by those assets are less than the assets’ carrying amount. Furthermore, the Company makes periodic assessments about each patent and the related technology to determine if it plans to continue to pursue the technology and if the patent has value.

**Property and Equipment** - Property and equipment are recorded at cost and are depreciated using the straight-line method based on the expected useful lives of the assets which range from five to ten years. Depreciation expense for the years ended June 30, 2009 and 2008 was \$88,425 and \$78,865, respectively. The major classes of assets are as follows:

	June 30, 2009	June 30, 2008
Land	\$ 216,025	\$ 216,025
Computer equipment	59,956	49,089
Machinery and equipment	388,113	300,657
Trucks and autos	97,044	97,044
Mobile office	11,764	11,764
Total property and equipment	772,902	674,579
Less accumulated depreciation and amortization	(291,390)	(202,965)
Total property and equipment, net	\$ 481,512	\$ 471,614

**Patents** - Legal fees incurred in obtaining patents and franchises in the United States of America and other countries are capitalized. Costs to develop the technology are recognized as research and development and expensed when incurred. The patents are being amortized, once issued, on a straight-line basis over a 17-year life.

At June 30, 2009 and 2008, the Company had capitalized patents subject to amortization of \$75,201 and \$80,850, net of \$20,825 and \$15,176 in accumulated amortization, respectively. Also at June 30, 2008, the Company had capitalized \$86,977 of in-process patents that were not subject to amortization. During the year ended June 30, 2009, the Company determined that the in-process patent's rights should be transferred to the Company's president and offset the \$86,977 previously paid with the related party payable.

All patent costs were assessed for impairment and \$0 and \$22,972 was determined to be impaired during the years ended June 30, 2009 and 2008, respectively. Amortization expense was \$5,649 and \$6,245 for the years ended June 30, 2009 and 2008, respectively. Amortization expense is expected to be \$5,649 per year for the next five years.

**Alternate Solar Energy Systems** - The Company's principal product is its Alternative Solar Energy System ("System"). Each individual system is designed to generate 250,000,000 British Thermal Units ("BTU's") per year. The principal component of the system is the solar lenses in the collection platform. The solar lenses are purchased from a third party. The System also includes towers and pipelines, which are constructed by the Company.

**Capitalized Costs** - Similar to a multi-unit condominium project with both unit-specific and common area costs, the Company capitalizes all costs associated with constructing the System. Costs are allocated equally to each unit (based on their common size) and will be recognized as cost of sales at the same rate revenue is recognized, as discussed below. Capitalized System costs at June 30, 2009 include labor costs and materials for the Systems sold through June 30, 2009 and materials that will be used to produce additional Systems that will be sold in the future.

**Customer Deposits and Revenue Recognition** - The terms of sale of a System provides for an initial cash deposit of \$9,000 at the date the agreement is signed and thirty annual payments of \$700 (with no stated interest), totaling \$21,000, commencing five years following the installation date. As of June 30, 2009, the Company had entered into contracts and received deposits to build, install and maintain approximately 200 Systems.

Under the terms of sale, the Company warrants that the Systems will remain in good operating condition for a thirty-five year period commencing on the installation date and that it will be responsible for all material, equipment and labor costs incurred to complete such maintenance and repair work. In addition, the Company warrants a production rate of 95% of the target production rate of 250,000,000 BTU's per year for the first five years. If the energy produced during the first five years is less than five times the warranted production rate, the purchaser may elect to terminate the agreement and will have no further obligation other than to return the System to the Company. The initial cash deposit will not be returned.

The deposits received have been recorded as customer deposits and included as current liabilities in the financial statements since the Company has not verified the energy output and has not yet delivered electricity from the Systems to a third party as of June 30, 2009. Therefore, for all of these agreements, the customers may request a return of their deposits since the Company has not verified output of the energy. The Company will begin to recognize revenue once the Systems energy output has been verified (saleable energy is produced) and once it is able to estimate its costs associated with the warranty.

**Stock Based Compensation** - As of July 1, 2006, the Company adopted SFAS No. 123(R), "Share-based Payment" ("SFAS No. 123(R)"), which requires the Company to measure compensation expense for all outstanding unvested share-based awards at fair value and recognize compensation expense over the service period for awards expected to vest. The fair value of stock options was determined at

the grant dates using the Black-Scholes option-pricing model. The Company uses historical data to estimate the expected volatility and expected life. The estimation of stock awards that will ultimately vest requires judgment, and to the extent actual results differ from estimates, such amounts will be recorded as an adjustment in the period estimates are revised. The Company considers many factors when estimating expected forfeitures, including types of awards, employee class, and historical experience. Actual results may differ substantially from these estimates (see Note 4).



**Advertising Costs** - Advertising costs are expensed when incurred. Advertising expense was \$12,884 and \$8,700 for the years ended June 30, 2009 and 2008, respectively.

**Research and Development** - Research and development has been the principal function of the Company. Research and development costs are expensed as incurred. Expenses in the accompanying financial statements include certain costs which are directly associated with the Company's research and development of the Solar Power Plant technology, Steam Turbine technology, Automated Fingerprint Identification Machine technology, Digital Wave Modulation Technology and other various projects. These costs, which consist primarily of monies paid for consulting expenses, materials and supplies and compensation costs amounted to \$704,889 and \$760,798 for the fiscal years ended June 30, 2009 and 2008, respectively.

**Income Taxes** - The Company recognizes the amount of income taxes payable or refundable for the current year and recognizes deferred tax assets and liabilities for operating loss carryforwards and for the future tax consequences attributable to differences between the financial statement amounts of certain assets and liabilities and their respective tax basis. Deferred tax assets and deferred liabilities are measured using enacted tax rates expected to apply to taxable income in the years those temporary differences are expected to be recovered or settled. Deferred tax assets are reduced by a valuation allowance to the extent that uncertainty exists as to whether the deferred tax assets will ultimately be realized.

**Recent Accounting Pronouncements** - In December 2007, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141 (revised 2007), "Business Combinations" ("SFAS 141R") and SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an amendment of Accounting Research Bulletin No. 51" ("SFAS 160"). SFAS 141R will change how business acquisitions are accounted for and will impact financial statements both on the acquisition date and in subsequent periods. SFAS 160 will change the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity. SFAS 141R and SFAS 160 are effective for the Company beginning July 1, 2009. Early adoption is not permitted. These statements will affect the Company for combinations after July 1, 2009.

In June 2008, the FASB issued FASB Staff Position Emerging Issues Task Force (EITF) No. 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities" ("FSP EITF No. 03-6-1"). Under FSP EITF No. 03-6-1, unvested share-based payment awards that contain rights to receive nonforfeitable dividends (paid or unpaid) are participating securities, and should be included in the two-class method of computing EPS. FSP EITF No. 03-6-1 is effective for the Company beginning July 1, 2009, and is not expected to have a significant impact on the Company's financial statements.

In April 2009, the FASB released FASB Staff Position ("FSP") SFAS 107-1 and Accounting Principles Board (APB) Opinion No. 28-1, "Interim Disclosures about Fair Value of Financial Instruments" ("SFAS 107-1 and APB 28-1"). This FSP amends FASB Statement No. 107, "Disclosures about Fair Values of Financial Instruments," to require disclosures about fair value of financial instruments in interim financial statements as well as in annual financial statements. The FSP also amends APB Opinion No. 28, "Interim Financial Reporting," to require those disclosures in all interim financial statements. This proposal is effective for interim periods ending after June 15, 2009, but early adoption is permitted for interim periods ending after March 15, 2009. The Company plans to adopt SFAS 107-1 and APB 28-1 and provide the additional disclosure requirements for the first quarter for fiscal year end 2010.

In April 2009, the FASB released FSP SFAS 157-4, "Determining Whether a Market Is Not Active and a Transaction Is Not Distressed" ("SFAS 157-4"). This FSP provides additional guidance in determining whether a market for a financial asset is not active and a transaction is not distressed for fair value measurement purposes as defined in SFAS 157, "Fair Value Measurements." SFAS 157-4 is effective for interim periods ending after June 15, 2009, but early adoption is permitted for interim periods ending after March 15, 2009. The Company plans to adopt the provisions of SFAS 157-4 during first quarter 2010, but does not believe this guidance will have a significant impact on the Company's financial statements.

In April 2009, the FASB released FSP SFAS 115-2 and SFAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments." This proposal provides guidance in determining whether impairments in debt securities are other than temporary, and modifies the presentation and disclosures surrounding such instruments. This FSP is effective for interim periods ending after June 15, 2009, but early adoption is permitted for interim periods ending after March 15, 2009. The Company plans to adopt the provisions of this Staff Position during the first quarter 2010, but does not believe this guidance will have a significant impact on the Company's financial statements.

In May 2009, the FASB issued statement No. 165, "Subsequent Events" ("SFAS 165"). SFAS 165 modifies the definition of what qualifies as a subsequent event—those events or transactions that occur following the balance sheet date, but before the financial statements are issued, or are available to be issued—and requires companies to disclose the date through which it has evaluated subsequent events and the basis for determining that date. SFAS 165 is effective for fiscal years and interim periods ending after June 15, 2009. The Company adopted the provisions of SFAS 165 for the year ended June 30, 2009 and have evaluated any subsequent events

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through October 13, 2009. The Company does not believe there are any material subsequent events which would require further disclosure as discussed in Note 14.

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In June 2009, the FASB issued SFAS No. 166, "Accounting for Transfers of Financial Assets – an amendment of FASB Statement No. 140" ("SFAS 166"). SFAS 166 amends SFAS 140 by including: the elimination of the qualifying special-purpose entity (QSPE) concept; a new participating interest definition that must be met for transfers of portions of financial assets to be eligible for sale accounting; clarifications and changes to the derecognition criteria for a transfer to be accounted for as a sale; and a change to the amount of recognized gain or loss on a transfer of financial assets accounted for as a sale when beneficial interests are received by the transferor. Additionally, the standard requires extensive new disclosures regarding an entity's involvement in a transfer of financial assets. Finally, existing QSPEs (prior to the effective date of SFAS 166) must be evaluated for consolidation by reporting entities in accordance with the applicable consolidation guidance upon the elimination of this concept. SFAS 166 is effective for the Company beginning on July 1, 2010. The Company has not yet determined the impact that adoption of SFAS 166 will have on its financial statements.

In June 2009, the FASB issued SFAS No. 167, "Amendments to FASB Interpretation No. 46(R)" ("SFAS 167"). Among other items, SFAS 167 responds to concerns about the application of certain key provisions of FIN 46(R), including those regarding the transparency of the involvement with variable interest entities. SFAS 167 is effective for the Company beginning on July 1, 2010. The Company has not yet determined the impact that adoption of SFAS 167 will have on its financial statements.

In June 2009, the FASB issued SFAS No. 168, "The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162" ("SFAS 168"). SFAS 168 establishes the FASB Accounting Standards Codification™ (Codification) as the source of authoritative U.S. GAAP to be applied by nongovernmental entities. While not intended to change U.S. GAAP, the Codification significantly changes the way in which the accounting literature is organized. The Company will adopt this new accounting standard for its financial statements for the quarterly period ending September 30, 2009. The Company does not expect the adoption of SFAS 168 to have a material impact on its financial statements.

The Company has reviewed all other recently issued, but not yet adopted, accounting standards in order to determine their effects, if any, on its results of operation, financial position or cash flows. Based on that review, the Company believes that none of these pronouncements will have a significant effect on its financial statements.

#### **NOTE 2 – BASIC AND DILUTED NET LOSS PER COMMON SHARE**

Basic earnings per share is computed by dividing the net income or loss applicable to common shares by the weighted average number of common shares outstanding. Diluted earnings per share is computed by dividing the net income or loss by the sum of the weighted average number of common shares plus the weighted average common stock equivalents which would arise from the exercise of outstanding stock options, issuance of stock held in trust and conversion of Series B Preferred Shares into options to purchase shares of common stock, using the treasury stock method and the average market price per share during the period.

As a result of incurring a net loss for the years ended June 30, 2009 and 2008, no outstanding common stock equivalents are included in the calculation of diluted earnings per share because such effect would be anti-dilutive. The Company had outstanding stock options and warrants to purchase a total of 95,900,000 and 97,475,000 shares of common stock at June 30, 2009 and 2008, respectively, which are not included in the basic earnings per share calculation. The Company had 4,344,818 and 5,589,818 shares of common stock held in trust at June 30, 2009 and 2008, respectively, which are not included in the basic earnings per share calculation. The Company had 300,000 Series B Preferred Shares that are convertible into options to purchase 600,000 shares of common stock at June 30, 2009 and 2008, which are not included in the basic earnings per share calculation.

#### **NOTE 3 – RELATED PARTY TRANSACTIONS**

During 2003, the Company commenced leasing office and research and development space on a month-to-month basis from the president and a third party. The lease is an operating lease and rent expense is \$6,000 per month payable to the president and \$6,200 per month payable to the third party. The amount payable to the president for rent at June 30, 2009 and 2008 was \$65,000 and \$108,000, respectively, and is included in related party payables.

The Company received cash advances of \$557,101 and \$730,805 from its president during the years ended June 30, 2009 and 2008. The advances are non-interest bearing, payable upon demand and included in related party payables. During the year ended June 30, 2009, the Company settled \$630,000 of the cash advances by issuing 1,575,000 shares of common stock to the president upon the exercise of warrants; paid \$173,744 of the cash advances; and settled \$86,977 of the cash advances through the transfer of in-process patent rights at cost. During the year ended June 30, 2008, the Company settled \$800,000 of the cash advances by issuing 2,000,000 shares of common stock to the president upon the exercise of warrants; and paid \$99,537 of the cash advances. As of June 30, 2009 and 2008, the balance was \$440,382 and \$774,001, respectively.

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During the year ended June 30, 2008, the Company issued 1,000,000 Series A Preferred Stock valued at \$122,478 to the president as compensation for services rendered during the year.

During the year ended June 30, 2009 and 2008, the Company received deposits from officers totaling \$0 and \$81,000, respectively, for alternate solar energy systems. The deposits are included in customer deposits.

The Company's president and two of his sons, who are also officers of the Company, control approximately 82% of the voting rights of the Company. As a result, these three individuals control the Company's business operations and policies and all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions.

#### NOTE 4 – STOCK BASED COMPENSATION

*Options and Warrants* - The Company's board of directors authorized the Company to enter into an agreement dated May 14, 2004 and amended October 13, 2004, with the Company's president, in which the Company acquired patents, patents pending, designs and contracts related to certain technology developed by the president from the president. The direct costs of developing and obtaining the acquired patents, patents pending, designs and contracts were paid and capitalized by the Company. No additional value has been assigned to these patents as a result of them being acquired from the president.

As consideration, the Company authorized and issued warrants to purchase 100,000,000 shares of common stock to the president and agreed to pay the president royalties in the future equal to 10% of future sales proceeds from the technology. The warrants, which were considered stock-based compensation for services to be rendered, had no intrinsic value on the grant date. The fair value of the warrants was \$37,136,781, calculated on the grant date using the Black-Scholes model. The following assumptions were used for this grant: Average risk-free interest rate of 4.79%; expected lives of 10 years; expected dividend yield of zero percent; and expected volatility of 138.76%. In accordance with SFAS 123(R), starting on July 1, 2006, the Company began recognizing stock-based compensation expense over the graded exercisability period of the options using the straight-line basis over the requisite service period for each separately exercisability portion of the award as if the award was, in-substance, multiple awards.

The agreement contains an anti-dilution clause that gives the president the right to purchase the same number of shares of common stock, given reclassification, reorganization or change by a stockholder, as were purchasable prior to any such changes, at a total price equal to that payable upon the exercise of the options. Appropriate adjustments shall be made to the exercise price so the aggregate purchase price of the shares will remain the same.

The warrants have an exercise price of \$0.40 per share and are exercisable beginning on the following dates:

January 1, 2005 -	5,000,000 shares
January 1, 2006 -	5,000,000 shares
January 1, 2007 -	5,000,000 shares
January 1, 2008 -	10,000,000 shares
January 1, 2009 -	10,000,000 shares
January 1, 2010 -	65,000,000 shares

During the year ended June 30, 2008, the president exercised 2,000,000 of the warrants in exchange for satisfaction of a related party payable of \$800,000.

During the year ended June 30, 2009, the president exercised 1,575,000 of the warrants in exchange for satisfaction of related party payable of \$630,000.

In August 2000, the Company issued options to purchase 1,000,000 shares of restricted common stock over a ten year period at \$3.00 per share as part of employment agreements. These options vest 100,000 shares per year over a ten year period and expire ten years from the date of issuance.

In August 2000, the Company issued options to purchase 600,000 shares of restricted common stock over a ten year period at \$3.00 per share as part of employment agreements. These options vested on August 24, 2000 and expire ten years from the date of issuance.

The following table summarizes the stock option/warrant activity as of and for the years ended June 30, 2009 and 2008:

	Options/Warrants	Wtd. Avg. Exercise Prices	Wtd. Avg. Remaining Life in Years	Aggregate Intrinsic Value
Outstanding at July 1, 2007	99,475,000	\$ 0.44	27.2	\$ 33,277,500
Exercised	(2,000,000)	0.40		70,000
Outstanding at June 30, 2008	97,475,000	0.44	26.1	33,277,500
Exercised	(1,575,000)	0.40		(236,250)
Outstanding at June 30, 2009	95,900,000	\$ 0.44	25.1	\$ 17,917,000
Exercisable at June 30, 2009	30,800,000	\$ 0.53	24.3	\$ 5,567,000

The following table summarizes information about the stock options/warrants as of June 30, 2009:

Range of Exercise Prices	Options/Warrants Outstanding				Options/Warrants Exercisable			
	Shares	Wtd. Avg. Remaining Contractual Life (years)	Wtd. Avg. Exercise Price	Aggregate Intrinsic Value	Shares	Wtd. Avg. Remaining Contractual Life (years)	Wtd. Avg. Exercise Price	Aggregate Intrinsic Value
\$ 3.00	1,600,000	1.15	\$ 3.00	\$ -	1,500,000	1.15	\$ 3.00	\$ -
\$ 0.40	94,300,000	25.52	0.40	17,917,000	29,300,000	25.52	0.40	5,567,000
	95,900,000	25.11	\$ 0.44	\$ 17,917,000	30,800,000	24.33	\$ 0.53	\$ 5,567,000

The following table summarizes information about non-vested options/warrants as of and for the year ended June 30, 2009:

	Warrants/Options	Wtd. Avg. Grant Date Fair Value
Non-vested at June 30, 2008	75,200,000	\$ 0.37
Vested during the year ended June 30, 2009	(10,100,000)	0.39
Non-vested at June 30, 2009	65,100,000	\$ 0.37

The total fair values of options/warrants vested during each of the years ended June 30, 2009 and 2008 was \$3,919,000.

*Restricted Stock* - During the year ended June 30, 2009, the Company granted 505,000 shares of restricted stock to employees, which vested immediately. The grant date fair value of the restricted stock awards, which totaled \$126,250, was based on the effective date of the restricted stock awards using the \$0.25 closing market price of the Company's common stock on the grant date, with the compensation expense being recognized immediately.

For the years ended June 30, 2009 and 2008, total stock-based compensation expense recognized was \$4,841,689 and \$5,986,883, respectively. Stock-based compensation for the year ended June 30, 2009 includes the issuance of 505,000 shares of restricted common stock valued at \$126,250. Stock-based compensation for the year ended June 30, 2008 includes the issuance of Series A Preferred Shares to the president valued at \$122,478. As of June 30, 2009, there was approximately \$2,173,590 of unrecognized compensation cost related to non-vested stock-based compensation awards granted. The compensation cost is expected to be recognized over a weighted average period of 0.38 years.

At March 31, 2008, the Company determined that approximately 6.5 million common shares reserved for issuance under the options/warrants were in excess of authorized shares on a fully diluted basis (the "Excess Options"). In accordance with SFAS 123(R), the Company classified the fair value of \$2,591,649, calculated using the Black-Scholes model, of these Excess Options as a liability at March 31, 2008. The Company also recorded stock-based compensation expense of \$194,227 because the new calculated fair value of

the Excess Options exceeded the grant date fair value by \$194,227. In June 2008, the Company's Board of Directors amended the Company's articles of incorporation authorizing 225,000,000 shares of common stock. As a result of the additional shares being authorized, the classification of the Excess Options was changed from a liability to equity in accordance with SFAS 123(R). The fair value of the Excess Options was recalculated on the date of the amendment of the articles of incorporation. Since the recalculated fair value approximated the fair value calculated at March 31, 2008, the Company reclassified the liability to common stock at June 30, 2008 and recorded no additional stock-based compensation expense.

Reduction in related party payables received from the exercise of stock options/warrants during the years ended June 30, 2009 and 2008 was \$630,000 and \$800,000, respectively. No tax benefit was realized from the exercise of these options due to the Company's current loss position.

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**NOTE 5 – NOTES PAYABLE**

Notes payable consist of the following:

	<u>June 30, 2009</u>	<u>June 30, 2008</u>
Note payable to a financing company; 7% per annum; secured by land; due in annual installments of \$10,000; maturing on August 1, 2016; collateralized by a deed of trust covering the underlying real property	\$ 57,387	\$ 63,107
Note payable to a financing company; 7% per annum; secured by land; due in annual installments of \$9,397; maturing on July 15, 2016; collateralized by a deed of trust covering the underlying real property	51,168	56,638
Note payable to a company; 4.65% per annum; due in monthly installments of \$4,000; maturing in May 2010	40,670	-
	<u>149,225</u>	<u>119,745</u>
Less current portion	(52,543)	(11,090)
Long-term debt	<u>\$ 96,682</u>	<u>\$ 108,655</u>

The scheduled maturities of the notes payable are as follows:

2010	\$ 52,543
2011	12,704
2012	13,594
2013	14,545
2014	15,564
Thereafter	40,275
	<u>\$ 149,225</u>

**NOTE 6 – PREFERRED STOCK**

*Series A Preferred Stock* – The Series A Preferred Stock has equal dividend rights to the common shares, is not convertible into common shares, has no cumulative dividend requirements and has liquidation preferences equivalent to the common shares. 3,400,000 of the Series A Preferred Stock are entitled to the voting rights of ten common shares, and 1,000,000 of the Series A Preferred Stock are entitled to the voting rights of 100 common shares.

During the year ended June 30, 2008, the Company issued 1,000,000 Series A Preferred Stock entitled to the voting rights of 100 common shares, valued at \$122,478, to the president as compensation during the year ended June 30, 2008. At June 30, 2009 and 2008, there were 4,400,000 Series A Preferred Stock issued and outstanding.

*Series B Preferred Stock* – The Series B Preferred Stock has equal dividend rights to the common shares, has no cumulative dividend requirements, has liquidation preferences equivalent to the common shares and each preferred share is entitled to the voting rights of ten common shares. Each share is convertible into options to purchase two shares of common stock at \$3.00 per share, exercisable immediately and the options expire ten years from the date the preferred stock is exchanged. At June 30, 2009 and 2008, there were 300,000, series B Preferred shares issued and outstanding.



**NOTE 7 – COMMON STOCK**

*Common Stock Held in Escrow* - The Company has shares of common stock held in escrow accounts. Proceeds from the sale of stock from these escrow accounts are placed in separate escrow accounts to be used at the Company's and the trustee's discretion. During the year ended June 30, 2009, 1,245,000 shares were sold for proceeds of \$432,502 at prices ranging from \$0.16 to \$0.67 per share. During the year ended June 30, 2008, 1,116,100 shares were sold for proceeds of \$529,676, including shares sold from treasury, at prices ranging from \$0.34 to \$0.92 per share. The proceeds were used to pay professional fees, rent, operating expenses and accrued liabilities. At June 30, 2009 and 2008, there was a balance of 4,344,818 and 5,589,818 shares, respectively, in the escrow accounts. These shares are not accounted for as issued or outstanding common shares.

During the year ended June 30, 2008, the Company also issued 150,000 shares of common stock to an accredited investor in exchange for \$45,000 in cash at \$0.30 per share.

*Common Stock Issued for Services* – During the year ended June 30, 2009, the Company issued 50,000 shares of common stock valued at \$29,500 or \$0.59 per share in exchange for services performed. At June 30, 2009, \$9,833 was included in prepaid expenses and \$19,667 was expensed since only a portion of the shares had been earned. During the year ended June 30, 2008, the Company issued 86,000 shares of common stock in exchange for services performed. The shares were valued at \$36,980 or \$0.43 per share.

*Retirement of Common Stock* – The Company retired 20,400 shares of common stock during the year ended June 30, 2009.

**NOTE 8 – TREASURY STOCK**

During the year ended June 30, 2008, 550,000 treasury shares were reissued for proceeds of \$258,268. The Company recorded the difference between the cost and proceeds of \$92,232 as a reduction of common stock.

**NOTE 9 – CUSTOMER DEPOSITS**

During the years ended June 30, 2009 and 2008, the Company received customer deposits totaling \$954,000 and \$99,000, respectively, and refunded deposits totaling \$0 and \$9,000, respectively, relating to contract agreements to build, install and maintain alternate solar energy systems.

The total amount of customer deposits at June 30, 2009 and 2008 was \$1,757,250 and \$803,250, respectively. The agreements provide that the Company will deliver, install and startup the alternate solar energy system prior to June 30, 2009. The Company has and continues to work toward delivering, installing and starting up the alternate solar energy system, but the energy output has not been verified. Therefore, for all of these agreements, the customers may request a return of their deposits since the Company has not verified output of the energy.

**NOTE 10 – INCOME TAXES**

Because of its net losses, the Company did not have a current or deferred provision for income taxes for the years ended June 30, 2009 and 2008. Significant components of the Company's net deferred income tax assets using a combined federal and state tax rate of 37.3% as of June 30, 2009 and 2008 are as follows.

	June 30, 2009	June 30, 2008
Net operating loss carryforwards	\$ 4,116,481	\$ 3,425,078
Accrued wages	47,332	-
Depreciation and amortization	(21,990)	2,283
Total gross deferred income tax asset	4,141,823	3,427,361
Less valuation allowance	(4,141,823)	(3,427,361)
Net deferred income taxes	\$ -	\$ -

The net change in the valuation allowance for the years ended June 30, 2009 and 2008 was an increase of \$714,462 and a decrease of \$1,807,350, respectively.

SFAS No. 109 (“SFAS 109”) requires that a valuation allowance be provided if it is more likely than not that some portion or all of a deferred tax asset will not be realized. Because the Company has a history of operating losses, the Company’s ability to realize the benefit of its deferred tax asset will depend on the generation of future taxable income. The Company has recorded a full valuation allowance as of June 30, 2009 and 2008.

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At June 30, 2009, the Company had total tax net operating loss carryforwards of \$11,036,142 that will expire in the years 2012 through 2029.

The following is a reconciliation of the income tax benefit from the loss before extraordinary gain computed at the federal statutory tax rate with the provision for income taxes for the years ended June 30, 2009 and 2008:

	<u>June 30, 2009</u>	<u>June 30, 2008</u>
US Federal income tax benefit at statutory rate of 34%	\$ (2,256,695)	\$ (2,657,339)
Nondeductible expenses	1,761,265	2,316,909
State income tax benefit, net of federal expense	(219,032)	(257,918)
Change in valuation allowance	714,462	598,348
Total income tax provision	<u>\$ -</u>	<u>\$ -</u>

In accordance with FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109" ("FIN 48"), the Company has analyzed filing positions in all of the federal and state jurisdictions where it is required to file income tax returns. The Company believes that its income tax filing positions and deductions will be sustained on audit and does not anticipate any material adjustments. Therefore, no reserves for uncertain income tax positions have been recorded pursuant to FIN 48. The Company is subject to audit by the IRS and various states for the prior 3 years.

The Company's policy for recording interest and penalties associated with taxes is to recognize it as a component of income tax expense. The Company recorded no interest and penalties for the years ended June 30, 2009 and 2008.

**NOTE 11 – COMMITMENTS AND CONTINGENCIES**

*Sales Commitments* - During December 2005, the Company entered into a purchase and installation contract with Solar Renewable Energy-1, LLC for a solar thermal power plant. The contract is contingent on several factors and provides for certain progress payments to the Company. As of June 30, 2009, the Company has not provided any services or equipment required under this agreement and has recognized no revenues.

The Company has entered into several solar lease bonus fee contracts with many of the customers who made deposits on the alternate solar energy system discussed in Note 9. As additional consideration for making the deposit and making the solar alternate energy system available to the Company as a reference for marketing and sales purposes to show and demonstrate, the Company has agreed to pay many of the customers a referral fee of .009%, for each System purchased, on the first one billion dollars of total gross sales revenue received by the Company for the sale of power generation equipment.

*Legal* - During the years ended June 30, 2009 and 2008, the Company was involved in various lawsuits to protect its patents. One counterclaim was filed by a defendant against the Company in June 2008, requesting an award for attorney fees and court costs, which could have exceeded \$1,000,000. The Company filed a motion to dismiss in August 2008. The Court issued a Memorandum Decision and Order denying the defendant's motion for summary judgment and denying the motion for an award of attorney fees. The Court made a limited award of \$45,000 for reasonable attorney fees incurred by the defendant, which was paid by the Company in April 2009.

*Employment Agreement* - The Company has entered into an agreement with its president and CEO for a period of ten years starting in July 2000. Per the agreement, the president is to be paid \$100,000 per anum and shall increase each calendar year by the percentage increase in the Consumer Price Index. The president may terminate the agreement, but must give the Company six months advance notice. The Company can not voluntarily terminate its president's employment for any reason. No additional payments are outlined in the agreement for a change in control. The president agreed to waive his salary from July 2000 to June 30, 2006. The Company issued 1,000,000 Series A Preferred Stock, entitled to the voting rights of 100 common shares, valued at \$122,478, to its president in lieu of cash compensation for services rendered during fiscal year 2008. The Company accrued \$125,000 for services rendered by its president during fiscal year 2009, which are included accrued liabilities at June 30, 2009.

**NOTE 12 – LEASE OBLIGATIONS**

In October 2006, the Company entered into a lease agreement for research and development space. The term of this lease is from November 1, 2006 to November 1, 2016. The following summarizes future minimum lease payments under this lease at June 30, 2009:

2010	\$	7,500
2011		7,500
2012		7,500
2013		7,500
2014		7,500
Thereafter		17,500
	\$	<u>55,000</u>

Total rent expense for this lease and the leases described in Note 3 for the years ended June 30, 2009 and 2008 was \$169,870 and \$152,551, respectively.

**NOTE 13 – RECLASSIFICATION**

Certain prior year amounts have been reclassified to conform to the current year presentation. Alternate solar energy system was moved from current assets to non-current assets.

**NOTE 14 – SUBSEQUENT EVENTS**

In preparing the accompanying audited financial statements, the Company has reviewed, as determined necessary by the Company's management, events that have occurred after June 30, 2009, up until the issuance of the financial statements, which occurred on October 13, 2009.



GREG SHEPARD  
858 CLOVER MEADOW DRIVE  
SALT LAKE CITY, UT 84123

Dear Greg,

This letter is regarding the "Alternative Energy Systems" that you purchased from RaPower3 LLC. RaPower3 put into service your equipment for 10 solar lenses on or before December 31, 2005. This will qualify you for the Internal Revenue Service solar energy tax credit.

*(However for your personal information, Section 103 Div. B Energy Credit (code Sec.48), "For projects whose construction time is expected to equal or exceed two years, the Credit may be claimed as is placed in service.")*

We appreciate your business and look forward to the opportunity to work with you to help solve our Nation's energy needs. If you have any questions you may correspond with us at the below address.

Respectfully Yours,

Neldon Johnson  
Manager of RaPower3

---

RaPower3 4035 S. 4000 W. Deseret, Utah 84624

EXHIBIT 466  
WIT: G. Shepard  
DATE: 5-22-17  
CitiCourt, LLC

Confidential Attorney Eyes Only

Jameson 022559

U.S. SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended June 30, 2016  
or

TRANSITION REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 33-16531-D

INTERNATIONAL AUTOMATED SYSTEMS, INC.  
(Name of small business issuer in its charter)

Utah  
State or other jurisdiction of incorporation or organization

7580  
I.R.S. Employer Identification No.

2730 W 4000 S  
Oasis, Utah 84624  
(Address of principal executive offices)

Registrant's telephone number, including area code: (801) 423-8132

Securities registered pursuant to Section 12(b) of the Act: None

Title of each class  
N/A

Name of each exchange on which registered  
N/A

Securities to be registered under section 12(g) of the Act: None

Check whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such report(s)), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No



Check if disclosure of delinquent filers in response to Item 405 of Regulations S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. Check one:

Large accelerated filer     Accelerated filer     Non-accelerated filer     Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

[ ] Yes [X] No

State the registrant's net revenue for its most recent fiscal year: \$0.00. The aggregate market value of voting stock held by non-affiliates of the registrant on April 11, 2017 was approximately \$13,478,861.

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date:

As of April 11, 2017, there were outstanding 79,156,343 shares of Registrant's common stock, no par value per share and 5,700,000 shares of preferred stock issued and outstanding, consisting of 5,400,000 shares of Class A preferred stock and 300,000 shares of Class B preferred stock.

Documents incorporated by reference: Exhibits

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**PART I**

**Forward-Looking Statements**

In this report, references to "International Automated Systems, "Registrant", " the "Company," "we," "us," and "our" refer to International Automated Systems, Inc.

This annual report on Form 10-K contains certain forward-looking statements and for this purpose any statements contained in this annual report that are not statements of historical fact are intended to be "forward-looking statements" with the meaning of the Private Securities Litigation Reform Act of 1995. Without limiting the foregoing, words such as "may," "will," "expect," "believe," "anticipate," "estimate" or "continue" or comparable terminology are intended to identify forward-looking statements. These statements by their nature involve substantial risks and uncertainties, and actual results may differ materially depending on a variety of factors, many of which are not within our control. These factors include but are not limited to economic conditions generally and in the markets in which we may participate, competition within our chosen industry, technological advances and failure by us to successfully develop business relationships.

We caution readers not to place undue reliance on any forward-looking statements, which speak only as of the date made, are based on certain assumptions and expectations which may or may not be valid or actually occur and which involve various risks and uncertainties.

Unless otherwise required by applicable law, we do not undertake, and specifically disclaim any obligation, to update any forward-looking statements to reflect occurrences, developments, unanticipated events or circumstances after the date of such statement.

**ITEM 1. DESCRIPTION OF BUSINESS**

THE COMPANY

Exact corporate name:  
State and date of incorporation:  
Street address of principal office:  
  
Company telephone number:  
Fiscal year:

International Automated Systems, Inc.  
Utah- September 26, 1986.  
2730 West 4000 South  
Oasis, Utah 84624  
(801) 423-8132  
June 30

International Automated Systems, Inc. ("the Company"), was organized under the laws of the State of Utah on September 26, 1986. In April 1988 the Company filed a registration statement for a public offering under the provisions of the Securities Act of 1933 ("1933 Act") to sell a maximum of 1,074,000 units at a price of \$.50 per unit. Each unit was comprised of one share of common stock and one common stock purchase warrant. The Company sold approximately 200,000 units at the offering price of \$.50 per unit realizing total proceeds of approximately \$100,000. All warrants expired without exercise.

Over time, the Company, for the most part, has been engaged in the investigation, design and development of technology based upon the exclusive rights to patents or exclusive rights to patented technologies obtained from the president of the Company or from entities controlled by the president of the Company.

**OVERVIEW**

International Automated Systems, Inc., a Utah corporation (hereinafter "Registrant" or "Company") based in American Fork, Utah, seeks to design, produce and develop plans for the marketing of leading edge technology products.

The Company has production models of a patented turbine which uses the expansion of steam to generate a rotational force and a patented solar lens which may be included in systems which generate alternative solar energy.

The Company feels the turbine could be used in, but not limited to, the production of electricity, hydrogen or in the transportation industry. Though some testing has been done using pure steam and geothermal steam, more testing will be done. There are risks that the turbine may never be accepted.

The Company previously had an Alternate Solar Energy Thermal System ("System") which was developed in conjunction with the Company's bladeless turbine and solar lens to generate to provide solar electricity in commercial quantities. The system was designed to track the sun, efficiently concentrating the solar energy onto a receiver. The energy produced would propel the bladeless turbine, generating electricity.

The Company developed an automated self-service check-out system and management software. This system allows retail customers to ring up their purchases without a cashier or clerk. The system is primarily designed for grocery stores, but may be applicable in other retail establishments.

The Company has developed an Automated Fingerprint Identification Machine ("AFIM") designed to verify the identity of individuals. Potential AFIM applications include products for both commercial and governmental users, including employee time-keeping and security-access control and check, debit or credit card verification.

The Company has developed technology that transmits information and data using different wave patterns, configurations and timing in the electromagnetic spectrum. The Company refers to this technology as digital wave modulation ("DWM"). The Company believes that when the technology is implemented and applied commercially, the technology will have the capability to increase the amount of information which can be transmitted.

The Company is continuing the development of the DWM technology. The commercial feasibility of the technology has not been demonstrated. The Company believes it has many competitors in the communications, information data transfer and data storage industries which have greater capital resources, more experienced personnel and technologies which are currently more established and accepted in the market place.

The first anticipated product using DWM technology is a high-speed modem. The modem is projected to be faster than modems currently in use. Generally modems are used for purposes of transmitting data over telephone lines, on telecommunications systems and over wireless mediums such as satellite transmissions and line- of-sight transmission mediums. The Company has a modem prototype. Additional development is required to achieve a commercial product.

The Company's objective is to apply the DWM technology in other areas. The Company has not established a plan or order of priorities for any future commercial product development. The Company may not be successful in its efforts to have commercially exploitable products due to difficulties and problems which may interfere with the future development efforts. Problems may arise, such as inability to design, construct and/or manufacture commercial products, the Company's lack of funding and financial resources and availability of experienced personnel. Competitors may develop technologies which are superior and will make the DWM technology obsolete even before the Company can complete its development of any commercial products. Cost will also be a factor in both the development and the commercialization of any new product. It is anticipated that if a commercially viable modem is developed, the Company will have to expend funds to develop a marketing plan and introduce the product into the market. Costs to offer new products and to establish the proper marketing strategy will be significant. The Company has not made any projections regarding any anticipated costs.

There are risks that no commercially viable products will be developed from the technologies and any products developed may not be accepted or successful in the marketplace. In addition, the Company may not have sufficient funds to develop, manufacture, and market any products when developed.

#### Propulsion Steam Turbine

The Company has a patented bladeless turbine production model. It uses the expansion of steam, through propulsion, to create a rotational force.

The production model has been tested using pure steam created by a gas heat exchanger. The Company believes its propulsion design has several advantages over current bladed turbines. The Company believes its turbine is at least as efficient as traditional turbines, is smaller in size, requires less maintenance, is mass producible and may be less expensive to manufacture. It also doesn't require cooling towers, making it more mobile, more economical and water conserving.

The Company believes that the turbine may be marketable in the utility power industry as well as for hydrogen production and transportation. There are risks that the Company will not be able to manufacture a commercially marketable turbine because of lack of financing, government interference, industry non-acceptance and/or many other conditions not under the Company's control.

The Company believes that the possible advantage over other similar systems is the System's ability to be mass produced. The Company has developed proprietary structural designs in anticipation of mass production of the System. Although the specific cost and production design has not been completed, the Company believes that the anticipated designs may significantly reduce the cost of manufacturing and marketing the turbine.

#### Automated Self-Service Check-Out System.

The proposed Automated Self-Check-Out System is an integrated, automated check-out system for customers of retail establishments and provides for self-service check-out lines, stations or lanes. The Self-Check-Out System has a scanner to read bar codes of items purchased and a scale to weigh the items scanned and placed in a receiving basket. As each item is scanned by the bar code reader, the scale verifies the accuracy of the item scanned and placed in the basket by comparing the weight of the item scanned with the weight change recorded in the receiving basket. If the weights differ or if other problems arise, a clerk is summoned to assist the customer and resolve any problem.

The Self-Check-Out System is designed to replace clerk operated cashier registers that are used in retail and grocery stores. In addition, the Self-Check-Out System, when fully and completely implemented, is intended to allow a store manager to maintain accurate inventory on a contemporaneous basis. The contemporaneous inventory assists in reordering and restocking. The Company believes that the Self-Check-Out System may simplify price verification and may provide customers with better and faster service.

#### *Operation of Self-Check-Out System*

The Self-Check-Out System operates as follows:

Customers make their selections for purchase. A customer places the grocery cart at the head of the System, removes the products from the grocery basket and scans the bar codes on the products across the reader. The bar code provides, as a data base index, the product description, weight and price. This information is then relayed on an item by item basis to the computer and the computer transmits the data in its memory to the check-out terminal. The product information, item description and price, are then displayed on the screen. A running subtotal for all items purchased is also shown. Each item scanned is placed into a receiving basket or cart with a sensitive scale. The computer compares the weight of the scanned item with the weight for that item in the database. If the weight differs, an error code is displayed and an attendant is summoned to assist the customer or to override the Self-Check-Out System. Once all items are scanned, a final tally is made. Payment is then made to the attendant either through a debit or credit card, check or cash. A payment may also be made without an attendant through the use of the "AFIM" which will verify the identity of the person making the transaction and automatically debit their account electronically.

The Self-Check-Out System interfaces with computers and data is transferred back and forth between the check-out terminals and the main computer. The interface may be compatible with various scanners and scales so the Self-Check-Out System may be adaptable to equipment already from other manufacturers. The Self-Check-Out System may allow a clerk to handle simultaneously multiple check-out stations or lanes.

### *Possible Advantages.*

Management believes the Self-Check-Out System may have several possible advantages over conventional retail check-out systems to operators and customers. For operators the advantages are: reduced labor costs, more accurate inventory, theft reduction, theft deterrence, decreased check fraud, and decreased transaction costs. Also, the retailer can serve more customers during peak traffic. For customers the advantages are: faster service, greater convenience, less time waiting in line and more privacy. A retail establishment may not need as many cashiers with the Self-Check-Out System.

Management believes that the market for the Self-Check-Out System may include several types of retail establishments, including grocery stores, drug stores, discount stores and fast food restaurants. If operating properly the Self-Check-Out System may allow the proprietor to more efficiently match the number of attendants or cashiers to the customer needs. Customer traffic volume is difficult to predict and retail operators, wanting to reduce the time customers wait in line, require that sufficient clerks or cashiers are available.

The Self-Check-Out System uses proprietary software developed by the Company. The Self-Check-Out System also offers a hand-held unit to be used for price verification and taking physical inventory counts. The hand-held unit reads the bar codes and verifies the price in the database. This hand-held unit also is used to take physical counts for inventory control. The Self-Check-Out System may also include a check-in station at the loading dock. Items delivered are checked and the prices verified against purchase orders allowing greater control. Price verification can be done using the hand-held unit while the products are on the shelf.

For the Self-Check-Out System to operate efficiently at least 95% of the items offered for sale must have bar codes. In the past few years virtually all packaged goods have bar codes. Items purchased across the counter, such as bakery, meat and deli products usually have no bar code. Grocery stores or other retail operations using the Self-Check-Out System may have to install scales and labelers to place barcodes on items with no bar code. As an option the Company offers scales and labelers for produce and delicatessen items which interface with the Self-Check-Out System.

Management believes that the Self-Check-Out System may help reduce theft. For instance, one clerk cannot check-out another clerk's or friend's purchases using incorrect and understated prices. A portion of the theft in supermarkets is attributable to employees doing what is called "sweet-hearting" by checking-out the purchases of other employees or friends at reduced prices.

A possible market is automatic ordering and payment for use in restaurants and fast-food establishments. Restaurant customers would use a touch screen, connected to a computer, to place an order, pay for the order with cash, check, credit, or debit card using the Company's technologies including AFIM and then have the order automatically sent to the cook for preparation.

### *Competition*

Competitors offer a similar Self-Check-Out System. The success of these other entities and the system used may, individually or collectively, significantly affect the Company's attempt to commercialize its Self-Check-Out System. The Company has no market studies to determine its relative position with its competitors in the market place. Some competitors have been in business longer, have more experienced personnel, have greater financial resources and better name recognition in the marketplace,

### Automatic Fingerprint Identification Machine.

The company has an Automated Fingerprint Identification Machine ("AFIM") which verifies an individual's identity. The AFIM digitizes the unique characteristics of a person's fingerprint and then stores the information on a magnetic strip similar to the strip on the back of a credit card or on other storage medium. The identity verification process is simple, quick, easy, and reliable. AFIM connects to and operates with a personal

computer. AFIM has unique software. Management believes that AFIM is better than other bio-metric and fingerprint based identification systems.

*Operation.*

To use the AFIM the person whose identity will be verified has the fingerprint read by the AFIM. The finger is placed on the lens and AFIM reads the print, digitizes, and stores the digitized fingerprint. To verify a person's identity AFIM reads the fingerprint and compares it to the digitized fingerprint on the magnetic strip or other storage medium. A match verifies the person's identity. The AFIM is connected to a personal computer which processes the information read by the AFIM and makes the comparison to the digitized fingerprint on the magnetic strip or other storage medium. The Company believes that it has the ability to connect AFIMs with series ???(parallel processing )[???] , so that multiple stations or readers can be connected and operated by a single computer.

*Possible Commercial Applications.*

Different commercial applications of the AFIM are under development:

1. A time clock. The digitized fingerprint stored on the magnetic strip on the back of a card like a credit card must match the fingerprint that is recording his arrival at or departure from the workplace. Because the AFIM system validates the identity of the person individual using the time clock, fellow workers cannot make in or out entries for other workers.
2. Access control. AFIM with appropriate software may be used with a database of fingerprints. The fingerprint is read by the AFIM and then verified against the database for identification and, where appropriate or required, for access control purposes. Searching the database requires additional time to verify the identity of the individual using the fingerprint stored in the database.
3. Door or entry security. The AFIM would read a card on which the fingerprint of the person seeking entry would be encoded. The fingerprint of the person seeking entry as read by the AFIM would have to match the fingerprint digitized and encoded on the card. To be successful the Company believes that the door security adaptation must be compatible with or adaptable to other door entry security systems already in place.
4. Vending machines. Cards can be integrated for machines stocked with products requiring age and/or identity verification.
5. Identity verification on computer networks or identification when data is transmitted or accessed. The AFIM would read the fingerprint to validate the identity of the user. Depending on the system protocols the person would then be allowed access to data, files, information or programs. Also, the identity verification, if development is completed, may validate the identity of the person either receiving or sending information.
6. Another application of the AFIM technology is fingerprint secured financial transactions. A card user designates which personal account he/she would like to use. Upon positive AFIM verification, the Company's software sends the transaction information via ACH protocols to the Company's bank and the Company's bank debits the customer's bank account. The funds are then deposited into the participating retailer's account.

To date the full marketing of the AFIM time clock has been delayed as development of the product is continuing and modifications to the AFIM are being made.

The Company has no comprehensive study or evaluation to determine the reliability of the AFIM or the frequency of false positives. A false positive is when verification is sought and the person is identified as correct when, in fact, it is not the person claimed. Management believes, based on limited experience, that AFIM does not yield false positives or false negatives at unsatisfactory levels.

For future development and possible commercialization of the AFIM technology, the Company may enter into licensing agreements or joint ventures. Presently the Company is merely considering the possibility of licensing agreements or joint venture agreements. At this time there are no agreements to which the Company is a party for licensing, royalties or joint venture projects.

#### *Competition.*

The AFIM based products compete with a broad spectrum of products which verify identity. Competitors offer products based on some form of bio-metrics. Some competitors offer fingerprint based systems. The success of these other entities and the system used may individually or collectively, significantly affect the Company's attempt to commercialize AFIM. The Company has no market studies to determine its relative position with its competitors in the market place. Some competitors have been in business longer, have more experienced personnel, have greater financial resources and better name recognition in the marketplace.

#### *Possible Advantages.*

The Company believes that the AFIM products may be quicker, more reliable, and more cost-effective than other identification systems. The Company has no empirical data or statistics to support its belief.

#### Digital Wave Modulation Technology.

Digital Wave Modulation ("DWM") technology may provide a new way of transmitting data. Basically different wave patterns are generated on the magnetic spectrum which may increase flows of data and information transmission and communication. More data will be transmitted in a shorter time period and speed may be increased.

DWM technology is based on the transmission of symmetrical, asymmetrical, and reference waves that are combined and separated. Depending upon frequencies and other factors, the Company believes it can achieve transmission rates in excess of other modems. Data transmission speed will depend on such factors as the transmission medium, frequencies used and wave combinations. The rate of data transmission varies significantly depending on the communication medium used. When using plain old telephone system commonly known as "POTS", transmission rates will be slower. DWM is not compatible with the technology used in other modems.

DWM may be used to transmit over any analog media including wireless. Because wave frequencies may be higher when sent through the air, wireless data transmission using DWM technology may transmit information at higher rates.

Preliminary evaluations indicate that DWM technology may be used for data storage media which are magnetic based, such as hard drives, disks and other storage media. Because various forms of magnetic media store in analog format, DWM may increase the storage capacity of some magnetic based devices. DWM storage enhancement applications have not been fully developed and tested and may ultimately prove infeasible and impractical.

DWM must be developed from a prototype to a commercially viable product. The Company makes no assurance that the DWM technology can be developed into a commercially viable product or products.

If the research and development of the modem is successful and the Company has a commercially viable product, the Company will consider various alternatives. It may seek a joint venture partner or it may license the technology to another company and attempt to structure a royalty payment to the Company in the licensing agreement. No plan has been adopted regarding the manufacture, marketing, or distribution of the technology,

when and if commercialization is achieved. No assurance can be given that the commercialization efforts for the technology will be successful or that the Company will be able to effectively penetrate and capture a share of the market. Any possible ventures are predicated on the Company developing commercially viable products.

Management believes that because of the increased amount of information that can be transmitted, other applications in the telecommunications industry may be feasible and beneficial. Again because of the sophisticated and technological demands of this technology, other applications may not ultimately be successful.

#### DEVELOPMENT STAGE COMPANY

The Company is a development stage company and its business is subject to considerable risks. The Company's activities have not developed sufficient cash flows from business operations to sustain itself. The Company is small and has an extremely limited capitalization. Many of its actual and potential competitors have greater financial strength, more experienced personnel and extensive resources available. Also, the Company is engaged in technological development. It is expensive to do the research and development required to investigate and commercialize new products or applications of the DWM technology. Resources can be used and depleted without achieving the desired or expected results. Also, because of the rapid development of technology, the Company's products may become obsolete. Some of the Company's technology is revolutionary in that it is based on unconventional technological theories. The Company's business activities are subject to a number of risks, some of which are beyond the Company's control. The Company's future is dependent upon the Company developing technologically complex and innovative products and the ability to gain a competitive advantage. Product development based on new technology is complex and uncertain. Any new technology must identify products that can be developed and successfully introduced into the market. The Company's results may be adversely affected by delays in the development or manufacture, production cost overruns or delays in the marketing process.

#### FORWARD-LOOKING STATEMENTS

To the extent that this report contains forward-looking statements actual results could vary because of difficulties in developing commercially viable products based on the Company's technologies. The Company undertakes no obligation to release publicly the revisions of any forward-looking statements or circumstances or to report the non-occurrence of any anticipated events.

Management of the Company has had limited experience in the operation of a public company and the management of a commercial enterprise.

The Company's business, if its technological development is successful, will require the Company to enter new fields of endeavor and even new industries. Entry into new markets will have many risks and require significant capital resources. If the Company seeks funds from other sources, such funds may not be available to the Company on acceptable terms. Success will be dependent on the judgment and skill of management and the success of the development of any new products.

The Company's success depends, and is expected to continue to depend, to a large extent, upon the efforts and abilities of its managerial employees (and in some cases entities controlled by the employees) who may have been involved in the historical development of patented technology and trade secrets, particularly Neldon Johnson, President of the Company. The loss of Mr. Johnson would have a substantial, material, adverse effect on the Company. The Company entered into an agreement with Neldon Johnson to act as President and Chief Executive Officer in July 2000 which has expired. No new agreement has been formalized.

The Company is not insured against all risks or potential losses which may arise from the Company's activities because insurance for such risks is unavailable or because insurance premiums, in the judgment of management, would be too high in relation to the risk. If the Company experiences an uninsured loss or suffers liabilities, the

Company's operating funds would be reduced and may even be depleted causing financial difficulties for the Company.

#### Patents and Trade Secrets.

The Company has been assigned or will be assigned the rights to several U.S. patents. Four patents pertaining to the AFIM technology granted January 1997, February 2001, July 2001, and September 2002, seven patents relate to the DWM technology granted May 1996, June 1997, November 1997, July 2000, September 2000, October 2000, and May 2001, one patent pertaining to shelf tag granted September 2003, and four patents relating to the turbine granted March 2003, January 2004, February 2006 and November 2007. One patent pertaining to the solar energy technology was granted in October 2007.

The Company has not sought or received an opinion from an independent patent attorney regarding the strength of the patents or patents pending and the ability of the Company to withstand any challenge to the patent or any future efforts by the Company to enforce its rights under a patent or patents against others. In 2008 a court held that one of the AFIM patents was invalid.

The Company believes that it has trade secrets and it has made efforts to safeguard and secure its trade secrets. There can be no assurance that these safeguards will enable the Company to prevent competitors from gaining knowledge of these trade secrets and/or using them to their advantage and to the detriment of the Company.

The Company relies heavily on its proprietary technology in the development of its products. There can be no assurance that others may not develop technology which competes with the Company's products and technology.

#### Future Funding

Because the Company is in the development stage, it will continue to need additional operating capital either from borrowing or from the sale of additional equities. The Company has no present plans to borrow money or issue additional shares for money. In the past, the Company has received funds from its president and his relatives in the form of cash advances. The Company repaid cash advances of \$14,470, received cash advances of \$16,472 from its officers during the years ended June 30, 2016 and 2015. The advances are non-interest bearing, payable upon demand and included in the related party payables. The balance of the related party advances at June 30, 2016 and 2015 were \$149,198 and \$147,196 respectively.

#### General

From its inception the Company's primary activity has been the development of different technologies. Since its formation, the Company has worked to develop a variety of technologies which currently are in different stages of development. To date the Company has not marketed any commercially acceptable products.

#### Employees

Employees will be hired as needed. Our employees are not represented by any labor union, and we believe our relations with employees are good.

#### Company Headquarters

The Company's address is located at 55 N Merchant St 608 American Fork, Utah 84003.

#### Marketing

Currently the Company has not finalized its marketing strategy for any products.

Strategies currently being considered include non-exclusive licensing of the solar lenses to companies promoting solar energy.



Development of the AFIM and DWM technologies has not been completed and no definitive marketing plan has been determined.

The Company may seek joint venture partners, may license the products to others or may seek to establish distribution channels. It is anticipated that any marketing efforts will require time and capital to develop.

### Competition

Because the Company's products are distinct, its products will face different competitive forces.

The Bladeless Turbine and Alternative Solar Power System have competition from larger well-established companies that already have a history and name recognition. Though the turbine has many potential uses, especially in the area of electrical generation, there is no assurance that marketing strategies will be developed.

AFIM competes with all forms and systems of identity verification. End users have different needs including cost, sophistication, degree of security, operational requirements, time for individual verification and convenience. The Company believes that no firm dominates the identity verification market.

If the Company successfully completes the development of a commercially viable communication device, the Company will face competition from large, well-established firms. These firms offer products with immediate name recognition and are established in the market place and are compatible with other communication devices. The Company is hopeful that because of the speed at which its communication device may operate, it may have a competitive advantage. The Company has no marketing studies or market research reports to determine the commercial acceptance of the communication device in the market place or the best marketing strategy to follow. Further, no assurance can be given that the Company will be successful in its further development of the DWM products.

The Company has no market share for any products.

In marketing the Company faces competition from major companies with established systems in the point of sale terminal market. Overcoming reluctance to change may be difficult. In addition, the Self-Check-Out System may not be compatible with or applicable to all retail operations.

The Company may rely on prospects known to management or developed by word of mouth. The Company may develop a franchise program as a means to market and distribute the Self-Check-Out.

### Manufacturing and Raw Materials

The development of the turbine and Self-Check-Out System has been done mostly by the Company, but if needed, the design could be outsourced. If marketing efforts succeed and demand for the turbine and the Self-Check-Out System increase, the Company plans to have them manufactured by established companies in their fields, with much of the assembling done on site.

Management believes that the supplies and parts are readily available from sources presently used by the Company or from alternative sources which can be used as needed.

### Research and Development

The Company's primary activity is the development of its technologies. The industries may be subject to rapid and significant technological change. Future growth of the Company may be dependent on its ability to innovate and adapt its technologies to the changing needs of the marketplace. In the past the Company's activities have primarily consisted of its efforts in research and development. During fiscal years ended June 30, 2016 and 2015, research and development expenses were \$5,435 and \$181,792, respectively. Although no precise dollar amount has been determined, the Company will continue to allocate resources to product

development. The Company expenses development costs as they occur. The Company may work with prospective customers to determine design, possible enhancements and modifications.

### Immediate Plans

The Company intends to continue the research and development of its technologies, primarily focusing on its Bladeless Turbine and the Solar Lens over the next several months. The Company intends to have its Alternate Solar Energy Thermal System, which utilizes the Bladeless Turbine, fully operational in several months. The Company plans to market the technology to companies currently with specialization, operations and marketing efforts in the alternative energy sector.

### Acquisition of Technology

In May 2004, the Company entered into an agreement with its president, in which the Company acquired, from the president, patents, patents pending, designs and contracts related to the bladeless turbine, solar and chemical-thermal technologies as well as electronic shelf tag technology developed by the president. As consideration for these patents, patents pending, designs and contracts, the Company issued warrants to purchase 100,000,000 shares of common stock at \$0.40 per share and agreed to pay the president a 10% royalty of total gross sales of products related to the patents. As of June 30, 2016, there were 92,300,000 warrants still outstanding, exercisable through December, 2034 and no royalty has been paid or accrued.

### Government Regulation

The Company's activities may be subject to government regulation. Depending on the nature of its activities, in data transmission and power production, the Company may need approval or authorization from Federal, State or Local authorities.

## **ITEM 1A. RISK FACTORS**

*You should carefully consider the risks, uncertainties and other factors described below, in addition to the other information set forth in this Annual Report on Form 10-K, because they could materially and adversely affect our business, operating results, financial condition, cash flows and prospects, as well as adversely affect the value of an investment in our Common Stock. Also, you should be aware that the risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties that we do not yet know of, or that we currently think are immaterial, may also impair our business operations. You should also refer to the other information contained in and incorporated by reference into this Annual Report on Form 10-K, including our financial statements and the related notes. The Company's business operations are highly speculative and involve substantial risks. Only investors who can bear the risk of losing their entire investment should consider buying our shares. Some of the risk factors that you should consider are the following:*

### The Company is in the Development Stage

The Company is at the development stage, and is currently focused upon demonstration of the capabilities of the technology being developed and exploring non-exclusive royalty arrangements with companies (some of which are related) operating in the alternative power industry. The Company has limited assets and has had limited operations since inception. The Company can provide no assurance that its current and proposed business will produce any material revenues or that it will ever operate on a profitable basis.

### We Have a History of Significant Losses, and We May Never Achieve or Sustain Profitability

Since inception, we have incurred operating losses each year of our operations and we expect to continue to incur operating losses for the next several years. We may never become profitable. The process of developing our products requires significant investment in research. In addition, commercialization of our products will require the establishment of sales, marketing and manufacturing capabilities, either through internal hiring or through contractual relationships with others. We expect our research and development and general and

administrative expenses will increase over the next several years and, as a result, our losses may increase. Our net loss was \$(121,404) for the fiscal year ended June 30, 2016, and our net loss for the fiscal year ended June 30, 2015 was \$(71,022). Our operating losses may lower the value of our common stock and deplete our resources which may jeopardize our ability to continue our operations.

#### The Company May Experience Fluctuations in Operating Results

The Company's operating results are likely to fluctuate in the future as a result of a variety of factors. Some of these factors may include economic conditions:

- a. the amount and timing of the receipts from sales or royalties of the Company's current developments, such as the solar lens;
- b. the success of the Company's development projects;
- c. the success of the Company's marketing strategy;
- d. the success in raising the necessary capital required for the expenditures and other costs relating to the development of the Company's products; and
- e. the cost of advertising and related media.

Due to all of the foregoing factors, the Company's operating results in any given quarter, or for several quarters, may be negative. In such an event, any future trading price of the Company's common stock will likely be materially and adversely affected.

#### The Company's Business Model May Change or Evolve

The Company and its prospects must be considered in light of the risks (as identified in the Risk Factors section of this filing), expenses and difficulties frequently encountered by companies operating in the research and development stage. Such risks for the Company include, but are not limited to, an evolving business model. To address these risks the Company must, among other things, develop strong business development and management activities, develop the strength and quality of its operations, develop and produce high quality products that can be marketed and distributed either by the Company or by independent third party contractors. There can be no assurance that the Company will be successful in meeting these challenges and addressing such risks, and the failure to do so could have a material adverse effect on the Company's business, financial condition and result of operations.

#### The Company May Need Future Capital and May Not be Able to Obtain Additional Financing

The Company may need future capital and may not be able to obtain additional financing. If additional funds are needed, funds may be raised as either debt or equity. There can be no assurance that such additional funding will be available on terms acceptable to the Company, or at all. The Company may be required to raise additional funds through public or private financing, strategic relationships or other arrangements. There can be no assurance that such additional funding, if needed, will be available on terms acceptable to the Company, or at all. If adequate funds are not available on acceptable terms, the Company may be unable to develop or enhance its services and products, take advantage of future opportunities or respond to competitive pressures, any of which could have a material adverse effect on its business, financial condition, results of operations and prospects.

#### Future Capital Raised Through Equity Financing May be Dilutive to Stockholders

Additional equity financing may be dilutive to stockholders. If additional funds are raised through the issuance of equity securities, the percentage ownership of the stockholders of the Company will be reduced, stockholders may experience additional dilution in net book value per share and such equity securities may have rights, preferences or privileges senior to those of the holders of the Company's common stock.

#### Future Debt Financing May Involve Restrictive Covenants that May Limit the Company's Operating Flexibility

Furthermore, a debt financing transaction, if available, may involve restrictive covenants, which may limit the Company's operating flexibility with respect to certain business matters. If additional funds are raised through debt financing, the debt holders may require the Company to make certain agreements, covenants, which could limit or prohibit the Company from taking specific actions, such as establishing a limit on further debt, a limit on dividends, limit on sale of assets, or specific collateral requirements. If the Company raises funds through debt financing, the Company would also become subject to increased interest and principal payment obligations. In either case, if the Company was unable to fulfill either the covenants or the financial obligations, the Company may risk defaulting on the loan, whereby ownership of the firm's assets could be transferred from the Company or the shareholders to the debt holders.

#### Executive Management has Limited Management Experience of an Operating Company

The Company's officers have limited experience in managing an operating company. If the Company develops a marketable product, this lack of experience may make it more difficult to establish the contacts and relationships and implement operating procedures necessary to successfully operate the Company.

#### The Company's Success is Dependent on Management

The Company's success is dependent, in large part, on the active participation of its Executive Officers. The loss of their services would materially and adversely affect the Company's development activities and future business success.

#### The Company's Success is Dependent on our Patents, Trade Secrets and Proprietary Rights

The Company's future success depends in part on our ability to protect our intellectual property and maintain the proprietary nature of our technologies through a combination of patents and other intellectual property arrangements. The protection provided by our patents and patent applications, if issued, may not be broad enough to prevent competitors from introducing similar products. In addition, our patents, if challenged, may not be upheld by the courts of any jurisdiction. Patent infringement litigation, either to enforce our patents or to defend our patents from infringement suits, would be expensive and, if it occurs, could divert our resources from other uses. Any adverse outcome in such litigation could have a material adverse effect on our ability to market, sell or license the related products. Patent applications filed in foreign countries and patents in such countries are subject to laws and procedures that differ from those in the U.S. Patent protection in such countries may be different from patent protection under U.S. laws and may not be as favorable to us. We also attempt to protect our proprietary information through the use of confidentiality agreements and by limiting access to our facilities. There can be no assurance that our program of patents, confidentiality agreements and restricted access to our facilities and trade secrets will be sufficient to protect our proprietary technology.

#### Executive Officers Maintain Significant Control Over the Company and its Assets

Our executive officers maintain control over the Company's board of directors and also control the Company's business operations and policies. In addition, Neldon Johnson, the Company's President, and two of his sons, Randale Johnson and LaGrand Johnson, control approximately 85% of the voting rights of the Company. As a result, these three individuals will be able to exercise significant influence over all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions.

#### The Company is Unlikely to Pay Dividends in the Foreseeable Future

It is unlikely that the Company will pay dividends on its common stock in the foreseeable future, resulting in an investor's only return on an investment in the Company's common stock being the appreciation of the per share price. The Company makes no assurances that the Company's common stock will ever appreciate.

#### Risks of "Penny Stock"

Our common stock may be deemed to be "penny stock" as that term is defined in Rule 3a51-1 of the SEC. Penny stocks are stocks (i) with a price of less than five dollars per share; (ii) that are not traded on a "recognized" national exchange; (iii) whose prices are not quoted on the NASDAQ automated quotation system (NASDAQ-listed stocks must still meet requirement (i) above); or (iv) in issuers with net tangible assets less than \$2,000,000 (if the issuer has been in continuous operation for at least three years); or \$5,000,000 (if in continuous operation for less than three years); or with average revenues of less than \$6,000,000 for the last three years.

Section 15(g) of the Exchange Act and Rule 15g-2 of the SEC require broker dealers dealing in penny stocks to provide potential investors with a document disclosing the risks of penny stocks and to obtain a manually signed and dated written receipt of the document before effecting any transaction in a penny stock for the investor's account. Potential investors in our common stock are urged to obtain and read such disclosure carefully before purchasing any shares that are deemed to be a "penny stock."

Moreover, Rule 15g-9 of the SEC requires broker dealers in penny stocks to approve the account of any investor for transactions in such stocks before selling any "penny stock" to that investor. This procedure requires the broker-dealer to (i) obtain from the investor information concerning his, her or its financial situation, investment experience and investment objectives; (ii) reasonably determine, based on that information, that transactions in penny stocks are suitable for the investor, and that the investor has sufficient knowledge and experience as to be reasonably capable of evaluating the risks of penny stock transactions; (iii) provide the investor with a written statement setting forth the basis on which the broker-dealer made the determination in (ii) above; and (iv) receive a signed and dated copy of such statement from the investor, confirming that it accurately reflects the investor's financial situation, investment experience and investment objectives. Compliance with these requirements may make it more difficult for investors in our common stock to resell their shares to third parties or to otherwise dispose of them.

#### No Assurance of a Liquid Public Market for our Common Stock.

There can be no assurance as to the depth or liquidity of any market for our common stock or the prices at which holders may be able to sell their shares. As a result, an investment in our common stock may not be totally liquid, and investors may not be able to liquidate their investment readily or at all when they need or desire to sell.

## **ITEM 2. DESCRIPTION OF PROPERTIES**

The Company's principal address is located at 55 N Merchant St 608 American Fork, Utah 84003.

The Company owns approximately 600 acres of land in Delta, Utah.

The Company may require additional facilities in the future.

## **ITEM 3. LEGAL PROCEEDINGS**

The Company has filed two lawsuits against Millard County and at least one of its employees seeking damages for incorrect disclosures and assertions regarding the Company and its activities. The lawsuits were filed in the Fourth District Court of the State of Utah. Millard County asserted that the Company did not have the necessary and proper permits for its activities. The Company believes it has the necessary permits and the statements of Millard County are incorrect.

Litigation to enforce patents, to protect proprietary information or to defend the Company against alleged infringement of the rights of others may occur. Such litigation could be costly, could divert our resources from other activities, and could have an adverse effect on our operations and financial condition.

The Company and its president have been named as a defendant in a complaint by the United States Justice Department (DOJ), dated November 23, 2015, alleging participation in the marketing of a non-compliant tax

deferral, tax deduction and a tax credit program. The Company feels it has done its due diligence in receiving the exclusive rights to patents, obtaining reviews of the technologies by third party experts in their fields of study, obtained two tax opinion letters to ascertain that a business structure with specific tax benefits is available and legal under the law, developed working prototypes, and finally produced lenses with a manufacturing partner who is a global leader in the design, development and manufacture of acrylic based products. Even with these two opinion letters the Company contractually requires persons to seek independent legal and tax advice. The Company does not provide legal or tax advice and is not a law firm, nor does it hold itself out as such. The Company firmly and unequivocally denies the allegations made by the DOJ. The Company has obtained Legal Counsel and intends to pursue every legal means possible to protect its rights, the rights of potential customers and its shareholders in this matter. The final outcome and the effect of this case on the Company is yet to be determined but such litigation could be costly, could divert our resources from other activities, and could have an adverse effect on our operations and financial condition.

**ITEM 4. RESERVED**

**PART II**

**ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS**

Presently Registrant's common stock is traded on the NASD Electronic Bulletin Board under the symbol "IAUS". The table below sets forth the closing high and low bid prices at which the Company's shares of common stock were quoted during the quarters indicated. The trades are in U. S. dollars but may be inter-dealer prices without retail mark-up, mark-down or commission and may not necessarily represent actual transactions in the common stock.

Fiscal 2016	High	Low
June 30, 2016	\$0.23	\$0.17
March 31, 2016	\$0.23	\$0.18
December 31, 2015	\$0.41	\$0.15
September 30, 2015	\$0.39	\$0.29

Fiscal 2015	High	Low
June 30, 2015	\$0.41	\$0.35
March 31, 2015	\$0.38	\$0.35
December 31, 2014	\$0.40	\$0.32
September 30, 2014	\$0.47	\$0.45

Fiscal 2014	High	Low
June 30, 2014	\$0.30	\$0.21
March 31, 2014	\$0.48	\$0.25
December 31, 2013	\$0.46	\$0.32
September 30, 2013	\$0.64	\$0.40

The Company's shares are volatile and subject to large price movements and fluctuations. The Company's shares should be considered speculative and volatile securities. The stock price may also be affected by broader market

trends unrelated to the Company's activities.

At June 30, 2016, the Company had approximately 995 shareholders of record.

As of June 30, 2016, Registrant had 75,156,343 shares of common stock issued and outstanding. Sales based on the provisions of Rule 144 are available to shareholders holding restricted common stock. Sales pursuant to the provisions of Rule 144 sold into the trading market may adversely affect the market price. The Company's shares trade on the Over-the-counter Electronic Bulletin Board. The per share price in an auction market is based in part on supply and demand. If more shares are available for sale into the market by holders of restricted shares who satisfy the conditions and provisions of Rule 144, the market price of the shares of common stock of the Company may be adversely affected.

Dividend Policy

To date, registrant has not declared or paid any dividends to holders of its common stock. In the future it is unlikely that the Company will pay any dividends.

Recent Sales of Unregistered Securities

Resales of the shares of restricted common stock must be made through an available exemption such as Rule 144 or Section 4(1) of the Securities Act in "routine trading transactions." Any person who acquires any of these securities in a private transaction may be subject to the same resale requirements. (See below for a general discussion on Rule 144).

The Company received \$800,000 through the sale of 2,500,000 restricted shares of common stock on August 13, 2015.

An additional \$3,077,383 in prepayments for common stock was received during the period from April 2015 through November 2015. The Company, subsequently issued 11,762,038 shares of restricted common stock on June 24, 2016 with cost of the shares determined by the trading value of the common stock on the dates the prepayments were received.

The Company may continue to attempt to obtain additional financing from private placements of equity securities or advances from its president.

Rule 144

The following is a summary of the requirements of Rule 144:

	<u>Affiliate or Person Selling on Behalf of an Affiliate</u>	<u>Non-Affiliate (and has not been an Affiliate During the Prior Three Months)</u>
Restricted Securities of Reporting Issuers	<p>During six-month holding period – no resales under Rule 144 Permitted.</p> <p>After Six-month holding period – may resell in accordance with all Rule 144 requirements including:                      · Curcurrent public information, volume limitations, manner of sale requirements for equity securities, and the filing of Form 144.</p>	<p><u>During six- month holding period</u> – no resales under Rule 144 permitted.</p> <p><u>After six-month holding period but before one year</u> – unlimited public resales under Rule 144 except that the current public</p>

information requirement still applies.

After one-year holding period – unlimited public resales under Rule 144; need not comply with any other Rule 144 requirements.

During one-year holding period – no resales under Rule 144 permitted.

After one-year holding period – unlimited public resales under Rule 144; need not comply with any other Rule 144 requirements.

Restricted Securities of Non-Reporting Issuers During one-year holding period – no resales under Rule 144 permitted.

After one-year holding period – may resell in accordance with all Rule 144 requirements including:

- Current public information,
- Volume limitations,
- Manner of sale requirements for equity securities, and
- Filing of Form 144.

**ITEM 6. SELECTED FINANCIAL DATA**

The following selected financial data should be read in conjunction with “Item 7 - Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Item 8 - Financial Statements and Supplementary Data.”

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
<b>Results of Operations:</b>		
Revenue	\$ -	\$ -
Loss from operations	(121,568)	(99,883)
Other income (expenses)	165	28,861
Net loss	(121,404)	(71,022)
Basic and diluted net loss per share	(0.00)	(0.00)
<b>Cash Flow and Balance Sheet Data:</b>		
Net cash used in operating activities	\$ (180,900)	\$ (4,412)
Cash	3,173,761	16,822
Total Assets	3,997,445	300,507
Total Current Liabilities	154,965	214,462
Accumulated deficit	(40,156,398)	(40,034,994)
Total Liabilities and Stockholders' equity	\$ 3,997,445	\$ 300,507



## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS

### General

The following discussion and analysis provides information which management believes is relevant to an assessment and understanding of the Company's results of operations and financial condition. The discussion should be read in conjunction with the financial statements and notes thereto. This discussion contains forward looking statements regarding the Company's plans, objectives, expectations and intentions. All forward looking statements are subject to risks and uncertainties that could cause the Company's actual results and experience to differ materially from such projections.

Historically, the Company's activities have been dominated by its research and development activities. As a result, there have been no revenues associated with operations during prior reporting periods. The Company has limited information to estimate profit margins or costs of running a business with sales and production operations. In order to maximize the expected profitability of operations going forward, the Company is planning to enter into non-exclusive licensing arrangements. The Company currently expects that if successful in arranging for licenses with other companies to handle both production and sales, future operations will consist primarily of negotiating royalty agreements and managing the relationship between the Company and the licensees.

### Plan of Operation

The Company's plan of operation for the next 12 months is to: (i) continue to license the Solar Lens and get the lens operational as part of a system to begin producing saleable energy; (ii) finalize a distribution agreement to provide non-exclusive licenses to vendors using the Solar Lens technology as a component in solar energy systems (to entities who desire to produce solar energy); and (iii) continue to develop marketable products which will exploit the existing technologies.

During the next 12 months additional financing may be required to fund the licensing of the Solar Lens product and for the development of other marketable products. To date, the Company has primarily financed operations by the receipt of advances from the Company's president, funds received from customers wishing to participate in future earnings from the Solar Lens and through the private placement of equity securities. The president and the Company have no formal agreement as to any future advances.

The Company received \$800,000 through the sale of 2,500,000 restricted shares of common stock during August, 2015.

The Company issued 11,762,038 shares of restricted common stock on June 24, 2015 in connection with payments received of \$3,077,839. The Company may continue to attempt to obtain additional financing from private placements of equity securities or advances from its president or other related parties.

The Company currently has only management employees and does not expect a significant increase in the number of employees during the next 12 months.

### Operating Revenues

The results of fiscal year ended June 30, 2016 as compared to the results of fiscal year ended June 30, 2015:

The Company has not generated a profit since its inception. Operations during the years ended June 30, 2016 and 2015, primarily pertained to research and development, and, to organize an operation to create and manage licensing of proprietary technologies, primarily based upon the alternative solar technology developed by the Company. Research and development expenses were decreased by \$2,630 or 48% (from \$5,435 in fiscal year 2015 to \$2,805 during fiscal year 2016).

The decrease in research and development expenses is reflective of the change in operations during the last two fiscal years from research and development to licensing and royalty arrangements. The reduced research and development costs include reduced payroll expense as well as reduced material and equipment costs paid to develop the Alternate Thermal Energy System and Bladeless Turbine during the fiscal year 2016 and 2015 as compared to fiscal year 2014 and prior.

There were no depreciation expenses in 2016 compared to depreciation expenses in 2015 of \$2,022. In 2016 depreciation expenses were decreased by \$2,022 as all equipment utilized for research and development has been written off or fully depreciated at the end of fiscal year 2015.

General and administrative expenses in 2016 were \$118,764 compared to general and administrative expenses of \$92,426 in 2015. General and administrative expenses increased by \$28,968 due to increased costs incurred as part of the progress in finalizing the Solar Lens and the Company's decision to license the technology to outside vendors, who will be responsible for manufacturing and distributing the technology (or incorporating the Solar Lens into proprietary solar energy generating systems).

In 2016 total net operating loss were \$121,568 compared to total net operating loss of \$99,883 in 2015, an increase of \$21,685 or approximately 22%.

In 2016 the net loss was \$121,404 compared to a net loss of \$71,022 in 2015. The net loss decrease was \$1,048,918 or approximately 94% in the year 2015. The reduction in the operating loss is consistent with the operations of the Company, which were refocused upon the contractual licenses being negotiated after fiscal year ended June 30, 2014. The 2016 operations may not be representative of the future operations as management currently is evaluating the opportunities for commercial development of other technologies, including the Digital Wave Modulation, the Self Check Out, the Bladeless Turbine, the Finger Print Identification and other technologies.

In the years ended June 30 2016 and 2015 the basic and diluted loss per share was (\$.00) for both years.

In 2016 and 2015, the weighted average number of shares outstanding was 67,292,974 and 64,894,305.

Total revenue and cost of sales were \$0 for fiscal years 2016 and 2015.

### Liquidity and Capital Resources

Historically, our principal use of cash has been to fund ongoing research and development activities. To date, we have primarily financed our operations by the receipt of loan advances from the Company's president and through the private placement of equity securities and through investments received for the Solar Lens technology. The president and the Company have no formal agreement as to any future loans or advances. The Company has no line of credit with any financial institution. The Company believes that until it has consistent operations and revenues, it will be unable to establish a line of credit from conventional or other sources.

The Company's liquidity is sustainable given the current rate of expenditures. More funds will be required to support ongoing product development, finance any marketing programs and establish any distribution networks.

During the quarter ended September 30, 2016, the Company raised \$800,000 through a sale of 2,500,000 shares of restricted common stock. During the period April 2015 through November 2015, the Company raised \$3,077,839 and on June 24, 2016 issued 11,762,038 shares of restricted common stock.

The 2016 ratio of current assets to current liabilities is approximately 2600% compared to the 2015 ratio of 8%.

The current liquidity will be sufficient for the current operations envisioned by management and will be used to continue developing royalty based operations. If the Company continues to have negative cash flows, if the Company is unable to create a cash flow from royalty arrangements sufficient to meet its operating needs or is

required to invest in a developing technology (either contractually to support a licensee or by management decision to add additional technology for licensing), the Company may experience liquidity difficulties in the future.

### Critical Accounting Policies

The Company's significant accounting policies are discussed in Note 1 to the Financial Statements. The application of certain policies requires significant judgments or an estimation process that can affect our results of operations, financial position and cash flows, as well as the related footnote disclosures. We base our estimates on experience and other assumptions that we believe is reasonable. If actual amounts are ultimately different from previous estimates, the revisions are included in our results of operations for the period in which the actual amounts become known. The accounting policies and estimates with the greatest potential to have a significant impact on our operating results, financial position, cash flows and footnote disclosures are as follows.

#### *Long-Lived Assets*

Currently the only long-lived assets on the Company's books is the land located in Delta, UT. The balance of the other fixed assets (except for a fully depreciated computer) were either sold or retired on the books and financial records of the Company during the years ended 2016 and the current operations of the Company are not expected to require significant investment in operating assets. The Company regularly evaluates whether events or circumstances have occurred that indicate the carrying value of its long-lived assets may not be recoverable. When factors indicate the asset may not be recoverable, we compare the related undiscounted future net cash flows to the carrying value of the asset to determine if impairment exists. If the expected future net cash flows are less than the carrying value, an impairment charge is recognized based on the fair value of the asset. The estimates of future cash flows involve management's judgment and may be based on assumptions of future operating performance. The actual cash flows could differ from management's estimates due to changes in business conditions, operating performance and economic conditions. Furthermore, the Company makes periodic assessments about patents and related technology to determine if it plans to continue to pursue the technology and if the patents have value. No impairments were recorded during the years ended June 30, 2016 and 2015, respectively. At June 30, 2016, the only undepreciated long-lived assets were represented by land, which is carried at historical cost.

#### *Stock-Based Compensation*

The Company measures compensation expense for granted share-based awards at fair value and recognizes compensation expense over the service period for awards expected to vest. The estimation of stock awards that will ultimately vest requires judgment, and to the extent actual results differ from estimates, such amounts will be recorded as an adjustment in the period estimates are revised. The Company considers many factors when estimating expected forfeitures, including types of awards, employee class and historical experience. Actual results may differ from these estimates.

### Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, results of operations or cash flows.

### Recent Accounting Pronouncements

#### ASU 2015-03

In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. The amendments in this ASU require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not

affected by the amendments in this ASU. The amendments are effective for financial statements issued for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The amendments are to be applied on a retrospective basis, wherein the balance sheet of each individual period presented is adjusted to reflect the period-specific effects of applying the new guidance. The Company is evaluating possible effect of this guidance on future disclosures.

#### ASU 2015-02

In February 2015, the FASB issued ASU No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis, which is intended to improve targeted areas of consolidation guidance for legal entities such as limited partnerships, limited liability corporations, and securitization structures (collateralized debt obligations, collateralized loan obligations, and mortgage-backed security transactions). The ASU focuses on the consolidation evaluation for reporting organizations that are required to evaluate whether they should consolidate certain legal entities. In addition to reducing the number of consolidation models from four to two, the new standard simplifies the FASB Accounting Standards Codification and improves current U.S. GAAP by placing more emphasis on risk of loss when determining a controlling financial interest, reducing the frequency of the application of related-party guidance when determining a controlling financial interest in a variable interest entity (“VIE”), and changing consolidation conclusions for companies in several industries that typically make use of limited partnerships or VIEs. The ASU will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. We do not expect the adoption of ASU 2015-02 to have a material effect on our financial position, results of operations or cash flows.

#### ASU 2015-01

In January 2015, the FASB issued ASU No. 2015-01, “Income Statement - Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items.” This ASU eliminates from U.S. GAAP the concept of extraordinary items. ASU 2015-01 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. A reporting entity may apply the amendments prospectively. We do not expect the adoption of ASU 2015-01 to have a material effect on our financial position, results of operations or cash flows.

#### ASU 2014-17

In November 2014, the FASB issued ASU No. 2014-17, “Business Combinations (Topic 805): Pushdown Accounting.” This ASU provides an acquired entity with an option to apply pushdown accounting in its separate financial statements upon occurrence of an event in which an acquirer obtains control of the acquired entity. An acquired entity may elect the option to apply pushdown accounting in the reporting period in which the change-in-control event occurs. If pushdown accounting is applied to an individual change-in-control event, that election is irrevocable. ASU 2014-17 was effective on November 18, 2014. The adoption of ASU 2014-17 did not have any effect on our financial position, results of operations or cash flows.

#### ASU 2014-16

In November 2014, the FASB issued ASU 2014-16, “Derivatives and Hedging (Topic 815).” ASU 2014-16 addresses whether the host contract in a hybrid financial instrument issued in the form of a share should be accounted for as debt or equity. ASU 2014-16 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. We do not currently have issued, nor are we investors in, hybrid financial instruments. Accordingly, we do not expect the adoption of ASU 2014-16 to have any effect on our financial position, results of operations or cash flows.

#### ASU 2014-15

In August 2014, the FASB issued ASU No. 2014-15, "Presentation of Financial Statements - Going Concern (Subtopic 205-40)". ASU 2014-15 provides guidance related to management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosure. ASU 2014-15 is effective for annual periods ending after December 15, 2016, and for interim and annual periods thereafter. Early application is permitted. We do not expect the adoption of ASU 2014-15 to have a material effect on our financial position, results of operations or cash flows.

#### ASU 2014-12

In June 2014, the FASB issued ASU No. 2014-12, "Compensation - Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be achieved after the Requisite Service Period." This ASU requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. ASU 2014-12 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. We do not expect the adoption of ASU 2014-12 to have a material effect on our financial position, results of operations or cash flows.

#### ASU 2014-09

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." ASU 2014-09 affects any entity using U.S. GAAP that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). ASU 2014-09 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. We are still evaluating the effect of the adoption of ASU 2014-09. On April 1, 2015, the FASB voted to propose to defer the effective date of the new revenue recognition standard by one year.

#### ASU 2014-08

In April 2014, the FASB issued ASU No. 2014-08, "Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360) and Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity." ASU 2014-08 amends the definition for what types of asset disposals are to be considered discontinued operations, as well as amending the required disclosures for discontinued operations and assets held for sale. ASU 2014-08 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2014. The adoption of ASU 2014-08 did not have any effect on our financial position, results of operations or cash flows.

Management has considered all recent accounting pronouncements issued since the last audit of our financial statements. The Company's management believes that these recent pronouncements will not have a material effect on the Company's unaudited condensed consolidated financial statements.

### **ITEM 8. FINANCIAL STATEMENTS**

The financial statements required by this item are after the signature pages.

### **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None

## **ITEM 9A (T). CONTROLS AND PROCEDURES**

### Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the “Exchange Act”)) as of the end of the period covered by this report. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of the end of the period covered by this report were ineffective such that the information required to be disclosed by us in reports filed under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and (ii) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding disclosure. A controls system cannot provide absolute assurance, however, that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

### Management’s Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes of accounting principles generally accepted in the United States.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance of achieving their control objectives.

Our management, with the participation of the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company’s internal control over financial reporting as of June 30, 2015. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control — Integrated Framework. Based on this evaluation, our management, with the participation of the Chief Executive Officer and Chief Financial Officer, concluded that, as of June 30, 2016, our internal control over financial reporting was not effective.

This annual report does not include an attestation report of the Company’s registered public accounting firm regarding internal control over financial reporting. Management’s report was not subject to attestation by the Company’s registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit the Company to provide only management’s report in this annual report.

### Changes in Internal Control Over Financial Reporting

During the most recent quarter ended June 30, 2016, there has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **ITEM 9B. OTHER INFORMATION**

No annual reports or proxy materials have been sent to the Company’s shareholder during the period covered by this report. The Company is a voluntary filer of periodic reports.

## **PART III**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

Directors and Officers

The executive officers and directors of the Company are as follows:

<u>Name</u>	<u>Age</u>	<u>Position with the Company</u>
Neldon Johnson	69	Chairman of the Board of Directors, President and CEO
Randale Johnson	46	Secretary, Vice President
LaGrand Johnson	49	CFO
Blain Phillips	53	Director
Curtis Snow	49	Director

All Directors hold office until a successor has been elected. All officers are appointed by the Board of Directors and serve at the discretion of the Board until a new officer is appointed.

Directors will be reimbursed by the Company for any expenses incurred in attending Directors' meetings. The Company also intends to obtain Officers and Directors liability insurance, although no assurance can be given that it will be able to do so.

*Background of Executive Officers and Directors*

Neldon Johnson is the founder of the Company and the primary inventor of the bladeless turbine and solar thermal energy technologies, Self-Check-Out system, AFIM and DWM. Mr. Johnson directs the Company's research and development program. Mr. Johnson studied physics and mathematics at Brigham Young University in Provo, Utah, and graduated from Utah Technical College's Electronics Technology Program in 1964. He has taken training courses and has taught courses in electronics programming, microwave and wave switch programs. From 1965 to 1968 he worked for American Telephone and Telegraph, Inc., as an engineer. From 1983 to the present, Mr. Johnson has been developing the bladeless turbine and solar thermal energy technologies, Self-Check-Out System, AFIM and DWM. Also, from 1975 to 1990 he worked at a Ream's Grocery Store and had management responsibilities for operations. Mr. Johnson has real estate holdings. Mr. Johnson is not currently an officer or director of any other public company nor has he ever been an officer or director of any other public company. We believe Mr. Johnson's long-standing service and extensive experience with the Company qualify him to serve as a director.

Randale P. Johnson is the son of Neldon Johnson. He has been an officer since June 1996. His responsibilities include marketing and administration. Mr. Johnson holds an associate degree in Computer Science and has four years of experience in the computer industry. He joined the Company in 1996. Mr. Johnson is not currently an officer or director of any other public company nor has he ever been an officer or director of any other public company.

LaGrand T. Johnson is the son of Neldon Johnson. He has worked with the Company since 1987 but he became a full time employee in 1996. He graduated with a Bachelor's Degree in chemistry in 1991. He received his Doctor of Osteopathy degree in 1995 from Western University of Health Sciences. He works as CFO and General Manager of the Company and in research and development. Mr. Johnson is not currently an officer or director of any other public company nor has he ever been an officer or director of any other public company.

Blain Phillips has been employed at Union Pacific Railroad since 1991. Mr. Phillips is not currently nor has he ever been an officer or director of any other public company.

Curtis Snow became a director in September 2010 following the passing of Mr. Barrett. Mr. Snow graduated from BYU with Bachelor of Science degree in Design Engineering Technology in 1992. He worked off and on with the Company as an employee or consultant for a period of 15 years. Mr. Snow previously served on the Company's board of directors from June 1996 to January 2006. Management believes Mr. Snow's extensive experience with the Company qualify him to serve as a director.

None of the officers or directors of the Company has during the past ten years, been involved in any events such as criminal proceedings or convicted of proceedings relating to securities violations.

#### Corporate Governance

##### *Nominating Committee*

We have not established a Nominating Committee because, due to our development of operations and the fact that we only have three directors and executive officers, we believe that we are able to effectively manage the issues normally considered by a Nominating Committee. Following the entry into any business or the completion of any acquisition, merger or reorganization, a further review of this issue will no doubt be necessitated and undertaken by new management.

If we do establish a Nominating Committee, we will disclose this change to our procedures in recommending nominees to our board of directors.

##### *Audit Committee*

We have not established an Audit Committee because, due to our development of operations and the fact that we only have three directors and one other executive officer, we believe that we are able to effectively manage the issues normally considered by an audit committee. Following the entry into any business or the completion of any acquisition, merger or reorganization, a further review of this issue will no doubt be necessitated and undertaken by new management.

##### *Board Leadership Structure and Role in Risk Oversight*

The Company's Chief Executive Officer and President currently serve as Chairman of the Board of Directors. The Board believes that combining the role of Chairman and position of CEO is appropriate and has positive results, and fostering accountability and single, clear focus for management to execute the Company's strategy and business plans. The Company does not have a Lead Independent Director.

The Chairman of the Board of Directors oversees management of the Company's risks. The Chairman of the Board of Directors reviews reports and other information regarding the Company's liquidity, operations and compliance with corporate policies, legal and regulatory requirements, as well as the risks associated with each such matter and oversees management of financial risks and any potential conflicts of interest arising from related party transactions.

## **ITEM 11. EXECUTIVE COMPENSATION**



The primary objective of the Company's compensation policy is to maintain compensation reasonably low while the Company is in the development stage and has limited financial resources. The compensation of the officers is based on the scope of their responsibilities. During the periods ending June 30, 2016 and 2015, the Company did not pay nor accrue any compensation to its officers.

Name and Principal Position	Fiscal Year	Salary \$	Bonus (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)
Neldon Johnson President, CEO and Director	2016	None	-	-	-	-	-	-	-
	2015	None	-	-	-	-	-	-	-
Randale Johnson	2016	None	-	-	-	-	-	-	-
	2015	None	-	-	-	-	-	-	-
LaGrand Johnson CFO	2016	None	-	-	-	-	-	-	-
	2015	None	-	-	-	-	-	-	-

Employment Agreements

The Company entered into an agreement with Neldon Johnson to act as President and CEO of the Company for a period of ten years starting in July 2000. Per the agreement, Neldon is to be paid \$100,000 per annum, increasing each calendar year by the percentage increase in the Consumer Price Index. No new employment agreement has yet been entered into between the Company and its president. Mr. Johnsons has agreed to forego compensation until the Company becomes profitable. Any compensation which might have accrued under any of the previous contracts has been forgiven by Mr. Johnson and the attached financial statements do not include any accrued obligations for compensation.

Outstanding Equity Awards at Fiscal Year-End

(a) Name	Option Awards					Stock Awards			
	(b) Number of Securities Underlying Unexercised Options (#) Exercisable	(c) Number of Securities Underlying Unexercised Options (#) Unexercisable	(d) Equity Incentive Plan Awards: Number of Securities Underlying	(e) Option Exercise Price (\$)	(f) Option Expiration Date	(g) Number of Shares or Units of Stock That	(h) Market Value of Shares or Units of	(i) Equity Incentive Plan Awards: Number of Unearned	(j) Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units

			Unexercised Unearned Options (#)			Have Not Vested	Stock That Have Not Vested	Shares, Units or Other Rights That Have Not Vested	or Other Rights That Have Not Vested
Neldon Johnson	92,300,000			\$0.40	12/31/2034				92,300,000
Randale Johnson									
LaGrand Johnson									

Compensation of Directors

The Company’s Directors currently are not compensated for their time and there are no obligations or payment arrangements. The Company anticipates that it will need to compensate Directors at some point in the future.

**ITEM. 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth certain information known to the Company regarding beneficial ownership of the Company's Common Stock as of June 30, 2016, by (i) each person known by the Company to own, directly or beneficially, more than 5% of the Company's Common Stock, (ii) each of the Company's directors, and (iii) all officers and directors of the Company as a group. Except as otherwise indicated, the Company believes that the beneficial owners of the Common Stock listed below, based on information furnished by such owners, have sole investment and voting power with respect to such shares, subject to community property laws, where applicable.

Beneficial ownership is determined in accordance with the rules of the SEC. In computing the number of shares beneficially owned by a person or a group and the percentage ownership of that person or group, shares of our common stock issuable currently or within 60 days of June 30, 2016, upon exercise of options or warrants held by that person or group is deemed outstanding. These shares, however, are not deemed outstanding for computing the percentage ownership of any other person. Except as indicated by footnote, and subject to community property laws where applicable, the stockholders named in the table below have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them. Percentage ownership is based on 64,894,305 shares of common stock outstanding as of June 30, 2016, together with applicable options and warrants for each stockholder. Unless otherwise indicated, the address of each person listed below is in the care of International Automated Systems, Inc., 55 N Merchant St 608 American Fork, Utah 84003.

Name and Title	Shares Beneficially Owned	
	Number (4)	Percent
Neldon Johnson, President, CEO and Director	94,305,020 (1)	71.9%
Randale Johnson, Secretary and Vice President	450,085 (2)	0.6%
LaGrand Johnson, CFO	200,000 (3)	0.6%
Curtis Snow	380,000	0.6%
Blain Phillips, Director	-0-	0.0%
All officers and directors as a group (5 persons)	96,025,105	73.2%

(1) Includes warrants to purchase 93,300,000 shares of common stock exercisable as of June 30, 2016.

- (2) Includes options to purchase 500,000 shares of common stock exercisable as of June 30, 2016.
  
- (3) Includes options to purchase 500,000 shares of common stock exercisable as of June 30, 2016.
  
- (4) Does not include 2,000,000 shares of Series 1 Class A Preferred Stock held by Neldon Johnson, 1,150,000 shares of Series 1 Class A Preferred Stock held by LaGrand Johnson, or 1,150,000 shares of Series 1 Class A Preferred Stock held by Randale Johnson. Each share of the Series 1 Class A Preferred Stock has ten votes per share and votes with the shares of common stock on all matters with the exception of 1,000,000 of the Series 1 Class A Preferred Stock held by Neldon Johnson which has 100 votes per share and votes with the shares of common stock on all matters. Mr. Neldon Johnson has approximately 76%, LaGrand Johnson 5%, and Randale Johnson 5% of the voting control of the Company when the voting power of the shares of preferred stock, common stock and vested options are considered together.

#### Changes in Control

There are no additional present arrangements or pledges of the Company's securities which may result in a change in control of the Company. However, there are no provisions in our Articles of Incorporation or Bylaws that would delay, defer or prevent a change in control.

#### **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE**

On May 14, 2004, the Company entered into an agreement with Neldon Johnson, the Company's president, in which the Company acquired from Mr. Johnson patents, patents pending, designs and contracts related to the bladeless turbine, solar and chemical thermal technologies, and electronic shelf tag technology developed by Mr. Johnson. As consideration for these patents, patents pending, designs and contracts, the Company issued warrants to purchase 100,000,000 shares of common stock and 10% of total gross sales in royalties of the Company.

The Company's president made advances to the Company which are included as "Related Party Payables". For the periods ended June 30, 2016 and June 30, 2015, these payables were \$163,668 and 147,196 respectively. The advances are non-interest bearing.

#### Resolving Conflicts of Interest

The Company's directors must disclose all conflicts of interest and all corporate opportunities to the entire board of directors. Any transaction involving a conflict of interest will be conducted on terms not less favorable than that which could be obtained from an unrelated third party.

#### Director Independence

The Company has two independent directors serving on its board of directors.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

Our financial statements for the years ended June 30, 2016 and 2015 have been audited by the public accounting firm, Pinaki & Associates LLC.

The Chief Executive Officer pre-approves all audit and tax related services prior to the performance of services by the outside auditor. The percentage of hours expended on the audit by persons other than full time, permanent employees of Pinaki & Associates LLC was zero.

Audit Fees

Aggregate fees for the year ended June 30, 2016 for professional services by Pinaki & Associates LLC, our principal accountant, for the audit of our annual financial statements and review of our interim financial statements were approximately \$5,000.

Audit-Related Fees

Audit-related fees, not included in the previous paragraphs, for the years ended June 30, 2016 and 2015 for assurance and related services by Pinaki & Associates LLC were \$0 and \$0, respectively.

Tax Fees

There were no fees for professional services by Pinaki & Associates LLC for tax compliance, tax advice, and tax planning. A firm, other than our principal accountant, prepares all income tax returns.

**ITEM 15. EXHIBITS AND REPORTS ON FORM 8-K**

a.  
Exhibits

31.1  
Certification by the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2  
Certification by the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1  
Certification by the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350 Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2  
Certification by the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

INTERNATIONAL AUTOMATED SYSTEMS, INC.

/s/ Neldon Johnson  
NELDON JOHNSON  
Title: President,  
Chief Executive Officer

Date: May 12, 2017

/s/ Lagrand Johnson  
LAGRAND JOHNSON  
Title: Chief Financial Officer,

Date: May 12, 2017

**DIRECTORS**

/s/ Neldon Johnson  
NELDON JOHNSON  
Title: Director

Date: May 12, 2017

/s/ Blain Phillips  
BLAIN PHILLIPS  
Title: Director

Date: May 12, 2017

/s/ Curtis Snow  
CURTIS SNOW  
Title: Director

Date: May 12, 2017

# Pinaki & Associates LLC

Certified Public Accountants

625 Barksdale Rd., Ste# 113

Newark, DE 19711

Phone: 408-896-4405 | pmohapatra@pinakiassociates.com

## INDEPENDENT AUDITOR'S REPORT

To The Board of Directors  
International Automated Systems Inc.  
55 N Merchant St 608 American Fork  
Utah 84003

We have audited the accompanying consolidated balance sheets of International Automated Systems Inc. as of June 30, 2016 and the related consolidated statements of income, stockholders' equity and cash flows for the year ended June 30, 2016. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has suffered recurring losses from operations that raises a substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of International Automated Systems Inc. as of June 30, 2016, and the related consolidated statements of income, stockholders' equity and cash flows for the year ended June 30, 2016, in conformity with accounting principles generally accepted in the United States of America.

s/d

Pinaki & Associates LLC.  
Newark, DE  
April 9, 2017

### INTERNATIONAL AUTOMATED SYSTEMS, INC

#### Balance Sheets

	<u>ASSETS</u>	
	June 30, 2016	June 30, 2015
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,713,761	\$ 16,822
Accounts receivable	-	-
Total Current Assets	<u>3,713,761</u>	<u>16,822</u>
PROPERTY AND EQUIPMENT, net	<u>283,685</u>	<u>283,685</u>

TOTAL ASSETS	\$ <u>3,997,445</u>	\$ <u>300,507</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 5,767	\$ 27,794
Related party payable	149,198	163,668
Deferred revenue	<u>-</u>	<u>23,000</u>
Total Current Liabilities	<u>154,965</u>	<u>214,462</u>
Long-term notes payable	<u>-</u>	<u>-</u>
TOTAL LIABILITIES	<u>154,965</u>	<u>214,462</u>
STOCKHOLDERS' EQUITY		
Preferred stock, Series A, no par value; 22,000,000 shares authorized, 5,400,000 shares issued and outstanding	470,264	470,264
Preferred stock, Series B, no par value, 3,000,000 shares authorized, 300,000 shares issued and outstanding	-	-
Common stock, no par value, 225,000,000 shares authorized, 79,156,343 and 64,894,305 issued and outstanding, respectively	43,528,614	39,650,775
Accumulated deficit	<u>(40,156,398)</u>	<u>(40,034,994)</u>
Total Stockholders' Equity	<u>3,842,480</u>	<u>86,045</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 3,997,445</u>	<u>\$ 300,507</u>

The accompanying notes are an integral part of these financial statements.

**INTERNATIONAL AUTOMATED SYSTEMS, INC**

Statements of Operations

	<u>For the Year Ended</u>	
	<u>June 30,</u>	
	<u>2016</u>	<u>2015</u>
REVENUES	\$ -	\$ -
OPERATING EXPENSES		
Research and development	2,805	5,435
Depreciation expense	-	2,022
General and administrative	<u>118,764</u>	<u>92,426</u>
Total Operating Expenses	<u>121,568</u>	<u>99,883</u>
Net Operating Loss	(121,568)	(99,883)
OTHER INCOME (EXPENSES)		
Net gain on disposal of fixed assets	-	28,861
Interest income	<u>165</u>	<u>-</u>
Total Other Income (Expenses)	<u>165</u>	<u>28,861</u>

NET LOSS	\$	<u>(121,404)</u>	\$	<u>(71,022)</u>
BASIC AND DILUTED LOSS PER SHARE	\$	<u>(0.00)</u>	\$	<u>(0.00)</u>
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING		<u>67,292,974</u>		<u>64,894,305</u>

The accompanying notes are an integral part of these financial statements

**INTERNATIONAL AUTOMATED SYSTEMS, INC**  
Statements of Stockholders' Equity  
(Unaudited)

	Preferred Stock		Common Stock		Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount		
Balance, June 30, 2012	5,700,000	\$ 470,264	53,419,623	\$ 37,704,739	\$ (37,617,351)	\$ 1,140,511
Common stock issued for cash	-	-	9,174,682	1,342,289	-	759,430
Common stock issued for services	-	-	2,300,000	603,747	-	603,747
Common stock issued for settlement of debt	-	-	-	-	-	-
Net loss for the year ended June 30, 2013	-	-	-	-	(1,226,681)	(1,226,681)
Balance, June 30, 2013	5,700,000	\$ 470,264	64,894,305	\$ 39,650,775	\$ (38,844,032)	\$ 1,277,007
Net loss for the year ended June 30, 2014	-	-	-	-	(1,119,940)	(1,119,940)
Balance, June 30, 2014	5,700,000	470,264	64,894,305	39,650,775	(39,963,972)	157,067
Net loss for the year ended June 30, 2015	-	-	-	-	(71,022)	(71,022)
Balance, June 30, 2015	5,700,000	470,264	64,894,305	39,650,775	(40,034,994)	86,045
Common stock issued for cash	-	-	2,500,000	800,000	-	800,000
Common stock issued for cash - RaPower3	-	-	11,762,038	3,077,839	-	3,077,839
Net loss for the nine months ended March 31, 2016 (unaudited)	-	-	-	-	(121,404)	(121,404)
Balance, September 30, 2015 (unaudited)	<u>5,700,000</u>	<u>\$ 470,264</u>	<u>79,156,343</u>	<u>\$ 43,528,614</u>	<u>\$ (40,156,398)</u>	<u>\$ 3,842,480</u>

The accompanying notes are an integral part of these unaudited condensed financial statements.

**INTERNATIONAL AUTOMATED SYSTEMS, INC**  
Statements of Cash Flows  
(Unaudited)



	For the year ended	
	June 30	
	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$ (121,404)	\$ (71,022)
Adjustments to reconcile net loss to net cash from operating activities:		
Depreciation and amortization	-	2,022
Changes in current assets and liabilities:		
(Increase) / decrease in accounts receivable	-	-
Increase / (decrease) in accounts payable	(22,027)	25,117
Payments/(Advances) on cash advances from related party	(14,470)	16,471
Increase/ (decrease) in accrued liabilities	(23,000)	23,000
Net cash used in operating activities	(180,900)	(4,412)
Cash flows used in investing activities		
Purchase of property and equipment	-	(2,853)
Net cash used in (provided by) investing activities	-	(2,853)
Cash flows provided by financing activities		
Sale of common stock	3,877,839	-
Net cash provided by financing activities	3,877,839	-
Net change in cash	3,696,939	(7,265)
Cash at beginning of period	18,844	26,108
Cash at end of period	\$ 3,715,783	\$ 18,844
Supplemental cash flow information		
Cash payments for interest	\$ -	\$ -
Cash payments for income taxes	-	-
Non Cash Financing Activities	\$ -	\$ -

The accompanying notes are an integral part of these unaudited condensed financial statements.

International Automated Systems, Inc.  
Notes to the Financial Statements

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*Organization* - International Automated Systems, Inc. (the “Company” or “IAS”) was incorporated in the State of Utah on September 26, 1986. The Company’s activities to date have consisted of developing a business plan, raising capital through the issuance of debt and equity instruments, developing power generation equipment and obtaining the rights to certain technology related to electronic security and communication equipment.

*Use of Estimates* - The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the balance sheet and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Basis of Presentation / Going Concern* - The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As June 30, 2016, the Company had \$3,713,761 of available cash and a working capital surplus of \$3,558,796. For the twelve months ended June 30, 2016 and 2015, the Company had no revenue, no operating income and used net cash for operating activities of \$180,900 and \$4,412, respectively. As of June 30, 2016 the Company’s losses accumulated from inception totaled \$40,156,398. These factors, among others, indicate that the Company may be unable to continue as a going concern for the next twelve months. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amount and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. The Company’s ability to continue as a going concern is dependent upon its ability to obtain additional financing as may be required, and ultimately to attain sufficient cash flow from operations to meet its obligations on a timely basis. Management is in the process of negotiating various sales agreements and believes these sales will generate sufficient cash flow for the Company to continue as a going concern. If the Company is unsuccessful in these efforts and does not attain sufficient sales to permit profitable operations or if it cannot obtain sufficient additional financing, it may be required to substantially curtail or terminate its operations.

*Concentration Risks* - The Federal Deposit Insurance Corporation (FDIC) insures cash deposits in most general bank accounts for up to \$250,000 per institution. The Company had cash deposits that exceeded insured amounts of \$3,213,761 and \$ -0- as of June 30, 2016 and June 30, 2015, respectively.

*Cash Equivalents* - The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

*Fair Value of Financial Instruments* - The Company’s financial instruments consist of cash and cash equivalents, payables, and notes payable. The carrying amount of cash and cash equivalents and payables approximates fair value because of the short-term nature of these items. The carrying amount of the notes payable approximates fair value as the individual borrowings bear interest at rates that approximate market interest rates for similar debt instruments.

*Impairment* - The Company records impairment losses on property and equipment and patents when indicators of impairment are present and undiscounted cash flows estimated to be generated by those assets are less than the assets’ carrying amount. Furthermore, the Company makes periodic assessments about each patent and the related technology to determine if it plans to continue to pursue the technology and if the patent has value.

**International Automated Systems, Inc.**  
Notes to the Financial Statements

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*Research and Development* - Research and development has been the principal function of the Company. Research and development costs are expensed as incurred. Expenses in the accompanying financial statements include certain costs which are directly associated with the Company’s research and development of the Solar Power Plant technology, Steam Turbine technology, Automated Fingerprint Identification Machine technology, Digital Wave Modulation Technology and other various projects. These costs, which consist primarily of monies paid for consulting expenses, materials and supplies and compensation costs amounted to \$2,805 and \$5,435 for the twelve months ended June 30, 2016 and 2015, respectively.

*Advertising Costs* - Advertising costs are expensed when incurred. Advertising expense was \$1,257 and \$258 for the twelve months ended June 30, 2016 and June 30, 2015, respectively.

*Property and Equipment* - Property and equipment are recorded at cost and are depreciated using the straight-line method based on the expected useful lives of the assets which range from five to ten years. During the year ended June 30, 2016, the Company disposed of all depreciable assets except for a computer, which has been fully depreciated. Depreciation expense for the twelve months ended June 30, 2016 and 2015 was \$2,022 and \$38,851, respectively. The major classes of assets are as follows:

	June 30, 2016	June 30, 2015
Land	\$ 283,685	\$ 283,685
Computer and equipment	528	528
Total property and equipment	284,213	284,213
Less: Accumulated depreciation	(528)	(528)
Total property and equipment, net	<u>283,685</u>	<u>283,685</u>

*Income Taxes* - The Company recognizes the amount of income taxes payable or refundable for the current year and recognizes deferred tax assets and liabilities for operating loss carryforwards and for the future tax consequences attributable to differences between the financial statement amounts of certain assets and liabilities and their respective tax basis. Deferred tax assets and deferred liabilities are measured using enacted tax rates expected to apply to taxable income in the years those temporary differences are expected to be recovered or settled. Deferred tax assets are reduced by a valuation allowance to the extent that uncertainty exists as to whether the deferred tax assets will ultimately be realized.

*Recent Accounting Pronouncements* – The Company has reviewed all recently issued, but not yet adopted, accounting standards in order to determine their effects, if any, on its results of operation, financial position or cash flows. Based on that review, the Company believes that none of these pronouncements will have a significant effect on its financial statements.

NOTE 2 – BASIC AND DILUTED NET LOSS PER COMMON SHARE

Basic earnings per share is computed by dividing the net income or loss applicable to common shares by the weighted average number of common shares outstanding. Diluted earnings per share is computed by dividing the net income or loss by the sum of the weighted average number of common shares plus the weighted average common stock equivalents which would arise from the exercise of outstanding stock options, issuance of stock held in trust and conversion of Series B Preferred Shares into options to purchase shares of common stock, using the treasury stock method and the average market price per share during the period.

NOTE 3 – RELATED PARTY TRANSACTIONS

The Company owes \$149,198 and \$163,668 to its president for expenses paid on the Company’s behalf as of June 30, 2016 and June 30, 2015, respectively. The liability is non-interest bearing, unsecured and due upon demand.

NOTE 4 – STOCK BASED COMPENSATION

*Options and Warrants*

The Company’s board of directors authorized the Company to enter into an agreement dated May 14, 2004 and amended October 13, 2004, with the Company’s president, in which the Company acquired patents, patents pending, designs and contracts related to certain technology developed by the president from the president. The direct costs of developing and obtaining the acquired patents,

patents pending, designs and contracts were paid and capitalized by the Company. No additional value has been assigned to these patents as a result of them being acquired from the president.

As consideration, the Company authorized and issued warrants to purchase 100,000,000 shares of common stock to the president and agreed to pay the president royalties in the future equal to 10% of future sales proceeds from the technology. The warrants, which were considered stock-based compensation for services to be rendered, had no intrinsic value on the grant date. The fair value of the warrants was \$37,136,781, calculated on the grant date using the Black-Scholes model. The following assumptions were used for this grant: Average risk-free interest rate of 4.79%; expected lives of 10 years; expected dividend yield of zero percent; and expected volatility of 138.76%. On July 1, 2006, the Company began recognizing stock-based compensation expense over the graded exercisability period of the options using the straight-line basis over the requisite service period for each separately exercisability portion of the award as if the award was, in-substance, multiple awards.

The agreement contains a standard anti-dilution clause that gives the president the right to purchase the same number of shares of common stock, given reclassification, reorganization or change by a stockholder, as were purchasable prior to any such changes, at a total price equal to that payable upon the exercise of the options. Appropriate adjustments shall be made to the exercise price so the aggregate purchase price of the shares will remain the same. The warrants have an exercise price of \$0.40 per share and are all exercisable as of December 31, 2015.

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**International Automated Systems, Inc.**  
Notes to the Financial Statements

The following table summarizes the stock option and warrant activity as of and for the years ended June 30, 2016 and 2015:

Detail	Options Warrants	Wtd Avg Exercise Prices	Wtd. Avg. Remaining Life in Years	Aggregate Intrinsic Value
Outstanding at June 30, 2013	92,300,000	\$ 0.40	22.5	\$ 36,920,000
Expired	-	-		
Exercised	-	-		
Outstanding at June 30, 2014	92,300,000	\$ 0.40	21.5	\$ 36,920,000
Expired	-	-		
Exercised	-	-		
Outstanding at June 30, 2015	92,300,000	\$ 0.40	20.5	\$ 36,920,000
Exercisable at June 20, 2015	92,300,000	\$ 0.40	20.5	\$ 36,920,000
Expired	-	-		
Exercised	-	-		
Outstanding at June 30, 2016	92,300,000	\$ 0.40	19.5	\$ 36,920,000
Exercisable at June 30, 2016	92,300,000	\$ 0.40	19.5	\$ 36,920,000

**NOTE 5 – PREFERRED STOCK**

*Series A Preferred Stock*

The Series A Preferred Stock has equal dividend rights to the common shares, is not convertible into common shares, has no cumulative dividend requirements and has liquidation preferences equivalent to the common shares. 3,400,000 of the Series A Preferred Stock are entitled to the voting rights of 10 common shares, and 2,000,000 of the Series A Preferred Stock are entitled to the voting rights of 100 common shares. At June 30, 2016 and June 30, 2015, there were 5,400,000 Series A Preferred Stock issued and outstanding, respectively.

**International Automated Systems, Inc.**  
Notes to the Financial Statements

NOTE 5 – PREFERRED STOCK (Continued)

*Series B Preferred Stock*

The Series B Preferred Stock has equal dividend rights to the common shares, has no cumulative dividend requirements, has liquidation preferences equivalent to the common shares and each preferred share is entitled to the voting rights of 10 common shares. Each share is convertible into options to purchase two shares of common stock at \$3.00 per share, exercisable immediately and the options expire ten years from the date the preferred stock is exchanged. At June 30, 2016 and June 30, 2015, there were 300,000, series B Preferred shares issued and outstanding.

The Company's policy for recording interest and penalties associated with taxes is to recognize it as a component of income tax

NOTE 6 – SUBSEQUENT EVENTS

In accordance with ASC 855, the Company evaluated subsequent events through the date these financial statements were issued.

During August of 2015, the Company sold 3,200,000 shares of restricted common stock and received proceeds of \$800,000.

During November of 2015, a complaint was filed by the United States Justice Department naming the Company as a defendant along with two limited liability companys and three individuals. The complaint alleges that the Company was involved in a tax program which was marketed to several individuals. Further, the complaint alleges that the tax program was not consistent with the rules and regulations of the Internal Revenue Code regarding certain business expenses and tax credits which were claimed by the individuals investing in the program.

The Company is reviewing the complaint, does not believe that the allegations are supportable and plans to defend any allegations that the Company did anything to facilitate the investors claiming or supporting the deductions and tax credits.

EX-31 2 exh311.htm

EXHIBIT 31.1

**CERTIFICATION OF THE PRINCIPAL EXECUTIVE OFFICER PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Neldon Johnson, certify that:

- (1) I have reviewed this yearly report on Form 10-K of International Automated Systems, Inc.;
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects, the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- (4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of the annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
- (5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 12, 2017

/s/Neldon Johnson  
Neldon Johnson  
President and Chief Executive Officer  
(Principal Executive Officer)

**CERTIFICATION OF THE PRINCIPAL EXECUTIVE OFFICER  
PURSUANT TO 18 U.S. C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the yearly report of International Automation Systems, Inc., (the "Company") on Form 10-K for period ended June 30, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Neldon Johnson, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 12, 2017

/s/ Neldon Johnson  
Neldon Johnson  
President and Chief Executive  
Officer





**RaPower-3 Equipment Purchase Agreement**

This Equipment Purchase Agreement (the "Agreement") is entered into this day  
12/29/2014 6:19:27 PM

by and between RaPower-3 LLC (the "Operator"), with principal offices at 4035 South 4000 West, Deseret, UT 84624, hereinafter referred to as "Seller", and

Preston Olsen for PPO Solar LLC

whose address is 957 Bryanston Cv Murray, UT. 123456

hereinafter referred to as "Purchaser".

**BACKGROUND**

1. Seller is the licensee of certain proprietary alternative energy technology, which technology relates to solar energy collection and which technology is utilized for the design and fabrication of certain components which are identified below and which are hereinafter collectively referred to as the "Alternative Energy System(s)".
2. Seller and Purchaser now desire to enter into an agreement whereby Seller will sell Purchaser the Alternative Energy System specifically described below.

**AGREEMENT**

**NOW, THEREFORE, the parties hereto agree as follows:**

1. Systems Purchased. Seller hereby sells to Purchaser and Purchaser hereby purchases from Seller the Alternative Energy System(s). The number of Alternative Energy Systems purchased by Purchaser from Seller under this Agreement shall be

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Seller shall furnish, deliver, install and startup the Alternative Energy System(s), at a site yet to be determined. When a site is selected, it shall be referred to as the "Installation Site".

2. **Documentation for Potential Tax Benefits.** Seller shall provide to Purchaser all required documentation relating to the Alternative Energy System and its components as requested by Purchaser for federal, state and local review of the Alternative Energy System for





### **RaPower-3 Equipment Purchase Agreement**

potential tax benefits. However, Purchaser hereby expressly acknowledges that neither Seller nor any other person or entity affiliated with Seller has made representations to Purchaser regarding potential tax benefits of this Agreement to Purchaser and Purchaser has relied entirely on hi/her own analysis of potential tax benefits. Purchaser hereby waives any and all claims against Seller and its employees, agents, officers, affiliates and representatives relating to Purchaser's failure to receive any anticipated tax benefit.

**3. Payment Terms.** Purchaser shall pay to Seller the sum of \$3,500 for each Alternative Energy System purchased, hereinafter referred to as the "Purchase Amount" for the purchase of the Alternative Energy System. This includes the cost of delivery, installation and startup, as well as the cost of warranty work performed during the warranty period described below. The Total Purchase Amount shall be paid in accordance with the following schedule:

**Option 1:**

Initial Down Payment in the amount of \$1,050 (one thousand fifty dollars) for each Alternative Energy System purchased, which shall be paid at the time this agreement is entered into.

**Option 2:**

Initial Down Payment in the amount of \$1,050 (one thousand fifty dollars) for each Alternative Energy System purchased, which shall be paid with a one-time payment of \$105 (equal to 10% of the down payment) at the time this Agreement is entered into. The balance of \$945 for each Alternative Energy System is to be paid on or before June 30, 2012.

**Option 3:**

Initial Down Payment in the amount of \$1200 (One Thousand Two Hundred Dollars) for each Alternative Energy Systems purchased, which shall be paid in monthly installments of \$100 (One Hundred Dollars) per system purchased.

The Installation Date shall be defined as the date the Alternative Energy Equipment has been installed and begins to produce revenue. After the Alternative Energy Equipment has been installed and producing revenue for a five (5) year period, annual payments will begin. The annual payment will be as follows. Thirty Annual Installments in the amount of \$82.00 (Eighty-two dollars) for each Alternative Energy System purchased, hereinafter referred to as "Annual Installments," shall be paid to Seller, the first Installment being due five years following the Installation Date and the last Installment being due Twenty-Nine years thereafter,



## **RaPower-3 Equipment Purchase Agreement**

the Thirty-Five year period from the Installation Date to a date one year following the due date of the last Installment, shall be referred to hereinafter as the "Installment Period" and the schedule of Installment payments shall be referred to hereafter as the "Installment Schedule."

**4. Operations and Management Company.** The Alternative Energy System shall be placed in operation only at and operated only at the Installation Site, and shall be operated and managed for the Installment Period by an independent Operations and Management Company hereinafter referred to as "Operations and Management Company". In the event that Operations and Management Company shall cease to operate and manage the Alternative Energy System for any reason during the Installment Period, a Substitute Operations and Management Company approved by Buyer shall be employed to operate and manage the Alternative Energy System. The Substitute Operations and Management Company must be expressly approved by Buyer.

**5. Failure to Pay.** In the event that Purchaser fails to pay any of the Annual Installments or any portion thereof, when due, interest shall accrue on the overdue amount at the rate of one and one-half percent (1-1/2%) per month until paid. If Purchaser fails to pay any Annual Installment or any portion thereof when due or within a thirty (30) day grace period thereafter, Seller may immediately, upon written notice to Purchaser, enter the Installation Site and repossess the Alternative Energy System and any and all of the components thereof. In such event, Seller shall be entitled to recover its attorney fees, court costs, arbitration costs, collection costs, repossession fees and expenses incurred in repossessing the Alternative Energy System and any components thereof. In the event that Purchaser voluntarily relinquishes the Alternative Energy System to Seller, and thereby minimizes the expense to Seller in repossessing the Alternative Energy System, Seller agrees not to report Purchaser to any credit agencies for Purchaser's default, and Purchaser shall receive a credit against the balance owed under the Installment Schedule in an amount equal to the value of the Alternative Energy System as established by an independent, qualified appraiser approved by Purchaser and Seller. The credit for the value of the Alternative Energy System shall be given if Purchaser voluntarily relinquishes the Alternative Energy System, whether the Alternative Energy System is re-sold by Seller or not.

**6. Seller's Rights upon Default.** If Purchaser fails to pay any Annual Installment or any portion thereof when due or within the thirty (30) days grace period thereafter, or if Purchaser becomes subject to any state or federal insolvency, bankruptcy, receivership, trusteeship or similar proceeding, or if Purchaser shall default in any other term of this Agreement, Seller may immediately terminate this Agreement by notice in writing to Purchaser and repossess the Alternative Energy System and all of the components thereof as stated above. In such event, Purchaser shall remain liable for all sums then due and unpaid, less the credit for the value of the repossessed Alternative Energy System as described above, plus a reasonable amount for attorneys' fees and such expenses as may be expended in the repossession of the



## RaPower-3 Equipment Purchase Agreement

Alternative Energy System.

**7. Right to Reduce Purchase Amount.** If changes are made to the Internal Revenue Code after the date of this Agreement and prior to January 31, 2012, which materially reduce any tax benefit of this agreement anticipated by the Purchaser, Purchaser may elect to reduce the number of Alternative Energy Systems purchased and the Seller agrees to accept the reduced amount, provided that the reduced amount is not less than the total amount already paid as a down payment or one-time payment. Any notice stating that Buyer wishes to elect a reduction must be emailed (with confirmation of delivery) or must arrive to the Seller via hand delivery, as set forth in this paragraph, on or before Jan 31, 2012.

**8. Warranty.** Seller hereby warrants, for the thirty five (35) year period from the Installation Date to the end of the Installment Period, hereinafter referred to as the "Warranty Period" that the Alternative Energy System shall remain in good operating condition. Seller shall initiate, within five (5) business days following the receipt of written notice that the Alternative Energy System is not operating properly or is not in good operating condition, either directly or through the use of one or more independent maintenance or repair entities, maintenance or repair of the malfunctioning or non-operating components of the Alternative Energy System. Seller shall complete such maintenance or repair work within a reasonable time thereafter. Seller shall be responsible for all material, equipment and labor costs incurred to complete such maintenance and repair work. Seller shall not be responsible for or liable for loss of revenue or other consequential damages sustained by Purchaser due to the failure of the Alternative Energy System to remain in good operating condition. Seller's obligations shall be limited to the maintenance and repair obligations stated herein.

**9. Seller's Warranty Obligations.** Seller hereby warrants, for the thirty five (35) year Warranty Period, the Alternative Energy System and each of the components thereof, from defects in materials and workmanship. Within five (5) business days following the receipt of written notice from Purchaser, Seller shall initiate reasonable efforts to ascertain repair or replacement requirements, to order replacement parts and equipment needed for repair, and to deploy qualified maintenance personnel. The cost of warranty parts, replacement equipment and labor shall be borne by Seller. Seller shall not be responsible for or liable for loss of revenue or other consequential damages sustained by Purchaser due to defects in materials or workmanship. Seller's obligations shall be limited to the parts, equipment replacement, and repair obligations stated herein.

**10. Target Production Rate.** Seller and Purchaser acknowledge that the Target Production Rate from one Alternative Energy System is 600 peak watts, rated for clear sky conditions at noon, local time, June 21, at a latitude of forty degrees (40 degrees) North (the "Rating Conditions"), and the Warranty Production Rate is ninety-five percent (95%) of the Target Production Rate. Seller hereby warrants that for the initial five year period from the Installation Date to a date five years following the Installation Date, the Warranty Energy



## **RaPower-3 Equipment Purchase Agreement**

Production for the Alternative Energy system, shall be no less than 570 peak watts, at the Rating Conditions.

In the event that the actual peak energy production, at the Rating Conditions, from the Alternative Energy System during the initial five year period is less than the Warranty Energy Production, Purchaser shall have the option to terminate this Agreement and relinquish the Alternative Energy System to Seller. Purchaser shall thereafter have no further obligation under this Agreement to make any further payment or to perform any other obligation to Seller arising under this Agreement, except to cooperate with and assist Seller in obtaining possession of the Alternative Energy System. If Purchaser elects to terminate this Agreement as provided above, Purchaser shall not be entitled to a reimbursement of any portion of the Initial Down Payment. The foregoing option to terminate must be exercised within sixty (60) calendar days following the expiration of the initial five year period and must be exercised by Purchaser providing written notice to Seller.

**11. Waiver for Delays.** Purchaser hereby waives any and all claims against Seller for delays, including but not limited to claims for damages due to delays in preparing plans; delays in applying for or obtaining approvals or permits; delays in the delivery, installation, or start-up; or delays in performing warranty work. This waiver includes any and all direct, indirect or consequential damages.

**12. Limitation of Liability.** Neither of the parties shall have liability for consequential damages to the other arising out of this agreement or the transactions, events or occurrences related thereto and each hereby waives any and all such claims for consequential damages against the other. Seller's liability for any breach under this agreement shall be limited to any amounts actually paid by Purchaser and received by Seller under this Agreement.

**13. Property Insurance.** Purchaser agrees to require Operations and Management Company to maintain property damage insurance on the Alternative Energy System.

**14. Liability Insurance.** Purchaser agrees to require Operations and Management Company to maintain liability insurance to insure against bodily injury, property damage, product liability or other claims related to the design, manufacture, delivery, installation, start-up, operation or maintenance of the Alternative Energy System.

**15. Assignment of Agreement.** This Agreement shall not be assigned by Purchaser without the express written consent of Seller. Seller may assign its rights and obligations under this Agreement but Seller shall remain liable to Purchaser for the failure of its assignee to perform the obligations of Seller under this Agreement.

**16. Binding Agreement.** This Agreement shall be binding upon the successors and assigns of each of the parties.

**17. No Additional Warranties.** Seller makes no representations or warranties,



## **RaPower-3 Equipment Purchase Agreement**

expressed or implied, including the implied warranty of merchantability and fitness, except as expressly stated in this Agreement.

**18. Authorized Personnel.** Purchaser shall not repair, modify or adjust the Alternative Energy System or any component thereof and Purchaser agrees to prohibit anyone other than Seller's authorized personnel to repair, modify or adjust the Alternative Energy System or any component thereof.

**19. Notification to Seller.** Purchaser shall notify Seller immediately of accidents, disabilities, failures or like information concerning the Alternative Energy System.

**20. Warranty Limitations.** In the event the Alternative Energy System becomes inoperable for any reason, except as otherwise provided under the warranty during the Warranty Period, Seller shall not be obligated to furnish a substitute Alternative Energy System or any component thereof. In any event, Seller shall not be liable for any special or consequential damages of any nature resulting from such inoperability.

**21. Operating Site and Guidelines.** Purchaser agrees that the Alternative Energy System shall be used and operated only at the Installation Site and in accordance with the "Safety and Operating Guidelines" which shall be written and set forth by Seller. Purchaser agrees that the Alternative Energy System shall not be relocated by Purchaser without the written consent of Seller.

**22. Written Notice.** Any notice under this Agreement shall be deemed sufficient if it is in writing and it is delivered to Purchaser, personally or sent by mail addressed to Purchaser at the address set forth above.

**23. Rights, Liens, Title, and Interest.** Nothing herein conveys to Purchaser any right, title or interest in or to the Alternative Energy System or any component thereof, except as a Purchaser. Seller reserves the right to file or record such documents and instruments as it may deem necessary from time to time to protect its rights, liens, title and interest in the Alternative Energy System. Purchaser agrees to cooperate with Seller and to execute such documents as may be required or requested by Purchaser to assist Seller in protecting its rights, liens, title and interest in the Alternative Energy System.

**24. Breach of Agreement.** In the event of the breach of this Agreement by either party, the injured party shall be entitled to recover its costs, attorney fees, arbitration costs and arbitration fees incurred in enforcing the agreement and in pursuing appropriate remedies.

**25. Potential Tax Benefits Responsibility of Purchaser.** Seller and Purchaser acknowledge that they each understand that the Alternative Energy System may qualify for certain tax incentives and benefits under the 2005 Energy Policy Act and other statutes. Purchaser agrees to obtain the evaluation and opinion of its own tax attorney or accountant as to



## **RaPower-3 Equipment Purchase Agreement**

any tax matters relating to this Agreement and to the Alternative Energy System. Seller does not guarantee any tax incentive or benefit to Purchaser. Seller hereby transfers to Purchaser any and all energy tax credits, if any, related to the Alternative Energy System. Seller shall not claim any such energy tax credits. Seller and Purchaser agree to the respective initial values of the components of the Alternative Energy System.

**26. Dispute Resolution.** In the event of a dispute arising out of this Agreement or the transactions, events or occurrences related thereto, Seller shall have the sole option of electing to have such disputes resolved by binding arbitration in accordance with the Commercial Arbitration Rules of the American Arbitration Association with all hearings and other proceedings in that arbitration being conducted in Salt Lake City, State of Utah. Seller shall have the right to elect arbitration at any time up to and including the time that either party files an Answer in pending litigation between the parties relating to such disputes.

**27. Governing Law.** This Agreement shall be construed in accordance with the laws of the State of Utah.

**28. Entire Agreement.** This is the entire agreement between the parties. This agreement shall not be modified except by written amendment signed by Purchaser and Seller.



**RaPower-3 Equipment Purchase Agreement**

29. **Right of Revocation.** Purchaser understands and acknowledges that s/he may revoke this Agreement for a period of up to 14 days after s/he signs it and delivers payment (counting the day it was signed and/or payment received) and that the Agreement will not become effective or enforceable until the 14-day revocation period has expired. To revoke this Agreement, Purchaser must give written notice stating that s/he wishes to revoke to the Seller's authorized sales representative or to the Seller via email to "[cancel@rapower-3.com](mailto:cancel@rapower-3.com) <<mailto:cancel@rapower-3.com>>". Any notice stating that Purchaser wishes to revoke this Agreement must be emailed (with confirmation of delivery) or must arrive to the Seller via hand delivery, as set forth in this paragraph, on or before the expiration of the 14-day revocation period.

**PRESTON OLSEN**

Signature

**RaPower3 Windows Utility**

IP Digital Signal

**Seller**

**By: Neldon Johnson - RaPower-3**

**Neldon Johnson - Director**

**12/29/2014 6:19:27 PM**

Signature



PLASKOLITE, LLC.  
 P.O. Box 1497  
 Columbus, Ohio 43216 (614) 294-3281 FAX: (614) 297-7296

Page Number - 1  
 Invoice # - 1301973 RM  
 Invoice Date - 11/29/2007

**Sold To:**  
 INTERNATIONAL AUTOMATED SYSTEMS  
 4035 SOUTH 4000 W  
 DESERET UT 84624

**Ship To:**  
 INTERNATIONAL AUTOMATED SYSTEMS  
 4035 SOUTH 4000 W  
 DESERET UT 84624

Sold To # - 313483  
 Ship To # - 313483  
 Sales Order # - 24038 CI  
 Pro # -  
 BOL # -  
 Shipment # -

DUNS# 00-428-1093  
 FID# 314376110

**\*\*Please remit to:** PLASKOLITE, LLC  
 P.O.BOX 636087  
 CINCINNATI OH 45263-6087

Attention:

Cust P.O. BILLING ONLY FOR  
 Carrier Name TCON  
 Freight Code PREPAID  
 Sales Rep  
 Customer Instructions: ATTENTION - RANDY JOHNSON  
 TOLL

Line	Item #	Description	UM	Qty	Price	Extended Price	Pick Slip#	Cust P.O.
BILLING ONLY FOR 106" CALENDER ROLL ATTN; RANDY JOHNSON								
1.000	DEBIT	MISC. DEBIT	EA	1	15,000.0000	15,000.00		BILLING ONLY FOR TOLL

Terms	Net Due Date	Tax Rate	Sales Tax	Invoice Amount
1% 30 DAYS NET 31	12/30/2007	0 %	.00	15,000.00



PSK000001

PLASKOLITE, LLC.  
 P.O. Box 1497  
 Columbus, Ohio 43216 (614) 294-3281 FAX: (614) 297-7296

Page Number - 1  
 Invoice # - 1437228 RI  
 Invoice Date - 02/03/2009

**Sold To:**  
 INTERNATIONAL AUTOMATED SYSTEMS  
 4035 SOUTH 4000 W  
 DESERET UT 84624

**Ship To:**  
 INTERNATIONAL AUTOMATED SYSTEMS  
 279 EAST MAIN STREET  
 DELTA UT 84624

Sold To # - 313483  
 Ship To # - 315590  
 Sales Order # - 676239 SO  
 Pro # - 400347  
 BOL # - 4625  
 Shipment # - 850535

DUNS# 00-428-1093  
 FID# 314376110

**\*\*Please remit to: PLASKOLITE, LLC**  
 P.O.BOX 636087  
 CINCINNATI OH 45263-6087

Attention:

Cust P.O. IAUS 011209  
 Carrier Name TCON  
 Freight Code PREPAID  
 Sales Rep 1001  
 Customer Instructions:

Line	Item #	Description	UM	Qty	Price	Extended Price	Pick Slip#	Cust P.O.
1.001	930001-1	SOLAR LENS .085 60.00 X 49.12	EA	2100	52.1800	109,578.00	414261	IAUS 011209

Terms	Net Due Date	Tax Rate	Sales Tax	Invoice Amount
1% 30 DAYS NET 31	03/06/2009	0 %	.00	109,578.00
Discount Available	1,095.78			

PSK000002

PLASKOLITE, LLC.  
 P.O. Box 1497  
 Columbus, Ohio 43216 (614) 294-3281 FAX: (614) 297-7296

Page Number - 1  
 Invoice # - 1473432 RM  
 Invoice Date - 06/01/2009

**Sold To:**  
 INTERNATIONAL AUTOMATED SYSTEMS  
 4035 SOUTH 4000 W  
 DESERET UT 84624

**Ship To:**  
 INTERNATIONAL AUTOMATED SYSTEMS  
 279 EAST MAIN STREET  
 DELTA UT 84624

Sold To # - 313483  
 Ship To # - 315590  
 Sales Order # - 28395 CI  
 Pro # -  
 BOL # -  
 Shipment # -

DUNS# 00-428-1093  
 FID# 314376110

**\*\*Please remit to: PLASKOLITE, LLC  
 P.O.BOX 636087  
 CINCINNATI OH 45263-6087**

**Attention:**

Cust P.O. IAUS 011209  
 Carrier Name TCON  
 Freight Code PREPAID  
 Sales Rep  
 Customer Instructions:

Line	Item #	Description	UM	Qty	Price	Extended Price	Pick Slip#	Cust P.O.
------	--------	-------------	----	-----	-------	----------------	------------	-----------

Credit is being issued to IAUS for buy back of 1 piece  
 of part# 930001-1 for Development Sample for Jason Dunn.  
 No Open Invoices.... Credit to be issued to IAUS account.

1.000	930001-1	SOLAR LENS .085 60.00 X 49.12	EA	1-	52.1800	52.18-		IAUS 011209
-------	----------	-------------------------------	----	----	---------	--------	--	-------------

Terms	Net Due Date	Tax Rate	Sales Tax	Invoice Amount
1% 30 DAYS NET 31	07/02/2009	0 %	.00	52.18-

PSK000003

PLASKOLITE, LLC.  
 P.O. Box 1497  
 Columbus, Ohio 43216 (614) 294-3281 FAX: (614) 297-7296

Page Number - 1  
 Invoice # - 1750699 RI  
 Invoice Date - 06/20/2012

**Sold To:**  
 INTERNATIONAL AUTOMATED SYSTEMS  
 4035 SOUTH 4000 W  
 DESERET UT 84624

**Ship To:**  
 INTERNATIONAL AUTOMATED SYSTEMS  
 279 EAST MAIN STREET  
 DELTA UT 84624

Sold To # - 313483  
 Ship To # - 315590  
 Sales Order # - 847436 SO  
 Pro # -  
 BOL # - 00745070000136341  
 Shipment # - 1214721

DUNS# 00-428-1093  
 FID# 314376110

**\*\*Please remit to: PLASKOLITE, LLC  
 P.O.BOX 636087  
 CINCINNATI OH 45263-6087**

**Attention:**

Cust P.O. IAUS 5/17/12  
 Carrier Name TCON  
 Freight Code PREPAID  
 Sales Rep 1001  
 Customer Instructions:

Line	Item #	Description	UM	Qty	Price	Extended Price	Pick Slip#	Cust P.O.
2.001	930002-1	SOLAR LENS 100 49.312 X 59.75	EA	3000	68.7600	206,280.00	706506	IAUS 5/17/12

Terms	Net Due Date	Tax Rate	Sales Tax	Invoice Amount
1% 30 DAYS NET 31	07/21/2012	0 %	.00	206,280.00
Discount Available	2,062.80			

PSK000004

PLASKOLITE, LLC.  
 P.O. Box 1497  
 Columbus, Ohio 43216 (614) 294-3281 FAX: (614) 297-7296

Page Number - 1  
 Invoice # - 1759756 RI  
 Invoice Date - 08/03/2012

**Sold To:**  
 INTERNATIONAL AUTOMATED SYSTEMS  
 4035 SOUTH 4000 W  
 DESERET UT 84624

**Ship To:**  
 INTERNATIONAL AUTOMATED SYSTEMS, INC  
 4035 SOUTH 4000 WEST  
 PH# 801-592-8149  
 DESERET UT 84624

Sold To # - 313483  
 Ship To # - 319893  
 Sales Order # - 851451 SO  
 Pro # - 125685108  
 BOL # - 00745070000139617  
 Shipment # - 1228911

DUNS# 00-428-1093  
 FID# 314376110

**\*\*Please remit to: PLASKOLITE, LLC  
 P.O.BOX 636087  
 CINCINNATI OH 45263-6087**

**Attention:**

**Cust P.O.** IAUS 070312  
**Carrier Name** RNLO  
**Freight Code** PREPAID  
**Sales Rep** 1001  
**Customer Instructions:**

Line	Item #	Description	UM	Qty	Price	Extended Price	Pick Slip#	Cust P.O.
1.001	930002-1	SOLAR LENS 100 49.312 X 59.75	EA	1000	68.7600	68,760.00	712559	IAUS 070312

Terms	Net Due Date	Tax Rate	Sales Tax	Invoice Amount
1% 30 DAYS NET 31	09/03/2012	0 %	.00	68,760.00
Discount Available	687.60			

PSK000005

PLASKOLITE, LLC.  
 P.O. Box 1497  
 Columbus, Ohio 43216 (614) 294-3281 FAX: (614) 297-7296

Page Number - 1  
 Invoice # - 1759946 RI  
 Invoice Date - 08/04/2012

**Sold To:**  
 INTERNATIONAL AUTOMATED SYSTEMS  
 4035 SOUTH 4000 W  
 DESERET UT 84624

**Ship To:**  
 INTERNATIONAL AUTOMATED SYSTEMS, INC  
 4035 SOUTH 4000 WEST  
 PH# 801-592-8149  
 DESERET UT 84624

Sold To # - 313483  
 Ship To # - 319893  
 Sales Order # - 851451 SO  
 Pro # -  
 BOL # - 00745070000139571  
 Shipment # - 1228081

DUNS# 00-428-1093  
 FID# 314376110

**\*\*Please remit to: PLASKOLITE, LLC  
 P.O.BOX 636087  
 CINCINNATI OH 45263-6087**

**Attention:**

Cust P.O. IAUS 070312  
 Carrier Name TCON  
 Freight Code PREPAID  
 Sales Rep 1001  
 Customer Instructions:

Line	Item #	Description	UM	Qty	Price	Extended Price	Pick Slip#	Cust P.O.
1.002	930002-1	SOLAR LENS 100 49.312 X 59.75	EA	3500	68.7600	240,660.00	712517	IAUS 070312

Terms	Net Due Date	Tax Rate	Sales Tax	Invoice Amount
1% 30 DAYS NET 31	09/04/2012	0 %	.00	240,660.00
Discount Available	2,406.60			

PSK000006

PLASKOLITE, LLC.  
 P.O. Box 1497  
 Columbus, Ohio 43216 (614) 294-3281 FAX: (614) 297-7296

Page Number - 1  
 Invoice # - 1846927 RI  
 Invoice Date - 07/31/2013

**Sold To:**  
 INTERNATIONAL AUTOMATED SYSTEMS  
 4035 SOUTH 4000 W  
 DESERET UT 84624

**Ship To:**  
 INTERNATIONAL AUTOMATED SYSTEMS, INC  
 4035 SOUTH 4000 WEST  
 PH# 801-592-8149  
 DESERET UT 84624

Sold To # - 313483  
 Ship To # - 319893  
 Sales Order # - 891950 SO  
 Pro # -  
 BOL # - 00745070000176797  
 Shipment # - 1312100

DUNS# 00-428-1093  
 FID# 314376110

**\*\*Please remit to: PLASKOLITE, LLC**  
 P.O.BOX 636087  
 CINCINNATI OH 45263-6087

**Attention:**

**Cust P.O.** IAUS 062113  
**Carrier Name** TCON  
**Freight Code** PREPAID  
**Sales Rep**  
**Customer Instructions:**

Line	Item #	Description	UM	Qty	Price	Extended Price	Pick Slip#	Cust P.O.
1.001	930002-1	SOLAR LENS 100 49.312 X 59.75	EA	3000	69.3000	207,900.00	766704	IAUS 062113

Terms	Net Due Date	Tax Rate	Sales Tax	Invoice Amount
1% 30 DAYS NET 31	08/31/2013	0 %	.00	207,900.00
Discount Available	2,079.00			

PSK000007

PLASKOLITE, LLC.  
 P.O. Box 1497  
 Columbus, Ohio 43216 (614) 294-3281 FAX: (614) 297-7296

Page Number - 1  
 Invoice # - 1928204 RI  
 Invoice Date - 06/13/2014

**Sold To:**  
 INTERNATIONAL AUTOMATED SYSTEMS  
 4035 SOUTH 4000 W  
 DESERET UT 84624

**Ship To:**  
 INTERNATIONAL AUTOMATED SYSTEMS, INC  
 4035 SOUTH 4000 WEST  
 PH# 801-592-8149  
 DESERET UT 84624

Sold To # - 313483  
 Ship To # - 319893  
 Sales Order # - 928981 SO  
 Pro # - 211899042  
 BOL # - 00745070000213027  
 Shipment # - 1375247

DUNS# 00-428-1093  
 FID# 314376110

**\*\*Please remit to: PLASKOLITE, LLC  
 P.O. BOX 636087  
 CINCINNATI OH 45263-6087**

Attention:

Cust P.O. IAUS 4-21-14  
 Carrier Name RNLO  
 Freight Code PREPAID  
 Sales Rep  
 Customer Instructions:

Line	Item #	Description	UM	Qty	Price	Extended Price	Pick Slip#	Cust P.O.
1.200	930001-1	SOLAR LENS .085 60.00 X 49.12	EA	750	59.5400	44,655.00	818619	IAUS 4-21-14

Terms	Net Due Date	Tax Rate	Sales Tax	Invoice Amount
1% 30 DAYS NET 31	07/14/2014	0 %	.00	44,655.00
Discount Available	446.55			

PSK000008



PLASKOLITE, LLC.  
 P.O. Box 1497  
 Columbus, Ohio 43216 (614) 294-3281 FAX: (614) 297-7296

Page Number - 1  
 Invoice # - 1929169 RI  
 Invoice Date - 06/18/2014

**Sold To:**  
 INTERNATIONAL AUTOMATED SYSTEMS  
 4035 SOUTH 4000 W  
 DESERET UT 84624

**Ship To:**  
 INTERNATIONAL AUTOMATED SYSTEMS, INC  
 4035 SOUTH 4000 WEST  
 PH# 801-592-8149  
 DESERET UT 84624

Sold To # - 313483  
 Ship To # - 319893  
 Sales Order # - 928981 SO  
 Pro # -  
 BOL # - 00745070000213317  
 Shipment # - 1374827

DUNS# 00-428-1093  
 FID# 314376110

**\*\*Please remit to: PLASKOLITE, LLC**  
 P.O.BOX 636087  
 CINCINNATI OH 45263-6087

**Attention:**

Cust P.O.	Carrier Name	Freight Code	Sales Rep	Customer Instructions:				
IAUS 4-21-14	TODL	PREPAID						
Line	Item #	Description	UM	Qty	Price	Extended Price	Pick Slip#	Cust P.O.

1.001	930001-1	SOLAR LENS .085 60.00 X 49.12	EA	2500	59.5400	148,850.00	818755	IAUS 4-21-14
1.101	930001-1	SOLAR LENS .085 60.00 X 49.12	EA	1750	59.5400	104,195.00	818753	IAUS 4-21-14

Terms	Net Due Date	Tax Rate	Sales Tax	Invoice Amount
1% 30 DAYS NET 31	07/19/2014	0 %	.00	253,045.00
Discount Available	2,530.45			

PSK000009

## IAUS Solar Unit Purchase Overview

### About International Automated Systems, Inc.

International Automated Systems, Inc. [IAUS: OTCBB] is a research and development company that went public in 1988. IAUS was the pioneer of self-service check-out lanes, and sold its patents to the company that has installed systems in stores today such as Wall-mart, Home Depot, Kroger's, etc. IAUS was also the first company to patent and develop automated fingerprint identification (biometrics) small enough to fit onto the magnetic stripe of a credit card. IAUS is a pioneer in self-service order and pay systems for restaurants- a technology that will likely be immersing in the industry in the near future. Most recently IAUS has completed a unique patented and patent pending solar power system that is the first solar power technology having the potential to compete head-to-head with gas, coal and gasoline.

### IAUS Technology: Thin-Film Solar Lenses

IAUS's solar technology is less expensive than any other solar power technology. IAUS's unique thin-film solar lenses are made of a durable grade of inexpensive acrylic plastic with thousands of small ridges that focus the radiant heat of the sun to a single point (like a magnifying glass) to produce super-high temperatures. Heat produces steam that turns a unique patented bladeless turbine developed by IAUS. This turbine drives an electric generator.

The lenses operate at a constant 90 degree angle to the sun (dual axis) which increases efficiency by more than 30% over non dual-axis solar power systems such as solar reflector troughs and most photovoltaic systems. Once the lenses are installed, no more adjustments are necessary, which significantly lowers operation and management costs. Other solar thermal technologies such as solar reflector troughs and dishes require regular adjustments.

The life-span of IAUS's lenses is 35+ years. The total replacement cost of the lenses is approximately 10%-15% of the cost of the unit. This is very different from photovoltaic (PV) solar. The cost to replace PV solar after its 20 year lifespan is virtually 100% of the cost of the system- basically re-purchasing the system all over again.

### IAUS Technology: Bladeless Turbine

In an expensive, multi-stage blade turbine, each blade must be hand-set using a meticulous costly process. IAUS turbine has no blades, therefore, production and operation is much less expensive. In a traditional turbine blades must be within 3 mil distance from the wall of the inside chamber so that steam will not escape over the top outside edges of the blades. This is not a concern with the IAUS turbine.

Today's multi-stage, blade turbines require high-quality, dry steam, or excessive damage and/or a sharp drop in efficiency will occur. Water must first flash to steam and then is super-heated. Energy in this phase change from water to steam is wasted. The IAUS turbine can use any quality of steam (low, medium, high), including a bi-phase flow (water + steam) without any damage or wear to the turbine.

High-pressure, super-heated water is flashed at the rocket nozzle of the IAUS turbine - losing none of the energy in the phase change from water to steam. This also allows IAUS to recycle the water in a closed-loop system without damaging the turbine. This feature is very important in desert areas.

The steam condenser design of IAUS's turbine is more effective and efficient. The actual chamber of the turbine can be used as a condenser, whereas a typical multi-stage turbine cannot have steam condensing within its chambers as this would cause a loss in efficiency and damage to the turbine blades.



Confidential

Ra3 013964

VOL IV 523

Ra3 013964

PLEX00531

### **IAUS Solar Technology: Energy Mediums Produced**

IAUS's technology can convert the sun's energy into electricity or gasoline replacements such as hydrogen and methanol. Most major car manufacturers have already produced cars that can operate on hydrogen- fuel cell cars and hybrid combustion engines that can burn either gasoline or hydrogen. Methanol can be used as a gasoline replacement or can be used to power fuel cell cars. Methanol is liquid at ambient room temperature and therefore it is easier and more cost effective than hydrogen to store and transport.

Power generation for commercial, industrial and residential, however, is IAUS's first targeted market. IAUS's technology can produce electricity competitive with electricity generated using fossil fuels. The lower cost of IAUS's solar technology makes it a promising replacement for the dirty fossil fuels.

### **Solar Equipment: Purchase**

The new IAUS solar lenses are shaped like a slice of a pie. Seventeen of these lenses together create a circular shape that is 22 feet across in diameter. Included with the lens is the receiver/heat exchanger that converts the solar energy into super-heated water/steam. The lens and receiver has a 35+ year life. IAUS is selling a lens and receiver, which comprises one solar unit capable of producing approximately 250,000,000 British Thermal Units (BTUs) per year, for a price of \$30,000.

### **Solar Equipment: IAUS Financing**

IAUS's solar unit can be purchased with a down payment of \$9,000. The balance of \$21,000 is financed by IAUS interest free over a term of 30 years. The first five years of the loan are deferred to the end. Once the first five years are over, the buyer pays 30 annual loan payments of \$700.

IAUS believes that paying the five deferred installments at the end of the thirty years is much more profitable for the purchaser than in the first five years. Since, the wholesale price per kilowatt-hour (kWh) will follow the average U.S. GDP inflation rate of 2.9%, the wholesale price of electricity will be at 13 cents per kWh after thirty years and over 15 cents per kWh by thirty-five years.

Purchased solar units will be nested with other solar units in an array, selling net energy or net BTUs to a commercial power plant that will be owned and operated by LTB LLC. The power company LTB LLC will use the BTUs to generate electricity and in turn, sell it to customers such as residents, businesses, or other power companies.

LTB LLC will maintain and operate the plant and market the power generated by the solar units. LTB LLC will pay the solar unit owner a quarterly payment for the purchase of the net BTUs produced by each solar unit, at a rate of 5.5 cents per kWh. The selling price for electricity generated by an energy provider in the U.S., averaged 5.5 cents per kWh in 2005. The projected net energy production for each solar unit is an estimated 14,600 kWh per year.

### **IAUS Guarantees and Warrantees**

IAUS warrantees that the solar unit will operate by itself for the entire term of the loan. If the system stops functioning for any reason during the duration of the loan, IAUS will fix it without charge.

IAUS also guarantees that the solar unit will operate at 95% of its projected annual capacity of 250,000,000 BTUs. If after the first five years of operation, the solar has not operated to this standard, the owner is given the option to relinquish the solar unit back to IAUS with no further obligation to pay the loan payment. In this case, however, IAUS will not refund the initial \$9,000 down payment.

**Solar Tax Credit to Participants**

The person buying a solar unit receives a \$9,000 tax credit from the IRS for each solar unit purchased. For a solar unit purchased during the year 2006 or 2007, the Federal Government Energy policy gives a 30% tax credit. The retail value of IAUS's solar unit is \$30,000. The federal tax credit at 30% of \$30,000 equals \$9,000. The tax credit is a dollar for dollar credit. It is not a deduction. The maximum credit that can be taken is \$25,000 plus 25% of the remaining balance of taxes owed. However, this credit can be used one year back and 20 years foreword.

**Solar Tax Illustration:**

Let's say a person pays an average of \$50,000 Federal Income Tax each year. This person purchases five lenses for a total down payment of \$45,000 dollars in 2006. When this person files his 2007 taxes, he can use/deduct \$25,000 plus 25% of the remaining balance (of \$25,000) which comes to \$6,250 (0.25 x \$25,000). The total tax credit for 2007 is \$31,250 (\$25,000 + \$6,250). Therefore \$31,250 of the \$45,000 invested is returned in a tax credit for 2007 leaving only \$13,750 un-credited of the \$45,000 invested. However, in the same 2007 filing, this person can also take up to another \$25,000 in tax credits plus 25% of the remaining balance of taxes owed for the year 2006. This option credits and returns the remaining \$13,750. When necessary, any excess credit can be taken when filing for successive years, for up to 20 years foreword.

**Depreciation**

Half of the tax credit (\$4,500) must be subtracted from the \$30,000 dollar purchase amount when using it to calculate depreciation of the equipment. Therefore, only \$25,500 of the \$30,000 value can be depreciated. This can be taken over a period of six years. How does depreciation work? It is based upon what income tax bracket the buyer falls into. For example, if the buyer is in a 30% income tax bracket, 30% of \$25,500 (which amounts to \$7,650) can be taken off from the buyer's personal taxes over a period of six years. The percentage of the \$7,650 that can be taken in each year is broken down by the IRS in the following sequence:

Year 1	20%	\$1,530
Year 2	32%	\$2,448
Year 3	19.2%	\$1,468.80
Year 4	11.52%	\$881.28
Year 5	11.52%	\$881.28
Year 6	5.76%	\$440.64

**Estimated Net Income to Participants**

As previously discussed, the power company LTB LLC pays the solar unit owner a quarterly payment for the purchase of the steam at a rate of 5.5 cents per kWh. At this rate, if the buyer is in a 30% income tax bracket, he would have a potential net income of \$11,585.02 in the first five years. This same buyer would have an estimated net income of \$36,745.35 over a total of 35 years.

**Disclaimer**

This is not a solicitation to buy or sell securities. This material is for information purposes only. The figures contained herein are based upon reasonable estimations. Therefore, the numbers are subject to change and will obviously differ depending upon various circumstances. Statements contained in this material that are not strictly historical are forward-looking within the meaning of the "Safe Harbor" provisions of the Private Securities Litigation Reform Act of 1995. Such statements are made based upon information available to the company at the time, and the company assumes no obligation to update or revise such forward-looking statements. Editors and investors are cautioned that such forward-looking statements invoke risk and uncertainties that may cause the company's actual results to differ materially from such forward-looking statements. These risks and uncertainties include, but are not limited to, demand for the company's product both domestically and abroad, the company's ability to continue to develop its market, general economic conditions, and other factors that may be more fully described in the company's literature and periodic filings with the Securities and Exchange Commission. This material is not for the purpose of giving tax advice to individuals or any other entity. International Automated Systems, Inc. is not a tax professional and encourages every taxpayer to seek advice based on the taxpayer's particular circumstances from an independent tax advisor before relying on any information given in this presentation.

**Example 1**  
*Tax Bracket of 25%*

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
<b>Expenses</b>					
Down Payment	<\$9,000>	\$0	\$0	\$0	\$0
Loan Payment	\$0	\$0	\$0	\$0	\$0
Operations	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<b>Total Expenses</b>	<\$9,000>	\$0	\$0	\$0	\$0
<b>Income</b>					
Tax Credit	\$9,000	\$0	\$0	\$0	\$0
Depreciation	\$1,275	\$2,040	\$1,224	\$734.40	\$734.40
kWh Revenue (5.5 cents/kWh)	<u>\$825</u>	<u>\$849</u>	<u>\$874.39</u>	<u>\$900.19</u>	<u>\$926.74</u>
<b>Total Income</b>	<b>\$11,100</b>	<b>\$2,889</b>	<b>\$2,098.39</b>	<b>\$1,634.59</b>	<b>\$1,661.14</b>
<b>Income Less Expenses</b>	<b>\$2,100</b>	<b>\$2,889</b>	<b>\$2,098.39</b>	<b>\$1,634.59</b>	<b>\$1,661.14</b>

**Total Net Income Years 1-5**      **\$10,383.12**

**Total Net Income Years 1-35**      **\$35,396.91**

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**Example 2**  
*Tax Bracket of 30%*

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
<b>Expenses</b>					
Down Payment	<\$9,000>	\$0	\$0	\$0	\$0
Loan Payment	\$0	\$0	\$0	\$0	\$0
Operations	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<b>Total Expenses</b>	<\$9,000>	\$0	\$0	\$0	\$0
<b>Income</b>					
Tax Credit	\$9,000	\$0	\$0	\$0	\$0
Depreciation	\$1,530	\$2,448	\$1,468.80	\$881.28	\$881.28
kWh Revenue (5.5 cents/kWh)	<u>\$825</u>	<u>\$849.34</u>	<u>\$874.39</u>	<u>\$900.19</u>	<u>\$926.74</u>
<b>Total Income</b>	\$11,355	\$3,297.34	\$2,343.19	\$1,781.47	\$1,808.02
<b>Income Less Expenses</b>	\$2,355	\$3,297.34	\$2,343.19	\$1,781.47	\$1,808.02

**Total Net Income Years 1-5**      \$11,585.02

**Total Net Income Years 1-35**      \$36,745.35

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**Example 3**  
*Tax Bracket of 35%*

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
<b>Expenses</b>					
Down Payment	<\$9,000>	\$0	\$0	\$0	\$0
Loan Payment	\$0	\$0	\$0	\$0	\$0
Operations	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<b>Total Expenses</b>	<\$9,000>	\$0	\$0	\$0	\$0
<b>Income</b>					
Tax Credit	\$9,000	\$0	\$0	\$0	\$0
Depreciation	\$1,785	\$2,856	\$1,713.60	\$1,028.16	\$1,028.16
kWh Revenue (5.5 cents/kWh)	<u>\$825</u>	<u>\$849.34</u>	<u>\$874.39</u>	<u>\$900.19</u>	<u>\$926.74</u>
<b>Total Income</b>	<b>\$11,610</b>	<b>\$3,705</b>	<b>\$2,587.99</b>	<b>\$1,928.35</b>	<b>\$1,954.90</b>
<b>Income Less Expenses</b>	<b>\$2,610</b>	<b>\$3,705</b>	<b>\$2,587.99</b>	<b>\$1,928.35</b>	<b>\$1,954.90</b>

**Total Net Income Years 1-5**      **\$12,786.58**

**Total Net Income Years 1-35**      **\$38,093.79**

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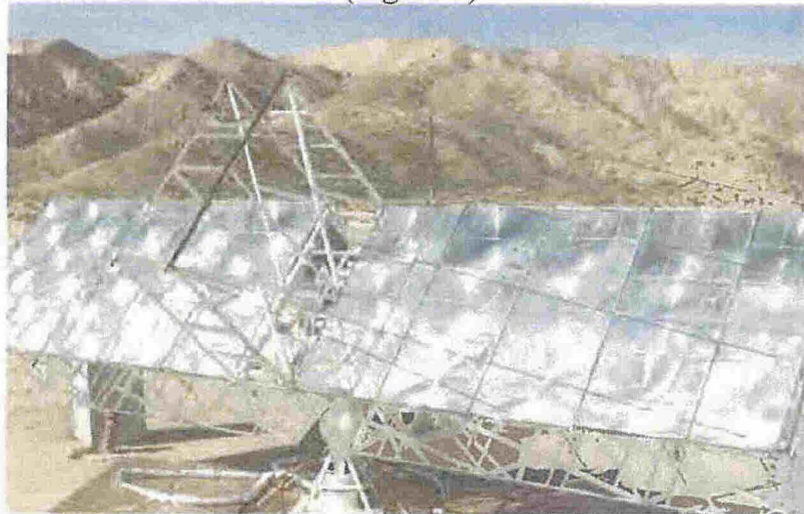
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## Photos of IAUS's Solar Unit

(Figure 1)



*The photo in Figure 1 shows one of IAUS's solar units in its rectangular shape assembled with 24 sub-lenses.*

(Figure 2)



*The photo in Figure 2 shows the new design of one of IAUS's solar units which is now in a more efficient circular shape. It is assembled with 17 sub-lenses.*

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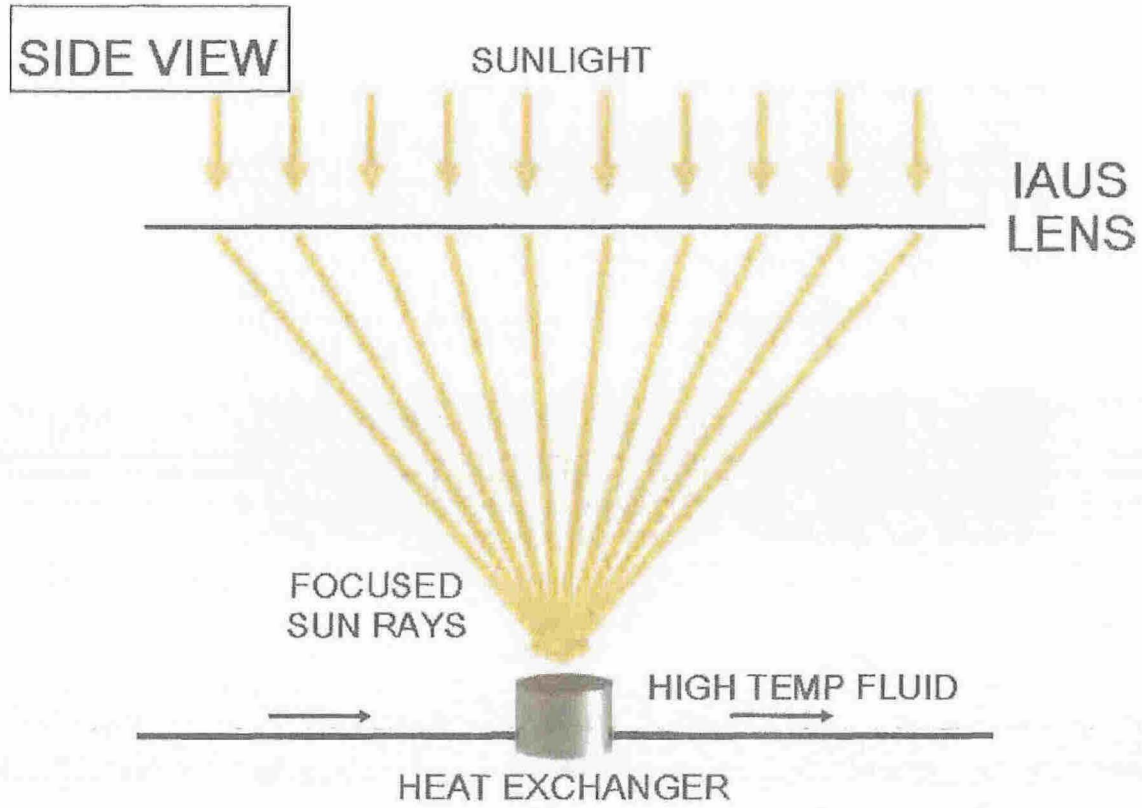
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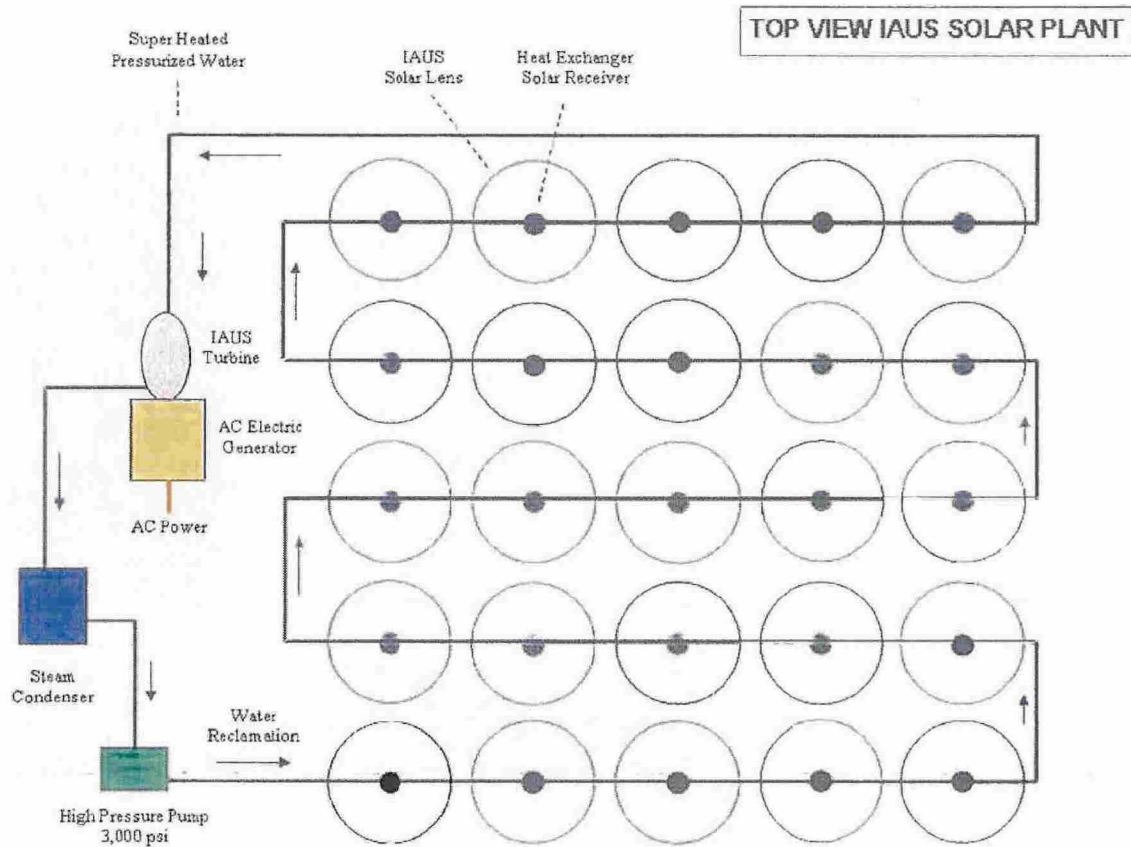
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(Figure 3)



(Figure 4)



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**Section II**

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**EQUIPMENT PURCHASE AGREEMENT**

This Equipment Purchase Agreement ("Agreement") is made and entered into this \_\_\_\_\_ day of \_\_\_\_\_, 200\_\_ by and between International Automated Systems, Inc., a Utah corporation with offices at 326 North Highway 6, Salem, UT 84653, hereinafter referred to as "Seller", and \_\_\_\_\_, whose address is \_\_\_\_\_, hereinafter referred to as "Purchaser".

**BACKGROUND**

1. Seller is the owner of certain proprietary alternative energy technology, hereinafter "IAS Technology", which technology relates to solar energy collection and which technology is utilized for the design and fabrication of certain components which are identified below and which are hereinafter collectively referred to as the "Alternative Energy System".

2. Seller and Purchaser now desire to enter into an agreement whereby Seller will sell Purchaser the Alternative Energy System specifically described below.

**AGREEMENT**

NOW, THEREFORE, the parties hereto agree as follows:

1. Seller hereby sells to Purchaser and Purchaser hereby purchases from Seller the Alternative Energy System consisting of the system components identified on the attached Exhibit "A". The number of Alternative Energy Systems purchased by Purchaser from Seller under this Agreement shall be \_\_\_\_\_. Seller shall furnish, deliver, install and startup the Alternative Energy System, at a site provided by Seller at \_\_\_\_\_, hereinafter referred to as the "Installation Site".

2. Seller agrees to complete the following for the Alternative Energy System in accordance with the schedule stated:

- a. Seller shall furnish, deliver, install and startup the Alternative Energy System at the Installation Site, by \_\_\_\_\_, hereinafter referred to as the "Installation Date".
- b. Seller shall provide to Purchaser all required documentation relating to the Alternative Energy System and its components as requested by Purchaser for federal, state and local review of the Alternative Energy System for potential tax benefits.

3. Purchaser shall pay to Seller the sum of \$30,000 for each Alternative Energy System purchased, hereinafter referred to as the "Purchase Amount" for the purchase of the Alternative Energy System. This includes the cost of delivery, installation and startup, as well as the cost of warranty work performed during the warranty period described below. The Total Purchase Amount shall be paid in accordance with the following schedule:

- a. Initial Down Payment in the amount of \$9,000 (nine-thousand dollars) for each Alternative Energy System purchased, which shall be paid at the time that this Agreement is entered into.

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b. Thirty Annual Installments in the amount of \$700.00 (seven-hundred dollars) for each Alternative Energy System purchased, hereinafter referred to as "Annual Installments," shall be paid to Seller, the first Installment being due on or before five years following the Installation Date and the last Installment being due Twenty Nine years thereafter, the Thirty Five year period from the Installation Date to a date one year following the due date of the last Installment, shall be referred to hereinafter as the "Installment Period" and the schedule of Installment payments shall be referred to hereafter as the "Installment Schedule."

4. The Alternative Energy System shall be placed in operation only at and operated only at the Installation Site, and shall be operated and managed for the Installment Period by an independent Operations and Management Company, namely \_\_\_\_\_, with principal offices at \_\_\_\_\_, hereinafter referred to as "Operations and Management Company". In the event that Operations and Management Company shall cease to operate and manage the Alternative Energy System for any reason during the Installment Period, a Substitute Operations and Management Company approved by Seller shall be employed to operate and manage the Alternative Energy System. The Substitute Operations and Management Company must be expressly approved by Seller.

5. In the event that Purchaser fails to pay any of the Annual Installments or any portion thereof, when due, interest shall accrue on the overdue amount at the rate of one and one-half percent (1-1/2 %) per month until paid. If Purchaser fails to pay any Annual Installment or any portion thereof when due or within a thirty (30) day grace period thereafter, Seller may immediately, upon written notice to Purchaser, enter the Installation Site and repossess the Alternative Energy System and any and all of the components thereof. In such event, Seller shall be entitled to recover its attorney fees, court costs, arbitration costs, collection costs, repossession fees and expenses incurred in repossessing the Alternative Energy System and any components thereof. In the event that Purchaser voluntarily relinquishes the Alternative Energy System to Seller, and thereby minimizes the expense to Seller in repossessing the Alternative Energy System, Seller agrees not to report Purchaser to any credit agencies for Purchaser's default, and Purchaser shall receive a credit against the balance owed under the Installment Schedule in an amount equal to the value of the Alternative Energy System as established by an independent, qualified appraiser approved by Purchaser and Seller. The credit for the value of the Alternative Energy System shall be given if Purchaser voluntarily relinquishes the Alternative Energy System, whether the Alternative Energy System is re-sold by Seller or not.

6. If Purchaser fails to pay any Annual Installment or any portion thereof when due or within the thirty (30) days grace period thereafter, or if Purchaser becomes subject to any state or federal insolvency, bankruptcy, receivership, trusteeship or similar proceeding, or if Purchaser shall default in any other term of this Agreement, Seller may immediately terminate this Agreement by notice in writing to Purchaser and repossess the Alternative Energy System and all of the components thereof as stated above. In such event, Purchaser shall remain liable for all sums then due and unpaid, less the credit for the value of the repossessed Alternative Energy System as described above, plus a reasonable amount for attorneys' fees and such expenses as may be expended in the repossession of the Alternative Energy System.

7. If Seller shall fail, for any reason, to furnish, deliver, install and startup the Alternative Energy System at the Installation Site, by December 31, 2007, hereinafter referred to as the "Refund Date", Seller shall refund to Purchaser, within ninety (90) days following the Refund Date, the Initial Down Payment amount.

8. Seller hereby warrants, for the thirty five (35) year period from the Installation Date to the end of the Installment Period, hereinafter referred to as the "Warranty Period", that the Alternative Energy

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System shall remain in good operating condition. Seller shall initiate, within five (5) business days following the receipt of written notice that the Alternative Energy System is not operating properly or is not in good operating condition, either directly or through the use of one or more independent maintenance or repair entities, maintenance or repair of the malfunctioning or non-operating components of the Alternative Energy System. Seller shall complete such maintenance or repair work within a reasonable time thereafter. Seller shall be responsible for all material, equipment and labor costs incurred to complete such maintenance and repair work.

9. Seller hereby warrants, for the thirty five (35) year Warranty Period, the Alternative Energy System and each of the components thereof, from defects in materials and workmanship. Within five (5) business days following the receipt of written notice from Purchaser, Seller shall initiate reasonable efforts to ascertain repair or replacement requirements, to order replacement parts and equipment needed for repair, and to deploy qualified maintenance personnel. The cost of warranty parts, replacement equipment and labor shall be borne by Seller.

10. Seller and Purchaser acknowledge that the Target Production Rate from the Alternative Energy System is 250,000,000 (Two-Hundred and Fifty Million) British Thermal Units ("BTU's") per year and the Warranty Production Rate is ninety-five percent (95%) of the Target Production Rate per year. Seller hereby warrants that for the initial five year period from the Installation Date to a date five years following the Installation Date, the energy production for the Alternative Energy system, shall be no less than five times the Warranty Production Rate. However, if the average cloud cover for the initial five year period exceeds by more than ten percent (10%) the ten year average cloud cover for the Installation Site as measured at the nearest weather station maintaining cloud cover records for the ten calendar year period immediately preceding the year of the Installation Date, the Warranty Production rate, for the initial five year period, shall be reduced to the ratio of the ten year average cloud cover to the actual average cloud cover for the initial five year period, multiplied times the Warranty Production Rate. This reduced production rate shall be referred to hereafter as the Adjusted Warranty Production Rate.

In the event that the actual energy production rate from the Alternative Energy System during the initial five year period is less than the Warranty Production Rate, or the Adjusted Warranty Production Rate if an adjustment is made as described above, Purchaser shall have the option terminate this Agreement and relinquish the Alternative Energy System to Seller. Purchaser shall thereafter have no further obligation under this Agreement to make any further payment or to perform any other obligation to Seller arising under this Agreement, except to cooperate with and assist Seller in obtaining possession of the Alternative Energy System. If Purchaser elects to terminate this Agreement as provided above, Purchaser shall not be entitled to a reimbursement of any portion of the Initial Down Payment. The foregoing option to terminate must be exercised within sixty (60) calendar days following the expiration of the initial five year period and must be exercised by Purchaser providing written notice to Seller.

11. Purchaser hereby waives any and all claims against Seller for delays, including but not limited to claims for damages due to delays in preparing plans; delays in applying for or obtaining approvals or permits; delays in the delivery, installation, or start-up; or delays in performing warranty work. This waiver includes any and all direct, indirect or consequential damages.

12. Neither of the parties shall have liability for consequential damages to the other arising out of this agreement or the transactions, events or occurrences related thereto and each hereby waives any and all such claims for consequential damages against the other. Seller's liability for any breach under this agreement shall be limited to any amounts actually paid by Purchaser and received by Seller under this Agreement.

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13. Purchaser agrees to require Operations and Management Company to maintain property damage insurance on the Alternative Energy System.

14. Purchaser agrees to require Operations and Management Company to maintain liability insurance to insure against bodily injury, property damage, product liability or other claims related to the design, manufacture, delivery, installation, start-up, operation or maintenance of the Alternative Energy System.

15. This Agreement shall not be assigned by Purchaser without the express written consent of Seller. Seller may assign its rights and obligations under this Agreement but Seller shall remain liable to Purchaser for the failure of its assignee to perform the obligations of Seller under this Agreement.

16. This Agreement shall be binding upon the successors and assigns of each of the parties.

17. Seller makes no representations or warranties, expressed or implied, including the implied warranty of merchantability and fitness, except as expressly stated in this Agreement.

18. Purchaser shall not repair, modify or adjust the Alternative Energy System or any component thereof and Purchaser agrees to prohibit anyone other than Seller's authorized personnel to repair, modify or adjust the Alternative Energy System or any component thereof.

19. Purchaser shall notify Seller immediately of accidents, disabilities, failures or like information concerning the Alternative Energy System.

20. In the event the Alternative Energy System becomes inoperable for any reason, except as otherwise provided under the warranty during the Warranty Period, Seller shall not be obligated to furnish a substitute Alternative Energy System or any component thereof. In any event, Seller shall not be liable for any special or consequential damages of any nature resulting from such inoperability.

21. Purchaser agrees that the Alternative Energy System shall be used and operated only at the Installation Site and in accordance with the "Safety and Operating Guidelines" which shall be written and set forth by Seller. Purchaser agrees that the Alternative Energy System shall not be relocated by Purchaser without the written consent of Seller.

22. Any notice under this Agreement shall be deemed sufficient if it is in writing and it is delivered to Purchaser, personally or sent by mail addressed to Purchaser at the address set forth above.

23. Nothing herein conveys to Purchaser any right, title or interest in or to the Alternative Energy System or any component thereof, except as a Purchaser. Seller reserves the right to file or record such documents and instruments as it may deem necessary from time to time to protect its rights, liens, title and interest in the Alternative Energy System. Purchaser agrees to cooperate with Seller and to execute such documents as may be required or requested by Seller to assist Seller in protecting its rights, liens, title and interest in the Alternative Energy System.

24. In the event of the breach of this Agreement by either party, the injured party shall be entitled to recover its costs, attorney fees, arbitration costs and arbitration fees incurred in enforcing the agreement and in pursuing appropriate remedies.

25. Seller and Purchaser acknowledge that they each understand that the Alternative Energy System may qualify for certain tax incentives and benefits under the 2005 Energy Policy Act and other

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statutes. Purchaser agrees to obtain the evaluation and opinion of its own tax attorney or accountant as to any tax matters relating to this Agreement and to the Alternative Energy System. Seller does not guarantee any tax incentive or benefit to Purchaser. Seller hereby transfers to Purchaser any and all energy tax credits, if any, related to the Alternative Energy System. Seller shall not claim any such energy tax credits. Seller and Purchaser agree that the respective initial values of the components of the Alternative Energy System are listed on the attached Exhibit "A".

26. In the event of a dispute arising out of this Agreement or the transactions, events or occurrences related thereto, Seller shall have the sole option of electing to have such disputes resolved by binding arbitration in accordance with the Commercial Arbitration Rules of the American Arbitration Association with all hearings and other proceedings in that arbitration being conducted in Salt Lake City, State of Utah. Seller shall have the right to elect arbitration at any time up to and including the time that either party files an Answer in pending litigation between the parties relating to such disputes.

27. This Agreement shall be construed in accordance with the laws of the State of Utah.

28. This is the entire agreement between the parties. This agreement shall not be modified except by written amendment signed by Purchaser and Seller.

**PURCHASER**

By:

\_\_\_\_\_  
(Signature)

Title: \_\_\_\_\_

**INTERNATIONAL AUTOMATED SYSTEMS, INC.**

**SELLER**

By: Neldon P. Johnson

\_\_\_\_\_  
(Signature)

Title: President

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EXHIBIT A

ALTERNATIVE ENERGY SYSTEM COMPONENT LIST

<u>Quantity</u>	<u>Description of Component</u>	<u>Model No.</u>	<u>Serial No.'s</u>	<u>Value</u>
	Solar Lens Concentrators to Produce 250 Million BTUs per Year.			

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**Section III**

OPERATION AND MAINTENANCE AGREEMENT

Solar Thermal Power Plant

This Operation and Maintenance Agreement (the "Agreement") is entered into this \_\_\_\_\_ day of \_\_\_\_\_, 2007, by and between LTB LLC (the "Operator"), a Nevada Limited Liability Company with principal offices at 3838 Rayment Drive, Suite #10, Las Vegas, Nevada 89121, and \_\_\_\_\_ a \_\_\_\_\_ whose address is \_\_\_\_\_ (the "Owner").

RECITALS

WHEREAS pursuant to an Equipment Purchase Agreement (the "Purchase Agreement") between the Owner and International Automated Systems, Inc. ("IAUS"), a Utah Corporation with principal offices at \_\_\_\_\_, Salem, Utah 846\_\_\_\_, a copy of which is attached as Attachment A, the Owner has purchased certain solar thermal energy equipment which consists of \_\_\_\_\_ (the "Number of Owner's Alternative Energy Systems") Alternative Energy Systems (the "Owner's Alternative Energy Systems") which are particularly described in the Purchase Agreement that will be installed at a Power Plant and/or other facilities hereafter associated therewith (collectively, the "Project") at a location designated by the Equipment Purchase Agreement (the "Site"). The Alternative Energy Systems are each of a uniform physical design and a uniform design energy production.

WHEREAS, the Owner desires to sell to Operator and Operator desires to purchase from Owner, energy produced by the Alternative Energy System.

WHEREAS, the Owner desires to contract with the Operator for Operator to provide operation and maintenance services in respect of the Project.

WHEREAS, the Operator, at the Operator's sole discretion, may also be operating and maintaining solar thermal energy equipment other than the Alternative Energy System of the Owner, at the Site, which together with the Alternative Energy System of the Owner shall be hereinafter referred to collectively as the "Collective Alternate Energy Systems".

WHEREAS, the Operator is willing to provide such services on the terms and conditions set forth in this Agreement.

NOW, THEREFORE, in consideration of the mutual covenants and agreements hereinafter set forth and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

ARTICLE 1

DEFINITIONS

- 1.1 **Alternative Energy System.** Solar energy collection system of a uniform design by IAUS, and a uniform solar energy collection capacity.
- 1.2 **Imbedded Definitions.** The definitions of other key terms are as stated in the text of this

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Agreement.

## ARTICLE 2

### OPERATOR SCOPE OF WORK

#### 2.1 Appointment.

The Owner appoints the Operator and the Operator accepts the appointment to perform the following services subject to and in accordance with the provisions of this Agreement (collectively, the "Work"):

2.1.1 Routine O&M Services;

2.1.2 Additional Services; and

2.1.3 Transition Services.

#### 2.2 Effective Date.

The Operator shall begin performing the Work on the date the Owner's Alternative Energy Systems are installed at the Site (the "Effective Date").

#### 2.3 Operation and Maintenance Services.

The Operator will perform the Work in accordance with the standard of a reasonable and prudent operator in the state wherein the Site is located and in compliance with the Safety and Operating Guidelines ("Guidelines") provided by IAUS to Operator, except to the extent that a reasonable and prudent operator would be unable, or would be hindered in its ability, to perform such obligations. Operator and Owner agree that IAUS may modify or amend the Guidelines from time to time in the sole discretion of IAUS. The Guidelines, as amended and modified hereafter in the sole discretion of IAUS, are hereby incorporated by reference into this Agreement and Operator and Owner hereby agree to be bound thereby.

#### 2.4 Appointment of Liaison.

The Operator may appoint a representative who will represent the Operator under this Agreement and be responsible for receiving approvals or instructions from the Owner that may be required from time to time. The Owner shall be entitled to rely on the actions of such representative for the purposes of this Agreement.

#### 2.5 Governmental Approvals.

The Operator shall apply for and use reasonable efforts to obtain and maintain all Governmental Approvals that are required to be in the Operator's name and that are necessary for the Operator to perform its obligations under this Agreement. The Operator shall assist the Owner, to the extent reasonably necessary, in obtaining Governmental Approvals that the Owner is required to obtain pursuant to Article 3.

#### 2.6 Work Force.

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The Operator is responsible for hiring, employing, training and managing, and additionally, in respect of employees employed by Affiliates of the Operator, overseeing the work force necessary to operate, maintain and repair the Project in accordance with this Agreement.

2.7 Access.

The Operator shall at all times provide access to the areas of the Project to the designated representatives of the Owner and (so long as the Financing Documents remain in effect) provided that such access is in compliance with the Equipment Purchase Agreement and is coordinated with the Operator to ensure that it does not unreasonably interrupt or interfere with the performance of the Work or the safe operation of the Project and is at the sole risk and expense of the Owner, as applicable.

2.8 Legal Requirements.

The Operator shall comply in all material respects with all applicable law in the performance of the Work.

**ARTICLE 3**

**OWNER SCOPE OF RESPONSIBILITIES**

3.1 Delivery of the Project.

Once this Agreement becomes effective, the Owner shall grant the Operator and its designated and identified Affiliates, employees, agents and representatives, access to the Site and the Project, as are necessary or desirable for the Operator to carry out the Work and to comply with the Operator's obligations hereunder.

3.2 Appointment of Liaison.

The Owner may appoint a representative who will represent the Owner under this Agreement and be responsible for giving approvals or instructions to the Operator that may be required from time to time. The Operator shall be entitled to rely on the approvals or instructions of such representative.

3.3 Governmental Approvals.

The Owner shall apply for and use reasonable efforts to obtain and maintain all Governmental Approvals that are required to be in the Owner's name and that are necessary for the Owner to perform its obligations under this Agreement. The Owner shall assist the Operator; to the extent reasonably necessary, in obtaining Governmental Approvals that the Operator is required to obtain pursuant to Article 2.

3.4 Compliance with Applicable Law.

The Owner shall comply in all material respects with all applicable law in connection with the performance of this Agreement.

ARTICLE 4

SAFETY AND OPERATING GUIDELINES

4.1 Safety and Operating Guidelines.

Pursuant to the Equipment Purchase Agreement between the Owner and IAUS, IAUS has provided Safety and Operating Guidelines (“Guidelines”) for operating and maintaining the Project, which Guidelines include but are not limited to a description of the services to be provided by Operator to Owner. The services are categorized by the Guidelines into Routine O&M Services, Additional Services, and Transition Services. The Guidelines written and set forth by IAUS are subject to modification or amendment by IAUS without prior notice, in the sole discretion of IAUS. Operator shall perform the Work in accordance with and in full compliance with the Guidelines, as modified or amended by IAUS from time to time, which Guidelines are incorporated by reference into this Agreement.

4.2 Health, Environmental and Safety Standards.

The Operator agrees that the Project shall be operated in compliance with all applicable laws and with the OSHA Standards and that the Operator shall not be obligated to perform the Work in a manner that does not meet the OSHA Standards or that would violate applicable law.

ARTICLE 5

COMPENSATION AND PAYMENT

5.1 Project Energy Production.

At the end of each quarter, the total Energy produced by the Collective Alternative Energy Systems shall be calculated by the net energy output by the Project as measured in kilowatt-hours.

5.2 Owner’s Alternative Energy Systems Energy Production.

At the end of each quarter, the percentage of Energy produced by the Owner’s Alternative Energy Systems shall be calculated by dividing the Number of Owner’s Alternative Energy Systems by the Number of Alternative Energy in the Collective Alternative Energy Systems (the “Owner’s Energy Percentage”).

5.3 Energy Price.

At the end of each quarter, the Operator will purchase from the Owner, the Owner’s Energy Percentage on a price-per-kilowatt hour basis (the “Energy Price”). The initial Energy Price shall be five and one-half cents per kilowatt hour (\$0.055/kWh). The Energy Price shall be increased as of January 1 of each year following the calendar year of the date of this Agreement, by two-point-nine-five percent (2.95%).

5.4 Kilowatt-Hour Units vs. British Thermal Units

The Owner’s Energy Percentage and the Energy Price are stated in units of kilowatt-hours instead of net British Thermal Units (“BTUs”) for the sake of simplification, not because the Operator is actually purchasing electricity from the Owner.

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5.5 Payment.

All payments shall be in Dollars unless otherwise agreed. The Operator shall compensate Owner pursuant to sections 5.2 and 5.3 on a quarterly basis by check or wire transfer to one or more account(s) specified by the Owner. Each payment shall be delivered to Owner within thirty calendar days following the end of the quarter.

5.6 Late Payments.

Late payments under this Agreement shall bear interest at a rate calculated from day to day on the basis of a 360 day year equal to one percent per annum above the Discount Rate. The payment of interest shall not excuse or cure any late payment hereunder.

ARTICLE 6

INDEMNIFICATION

6.1 Scope of Indemnification.

(a) The Owner shall indemnify, defend and hold harmless the Operator, its Affiliates and its and their respective directors, officers, employees and agents ("**Operator Indemnified Persons**") from and against any liability, loss, damage, claim, cost, charge or expense of any kind or nature, including reasonable attorneys' fees, expenses and other costs of litigation (collectively, "**Damages**") incurred by any Operator Indemnified Person in connection with (i) injury to or death of any person or damage to property (including the Project and any facilities related to the Project) and (ii) any claims by third parties, in each case, as a result of or otherwise relating to (A) the breach by the Owner of any of its obligations under this Agreement, (B) the gross negligence or willful misconduct of the Owner, its Affiliates and its and their respective directors, officers, employees and agents, or (C) the Project; provided that the Owner shall not be liable to indemnify any such Operator Indemnified Person for any Damages to the extent that such Damages are to be indemnified by the Operator pursuant to Section 6.1(b)(ii) or are the result of the gross negligence or willful misconduct of the Operator or, in respect of any such Operator Indemnified Person, such Operator Indemnified Person.

(b) Subject to the limitation of liability under Article 10, the Operator shall indemnify, defend and hold harmless the Owner, its Affiliates and its and their respective directors, officers, employees and agents ("**Owner Indemnified Persons**") from and against any Damages incurred by any Owner indemnified Person in connection with (i) injury to or death of any person or damage to property (including the Project and any facilities related to the Project) and (ii) any claims by third parties, in each case, as a result of (A) the breach by the Operator of any of its obligations under this Agreement or (B) the gross negligence or willful misconduct of the Operator, its Affiliates and its and their respective directors, officers, employees and agents; provided that the Operator shall not be liable to indemnify any such Owner Indemnified Person to the extent Damages are the result of the negligence or willful misconduct of the Owner or any such Owner Indemnified Person or the breach by the Owner of any of its obligations under this Agreement.

6.2 Limitation of Liability.

The limitation of liability under Article 10 shall not apply to or include the amount of insurance proceeds received by the Operator under insurance obtained in accordance with this Agreement other than insurance obtained and paid by the Operator unless the amount paid by the Operator is reimbursed by the Owner hereunder.

6.3 No Effect on Insurers.

The provisions of this Article 6 will not be construed to relieve any insurer of its obligations to pay any insurance claims in accordance with the provisions of any valid insurance Policy.

6.4 Gross Negligence.

No Party shall have its liability limited hereunder for its own gross negligence or willful misconduct.

6.5 Survival.

The Parties' obligations under this Article 6 survive any termination of this Agreement.

ARTICLE 7

INSURANCE

7.1 Insurance Required of the Operator.

The Operator shall procure and maintain the insurance listed below:

- (a) Workers' compensation insurance, or the equivalent, as required by law.
- (b) Comprehensive general liability coverage, or the equivalent, including bodily injury and physical damage, with a per occurrence limit of US\$1,000,000.00.

ARTICLE 8

FORCE MAJEURE

8.1 Event of Force Majeure.

Any failure by the Operator or the Owner to carry out any of its obligations under this Agreement will not be deemed a breach of contract or default, other than obligations to pay monies due and payable pursuant to this Agreement, if such failure is caused by an Event of Force Majeure, that Party having taken all appropriate precautions, due care and reasonable alternative measures with the objective of avoiding such failure and of carrying out its obligations under this Agreement. If any activity is delayed, curtailed or

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prevented by an Event of Force Majeure, then, anything in this Agreement to the contrary notwithstanding, the time for carrying out the activity thereby affected and the term of this Agreement will each be extended for a period equal to the total of the periods during which such causes or their effects were operative, and for such further periods, if any, as are necessary to make good the time lost as a result of such Event of Force Majeure.

8.2 Notice: Cooperation.

The Party whose ability to perform its obligations is affected by an Event of Force Majeure shall notify as soon as practicable the other Party in writing, stating the cause, and the Parties shall endeavor to do all reasonable acts and things within their power to remove such cause. No Party is obligated to resolve or terminate any disagreement with third parties, including labor disputes, except under conditions acceptable to it or pursuant to the final decision of any arbitral, judicial or statutory agent having jurisdiction to finally resolve the disagreement. As to labor disputes, any Party may request the other Party to cooperate in a joint endeavor to alleviate any conflict which may arise.

ARTICLE 9

TERM AND TERMINATION

9.1 Term of Agreement.

This Agreement becomes effective as of the Effective Date and, unless terminated by either Party pursuant to this Article 9, will terminate upon the termination of the Purchase and Installation Contract.

9.2 Termination by the Owner.

This Agreement may be terminated at any time by the Owner if the Operator breaches any of its material obligations under this Agreement; provided that the exercise of any termination right to be effective must occur within 90 days after the Owner becomes aware that its termination right exists. The Operator will have the opportunity, within 90 days of receiving notice of the event or breach to cure the event or breach, if such event or breach is not capable of being cured within such period, to submit to the Owner a plan (an "**Operator Remedial Plan**") calculated to cure such event or breach within an additional reasonable period of time. The Owner may terminate this Agreement if, having commenced actions to cure the event or breach in accordance with an Operator Remedial Plan, the Operator fails to pursue such actions diligently or is unable to effect a cure within the period contemplated in the Operator Remedial Plan; provided that if the existence of such event or breach is disputed, such termination may occur only following resolution of such breach.

9.3 Termination by the Operator.

This Agreement may be terminated at any time by the Operator if the Owner breaches any of its material obligations under this Agreement, and Owner fails to cure such breach within 90 days of the receipt of written notice from Operator. The Operator shall have the right to immediately suspend performance hereunder in the event of any such default, until the same is cured by the Owner, and the Owner shall have no rights against the Operator in respect of such suspension until the time of such cure. Additionally, the Operator may terminate this Agreement if any change in ownership results in the Operator no longer being an Affiliate of the Owner. The exercise of any termination right to be effective must occur within 90 days after the Operator becomes aware that its termination right exists.

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9.4 Transition to New Operator.

In the event of any termination under Section 9.2, the Owner may request that the Operator continue to maintain a sufficient number of local and expatriate employees to assist in training a replacement operator and to perform such other transition work as the Owner may reasonably request, and the Operator shall comply with any such request for a period not to exceed three months.

ARTICLE 10

LIMITATIONS OF LIABILITY

Neither of the parties shall have liability for consequential damages to the other arising out of this agreement or the transactions, events or occurrences related thereto and each hereby waives any and all such claims for consequential damages against the other.

ARTICLE 11

CONSULTATION AND ARBITRATION

11.1 Arbitration.

(a) If any Dispute arising out of this Agreement cannot be resolved by the Parties, then such Dispute shall be resolved by binding arbitration pursuant to the Commercial Arbitration Rules of the American Arbitration Association. The arbitration shall be the sole and exclusive forum for resolution of such Dispute, and the award rendered shall be final and binding. Judgment on the award rendered may be entered in any court having jurisdiction thereof.

(b) The arbitration shall be conducted in the English and shall be held in Salt Lake City, Utah.

(c) Any award of the arbitrator(s) (i) shall be in writing, (ii) shall state the reasons upon which such award is based and (iii) may include an award of costs, including reasonable attorneys' fees and disbursements.

(d) The arbitrators shall have no authority to award consequential damages or punitive damages or any other damages not measured by the prevailing Party's actual direct damages, and the arbitrators may not, in any event, make any ruling, finding or award that does not conform to the term and conditions of this Agreement.

(e) Any Party may make an application to the arbitrators seeking injunctive relief to maintain the status quo until such time as the arbitration award is rendered or the dispute, controversy or claim is otherwise resolved. Any Party may also apply to any court having jurisdiction and seek injunctive relief in order to maintain the status quo until such time as the arbitration award is rendered or the dispute, controversy or claim is otherwise resolved.

In the course of resolving Disputes, to the extent practicable, the Parties shall continue to perform the terms and conditions of this Agreement that are not in dispute.

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ARTICLE 12

REPRESENTATIONS AND WARRANTIES

12.1 By the Owner.

In order to induce the Operator to enter into this Agreement the Owner makes the following representations and warranties as of the date hereof, which survive the execution and delivery hereof:

- (a) the Owner is an individual having all requisite power and authority to enter into and perform this Agreement;
- (b) the execution, delivery and performance of this Agreement (i) have been duly authorized by all necessary actions on the part of the Owner, and (ii) will not result in any violation of or conflict with or constitute a default under any provision of applicable law or of any judgment, decree or order of a court or Governmental Instrumentality applicable to the Owner or any material agreement or other instrument to which the Owner is a party or by which it is bound, including the Energy Sales Contract; and
- (c) this Agreement constitutes a valid and binding obligation of the Owner. 12.2

By the Operator.

In order to induce the Owner to enter into this Agreement, the Operator makes the following representations and warranties as of the date hereof, which survive the execution and delivery hereof:

- (a) it is a corporation duly organized, validly existing and in good standing under the laws of the State of Nevada and has all requisite corporate power and authority to enter into and perform this Agreement;
- (b) the execution, delivery and performance of this Agreement (i) have been duly authorized by all necessary corporate action on its part and (ii) will not result in any violation of or conflict with or constitute a default under any provision of applicable law or its charter or by-laws or any judgment, decree or order applicable to it or any material agreement or other instrument to which it is a party or by which it is bound; and
- (c) this Agreement constitutes a valid and binding obligation of the Operator.

ARTICLE 13

MISCELLANEOUS 13.1

Governing Law.

This Agreement is governed by and construed in accordance with the laws of the State of Utah, United States of America.

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**OWNER**

By:

\_\_\_\_\_  
(Signature)  
Title: \_\_\_\_\_

**LTB LLC**

**OPERATOR**

By:

\_\_\_\_\_  
(Signature)  
Title: \_\_\_\_\_



**Section IV**

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1

**EQUIPMENT PURCHASE AGREEMENT**

This Equipment Purchase Agreement ("Agreement") is made and entered into this 10 day of AUGUST, 2009 by and between International Automated Systems, Inc., a Utah corporation with offices at 326 North Highway 6, Salem, UT 84653, hereinafter referred to as "Seller", and ROGER FREEBOURN whose address is P.O. BOX 1616 ESTACADA OR 97023, hereinafter referred to as "Purchaser".

**BACKGROUND**

1. Seller is the owner of certain proprietary alternative energy technology, hereinafter "IAS Technology", which technology relates to solar energy collection and which technology is utilized for the design and fabrication of certain components which are identified below and which are hereinafter collectively referred to as the "Alternative Energy System".
2. Seller and Purchaser now desire to enter into an agreement whereby Seller will sell Purchaser the Alternative Energy System specifically described below.

**AGREEMENT**

NOW, THEREFORE, the parties hereto agree as follows:

1. Seller hereby sells to Purchaser and Purchaser hereby purchases from Seller the Alternative Energy System consisting of the system components identified on the attached Exhibit "A". The number of Alternative Energy Systems purchased by Purchaser from Seller under this Agreement shall be TWO (2). Seller shall furnish, deliver, install and startup the Alternative Energy System, at a site provided by Seller at DELTA UT, hereinafter referred to as the "Installation Site".
2. Seller agrees to complete the following for the Alternative Energy System in accordance with the schedule stated:
  - a. Seller shall furnish, deliver, install and startup the Alternative Energy System at the Installation Site, by Dec. 31, 2009, hereinafter referred to as the "Installation Date".
  - b. Seller shall provide to Purchaser all required documentation relating to the Alternative Energy System and its components as requested by Purchaser for federal, state and local review of the Alternative Energy System for potential tax benefits.
3. Purchaser shall pay to Seller the sum of \$30,000 for each Alternative Energy System purchased, hereinafter referred to as the "Purchase Amount" for the purchase of the Alternative Energy System. This includes the cost of delivery, installation and startup, as well as



the cost of warranty work performed during the warranty period described below. The Total Purchase Amount shall be paid in accordance with the following schedule:

- a. Initial Down Payment in the amount of \$9,000 (nine-thousand dollars) for each Alternative Energy System purchased, which shall be paid at the time that this Agreement is entered into.
- b. Thirty Annual Installments in the amount of \$700.00 (seven-hundred dollars) for each Alternative Energy System purchased, hereinafter referred to as "Annual Installments," shall be paid to Seller, the first Installment being due five years following the Installation Date and the last Installment being due Twenty Nine years thereafter, the Thirty Five year period from the Installation Date to a date one year following the due date of the last Installment, shall be referred to hereinafter as the "Installment Period" and the schedule of Installment payments shall be referred to hereinafter as the "Installment Schedule."

4. The Alternative Energy System shall be placed in operation only at and operated only at the Installation Site, and shall be operated and managed for the Installment Period by an independent Operations and Management Company, namely LTB, LLC, with principal offices at LAS VEGAS, NV, hereinafter referred to as "Operations and Management Company". In the event that Operations and Management Company shall cease to operate and manage the Alternative Energy System for any reason during the Installment Period, a Substitute Operations and Management Company approved by Seller shall be employed to operate and manage the Alternative Energy System. The Substitute Operations and Management Company must be expressly approved by Seller.

5. In the event that Purchaser fails to pay any of the Annual Installments or any portion thereof, when due, interest shall accrue on the overdue amount at the rate of one and one-half percent (1-1/2 %) per month until paid. If Purchaser fails to pay any Annual Installment or any portion thereof when due or within a thirty (30) day grace period thereafter, Seller may immediately, upon written notice to Purchaser, enter the Installation Site and repossess the Alternative Energy System and any and all of the components thereof. In such event, Seller shall be entitled to recover its attorney fees, court costs, arbitration costs, collection costs, repossession fees and expenses incurred in repossessing the Alternative Energy System and any components thereof. In the event that Purchaser voluntarily relinquishes the Alternative Energy System to Seller, and thereby minimizes the expense to Seller in repossessing the Alternative Energy System, Seller agrees not to report Purchaser to any credit agencies for Purchaser's default, and Purchaser shall receive a credit against the balance owed under the Installment Schedule in an amount equal to the value of the Alternative Energy System as established by an independent, qualified appraiser approved by Purchaser and Seller. The credit for the value of the Alternative Energy System shall be given if Purchaser voluntarily relinquishes the Alternative Energy System, whether the Alternative Energy System is re-sold by Seller or not.



6. If Purchaser fails to pay any Annual Installment or any portion thereof when due or within the thirty (30) days grace period thereafter, or if Purchaser becomes subject to any state or federal insolvency, bankruptcy, receivership, trusteeship or similar proceeding, or if Purchaser shall default in any other term of this Agreement, Seller may immediately terminate this Agreement by notice in writing to Purchaser and repossess the Alternative Energy System and all of the components thereof as stated above. In such event, Purchaser shall remain liable for all sums then due and unpaid, less the credit for the value of the repossessed Alternative Energy System as described above, plus a reasonable amount for attorneys' fees and such expenses as may be expended in the repossession of the Alternative Energy System.

7. If Seller shall fail, for any reason, to furnish, deliver, install and startup the Alternative Energy System at the Installation Site, by December 31, 2009, hereinafter referred to as the "Refund Date", Seller shall refund to Purchaser, within ninety (90) days following the Refund Date, the Initial Down Payment amount.

8. Seller hereby warrants, for the thirty five (35) year period from the Installation Date to the end of the Installment Period, hereinafter referred to as the "Warranty Period", that the Alternative Energy System shall remain in good operating condition. Seller shall initiate, within five (5) business days following the receipt of written notice that the Alternative Energy System is not operating properly or is not in good operating condition, either directly or through the use of one or more independent maintenance or repair entities, maintenance or repair of the malfunctioning or non-operating components of the Alternative Energy System. Seller shall complete such maintenance or repair work within a reasonable time thereafter. Seller shall be responsible for all material, equipment and labor costs incurred to complete such maintenance and repair work.

9. Seller hereby warrants, for the thirty five (35) year Warranty Period, the Alternative Energy System and each of the components thereof, from defects in materials and workmanship. Within five (5) business days following the receipt of written notice from Purchaser, Seller shall initiate reasonable efforts to ascertain repair or replacement requirements, to order replacement parts and equipment needed for repair, and to deploy qualified maintenance personnel. The cost of warranty parts, replacement equipment and labor shall be borne by Seller.

10. Seller and Purchaser acknowledge that the Target Production Rate from the Alternative Energy System is 250,000,000 (Two-Hundred and Fifty Million) British Thermal Units ("BTU's") per year and the Warranty Production Rate is ninety-five percent (95%) of the Target Production Rate per year. Seller hereby warrants that for the initial five year period from the Installation Date to a date five years following the Installation Date, the energy production for the Alternative Energy system, shall be no less than five times the Warranty Production Rate. However, if the average cloud cover for the initial five year period exceeds by more than ten percent (10%) the ten year average cloud cover for the Installation Site as measured at the nearest weather station maintaining cloud cover records for the ten calendar year period immediately preceding the year of the Installation Date, the Warranty Production rate, for the initial five year period, shall be reduced to the ratio of the ten year average cloud cover to the

actual average cloud cover for the initial five year period, multiplied times the Warranty Production Rate. This reduced production rate shall be referred to hereafter as the Adjusted Warranty Production Rate.

In the event that the actual energy production rate from the Alternative Energy System during the initial five year period is less than the Warranty Production Rate, or the Adjusted Warranty Production Rate if an adjustment is made as described above, Purchaser shall have the option to terminate this Agreement and relinquish the Alternative Energy System to Seller. Purchaser shall thereafter have no further obligation under this Agreement to make any further payment or to perform any other obligation to Seller arising under this Agreement, except to cooperate with and assist Seller in obtaining possession of the Alternative Energy System. If Purchaser elects to terminate this Agreement as provided above, Purchaser shall not be entitled to a reimbursement of any portion of the Initial Down Payment. The foregoing option to terminate must be exercised within sixty (60) calendar days following the expiration of the initial five year period and must be exercised by Purchaser providing written notice to Seller.

11. Purchaser hereby waives any and all claims against Seller for delays, including but not limited to claims for damages due to delays in preparing plans; delays in applying for or obtaining approvals or permits; delays in the delivery, installation, or start-up; or delays in performing warranty work. This waiver includes any and all direct, indirect or consequential damages.

12. Neither of the parties shall have liability for consequential damages to the other arising out of this agreement or the transactions, events or occurrences related thereto and each hereby waives any and all such claims for consequential damages against the other. Seller's liability for any breach under this agreement shall be limited to any amounts actually paid by Purchaser and received by Seller under this Agreement.

13. Purchaser agrees to require Operations and Management Company to maintain property damage insurance on the Alternative Energy System.

14. Purchaser agrees to require Operations and Management Company to maintain liability insurance to insure against bodily injury, property damage, product liability or other claims related to the design, manufacture, delivery, installation, start-up, operation or maintenance of the Alternative Energy System.

15. This Agreement shall not be assigned by Purchaser without the express written consent of Seller. Seller may assign its rights and obligations under this Agreement but Seller shall remain liable to Purchaser for the failure of its assignee to perform the obligations of Seller under this Agreement.

16. This Agreement shall be binding upon the successors and assigns of each of the parties.

17. Seller makes no representations or warranties, expressed or implied, including the implied warranty of merchantability and fitness, except as expressly stated in this Agreement.

18. Purchaser shall not repair, modify or adjust the Alternative Energy System or any component thereof and Purchaser agrees to prohibit anyone other than Seller's authorized personnel to repair, modify or adjust the Alternative Energy System or any component thereof.

19. Purchaser shall notify Seller immediately of accidents, disabilities, failures or like information concerning the Alternative Energy System.

20. In the event the Alternative Energy System becomes inoperable for any reason, except as otherwise provided under the warranty during the Warranty Period, Seller shall not be obligated to furnish a substitute Alternative Energy System or any component thereof. In any event, Seller shall not be liable for any special or consequential damages of any nature resulting from such inoperability.

21. Purchaser agrees that the Alternative Energy System shall be used and operated only at the Installation Site and in accordance with the "Safety and Operating Guidelines" which shall be written and set forth by Seller. Purchaser agrees that the Alternative Energy System shall not be relocated by Purchaser without the written consent of Seller.

22. Any notice under this Agreement shall be deemed sufficient if it is in writing and it is delivered to Purchaser, personally or sent by mail addressed to Purchaser at the address set forth above.

23. Nothing herein conveys to Purchaser any right, title or interest in or to the Alternative Energy System or any component thereof, except as a Purchaser. Seller reserves the right to file or record such documents and instruments as it may deem necessary from time to time to protect its rights, liens, title and interest in the Alternative Energy System. Purchaser agrees to cooperate with Seller and to execute such documents as may be required or requested by Purchaser to assist Seller in protecting its rights, liens, title and interest in the Alternative Energy System.

24. In the event of the breach of this Agreement by either party, the injured party shall be entitled to recover its costs, attorney fees, arbitration costs and arbitration fees incurred in enforcing the agreement and in pursuing appropriate remedies.

25. Seller and Purchaser acknowledge that they each understand that the Alternative Energy System may qualify for certain tax incentives and benefits under the 2005 Energy Policy Act and other statutes. Purchaser agrees to obtain the evaluation and opinion of its own tax attorney or accountant as to any tax matters relating to this Agreement and to the Alternative Energy System. Seller does not guarantee any tax incentive or benefit to Purchaser. Seller hereby transfers to Purchaser any and all energy tax credits, if any, related to the Alternative Energy System. Seller shall not claim any such energy tax credits. Seller and Purchaser agree

that the respective initial values of the components of the Alternative Energy System are listed on the attached Exhibit "A".

26. In the event of a dispute arising out of this Agreement or the transactions, events or occurrences related thereto, Seller shall have the sole option of electing to have such disputes resolved by binding arbitration in accordance with the Commercial Arbitration Rules of the American Arbitration Association with all hearings and other proceedings in that arbitration being conducted in Salt Lake City, State of Utah. Seller shall have the right to elect arbitration at any time up to and including the time that either party files an Answer in pending litigation between the parties relating to such disputes.

27. This Agreement shall be construed in accordance with the laws of the State of Utah.

28. This is the entire agreement between the parties. This agreement shall not be modified except by written amendment signed by Purchaser and Seller.

**PURCHASER**

By:



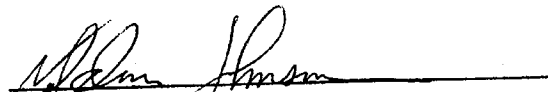
(Signature)

Title: \_\_\_\_\_

**INTERNATIONAL AUTOMATED SYSTEMS, INC.**

**SELLER**

By: Neldon P. Johnson



(Signature)

Title: President

EXHIBIT A

ALTERNATIVE ENERGY SYSTEM COMPONENT LIST

<u>Quantity</u>	<u>Description of Component</u>	<u>Model No.</u>	<u>Serial No.'s</u>	<u>Value</u>
2 (two)	Solar Lens Concentrators to Produce 250 Million BTUs per Year.			



Management Resource Consultants  
Ted Fullerton  
950 E 1240 S  
Spanish Fork , Utah 84660

December 30, 2009

Dear Ted Fullerton:

This letter is regarding the "Alternative Energy Systems" that you purchased from International Automated Systems, Inc. (IAS). IAS put into service your equipment on or before December 24, 2009. This will qualify you for the Internal Revenue Services solar energy tax credit.

*(However for your personal information, Section 103 Div.B Energy Credit (code Sec.48), "For projects whose construction time is expected to equal or exceed two years, the Credit may be claimed as is placed in service.")*

We appreciate your business and look forward to the opportunity to work with you to help solve our nation's energy needs. If you have any questions you may correspond with us at the above address.

Respectfully Yours,

International Automated Systems, Inc.

Neldon P. Johnson  
President & CEO

*International Automated Systems, Inc.  
326 North Highway 6  
Salem, Utah 84653  
Phone: (801) 423-8132  
FAX: (801) 423-1431*

Confidential Attorney Eyes Only



Ra3 003988



Roger Freeborn  
P.O.Box 1616  
1145 N.E. Hillway  
Estacada, OR 97023

December 30, 2009

Dear Roger:

This letter is regarding the "Alternative Energy Systems" that you purchased from International Automated Systems, Inc. (IAS). IAS put into service your equipment on or before December 24, 2009. This will qualify you for the Internal Revenue Services solar energy tax credit.

*(However for your personal information, Section 103 Div.B Energy Credit (code Sec.48), "For projects whose construction time is expected to equal or exceed two years, the Credit may be claimed as is placed in service.")*

We appreciate your business and look forward to the opportunity to work with you to help solve our nation's energy needs. If you have any questions you may correspond with us at the above address.

Respectfully Yours,

International Automated Systems, Inc.

Neldon P. Johnson  
President & CEO

**International Automated Systems, Inc.**  
326 North Highway 6  
Salem, Utah 84653  
Phone: (801) 423-8132  
FAX: (801) 423-1431

Confidential Attorney Eyes Only

Ra3 003989



Kenneth Lauritzen  
9918 Dream Circle  
South Jordan, Utah 84095

December 30, 2009

Dear Kenneth:

This letter is regarding the "Alternative Energy Systems" that you purchased from International Automated Systems, Inc. (IAS). IAS put into service your equipment on or before December 24, 2009. This will qualify you for the Internal Revenue Services solar energy tax credit.

*(However for your personal information, Section 103 Div.B Energy Credit (code Sec.48), "For projects whose construction time is expected to equal or exceed two years, the Credit may be claimed as is placed in service.")*

We appreciate your business and look forward to the opportunity to work with you to help solve our nation's energy needs. If you have any questions you may correspond with us at the above address.

Respectfully Yours,

International Automated Systems, Inc.

Neldon P. Johnson  
President & CEO

**International Automated Systems, Inc.**  
326 North Highway 6  
Salem, Utah 84653  
Phone: (801) 423-8132  
FAX: (801) 423-1431

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**RAPOWER-3 LLC  
MONEY TRANSFERRED AND EXPENSES FOR  
INTERNATIONAL AUTOMATED SYSTEMS  
8/1/11 – 10/4/11**

Frontier	8/1/11	Internet Shop in Delta	\$64.13	Ck#163
Frontier	8/31/11	Internet Shop in Delta	\$64.09	Ck#433
Frontier	10/4/11	Internet Shop in Delta	\$64.19	Ck#438
IAS	8/5/11	Company Expenses	\$25,000.00	Savings Transfer
IAS	8/19/11	Company Expenses	\$40,000.00	Savings Transfer
IAS	9/6/11	Company Expenses	\$30,000.00	Savings Transfer
IAS	9/19/11	Company Expenses	\$25,000.00	Savings Transfer
IAS	10/3/11	Company Expenses	\$32,000.00	Savings Transfer
Chase Credit Card	8/16/11	Company Expenses	\$1,114.31	Ck#166
Discover Card	8/16/11	Company Expenses	\$744.47	Ck#166
Cash	8/30/11	Gasoline	\$98.53	Ck#168
Visa Card	8/30/11	Patrick Baker Meds Accident	\$30.90	Ck#168
Wal-Mart	8/15/11	Pictures for Government Project	\$32.13	Discover Card
Sam King	9/14/11	Office Supplies	\$16.10	Ck#171
Alco	9/13/11	Bathroom Supplies	\$11.61	Ck#172
Delta Lock & Key	9/26/11	Lock fixed & keys made	\$35.00	Ck#176
Chase Credit Card	9/26/11	Company Expenses	\$1,042.11	Ck#177
Discover Card	8/16/11	Company Expenses	\$2,157.71	Ck#177
Sam King	9/30/11	Milling Machine payment	\$2,500.00	Ck#178

**TOTAL: \$159,975.28**



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**RAPOWER-3 LLC  
MONEY TRANSFERRED AND EXPENSES FOR  
INTERNATIONAL AUTOMATED SYSTEMS  
5/1/12 - 5/30/12**

Ken Skeem	5/3/12	Fork Lift	\$2,000.00	Ck#265
Deseret-Oasis Water	5/4/12	Water	\$30.00	Ck#269
Progressive Insurance	5/8/12	Insurance on Cement pumper trucks	\$229.40	Direct from RaPower 3
The ToolRoom Inc.	5/11/12	Connections for Lenses	\$31,654.50	Ck#273
Jerry Lemons Trucking	5/13/12	Trucking Steel Pipe	\$2,560.00	Ck#274
IAS	5/14/12	Company Expenses	\$34,300.00	Ck#275
Chase Credit Card	5/15/12	Company Expenses	\$4,637.73	Ck#276
Jerry Lemons Trucking	5/17/12	Trucking Steel Pipe	\$2,560.00	Ck#278
Rays Field Service	5/21/12	Trucking Steel Pipe & Loading	\$6,748.55	Ck#279
IAS	5/18/12	Order Lenses	\$107,000.00	Direct from RaPower3
IAS	5/25/12	Company Expenses	\$31,000.00	Direct from RaPower3
Questar Gas	5/29/12	Oasis Bldg. Gas	\$5.10	Ck#281
Frontier	5/31/12	Internet Shop in Delta	\$64.84	Ck#282
Deseret-Oasis Water	5/31/12	Water	\$30.00	Ck#283
Discover Card	5/31/12	Company Expenses	\$5,590.58	Ck#284
<b>TOTAL:</b>			<b>\$228,410.70</b>	



Confidential

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February 9, 2017

RaPower3, LLC  
Neldon Johnson  
4035 S 4000 W  
Delta, UT 84624

Sent via email to neldon@iaus.com, original will follow

Re.: *Response to tax questions posed.*

Dear Mr. Johnson,

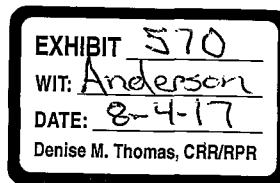
Last week you had several questions regarding tax liability for members of RaPower3's multi level marketing organization ("Member") and you wanted information on how to get a private letter ruling from the IRS on the same. This letter is to provide facts on each issue as stated below. This information is relevant only to individuals acting as sole proprietors in the multi level organization of RaPower3. Different rules apply to corporations and other entities.

**I. Will the Taxpayer's participation be deemed "Material Participation" as defined in the Internal Revenue Code?**

Prior to 1986, a taxpayer could generally deduct losses in full from rental activities and trades or businesses regardless of his or her participation. This gave rise to significant numbers of tax shelters that allowed taxpayers to deduct non-economic losses against wages and investment income. The Tax Reform Act of 1986 added IRC § 469, which limits the taxpayer's ability to deduct losses from businesses in which he or she does not materially participate and from rental activities.

If an activity or the participation in the activity is determined to be passive, this does not mean that the taxpayer may not deduct the expense. The expenses are deemed

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to be passive losses and are still deductible if the taxpayer has passive income from other sources. Passive income is determined by the same passive/active rules that apply to losses.

**A. EQUIPMENT LEASING AS A PASSIVE ACTIVITY**

In general, losses generated from equipment leasing are considered to be passive. I.R.C. § 469(c)(2) & (4). The material participation standard, as defined later, will normally not apply to long-term equipment rentals, thus equipment leasing losses would be passive regardless of the level of participation.

There are, however, six exceptions to this general rule. *Treas. Reg. § 1.469-1T(e)*. Activities meeting one of the six exceptions are treated as businesses. A taxpayer must then materially participate in order to treat the gain/loss as non-passive. Equipment rental is not a rental activity and thus passive activity in the following situations:

- a. **The average period of customer use for such property is seven days or less.** An example of this would be when Home Depot rents out tools and the average customer is only going to use the equipment for a few days and then return it.
- b. **The average period of customer use for such property is 30 days or less, and significant personal services are provided by or on behalf of the owner of the property in connection with making the property available for use by customers.** This would be similar to a construction company that bills out the cost of backhoe hours as well as the driver operating the machine. The backhoe will probably be on the jobsite for longer than 7 days, but the overall purpose of the transaction is to have the operator using the backhoe to further the construction project.
- c. **Extraordinary personal services are provided by or on behalf of the owner of the property in connection with making such property available for use by customers (without regard to the average period of customer use).** The use by students of a boarding school's dormitories generally is incidental to their receipt of the personal services provided by the school's teaching staff.
- d. **The rental of such property is treated as incidental to nonrental activity of the taxpayer.** Treasury Regulation 1.469-1T(e)(3)(v) further explains that rental property would be incidental to a nonrental activity of the taxpayer in the following situations:

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- a. **Property held for investment.** The rental of property during a taxable year shall be treated as incidental to an activity of holding such property for investment if and only if –
  - i. The principal purpose for holding the property during such taxable year is to realize gain from the appreciation of the property (without regard to whether it is expected that such gain will be realized from the sale or exchange of the property in its current state of development); and
  - ii. The gross rental income from the property for such taxable year is less than two percent of the lesser of –
    - 1. The unadjusted basis of such property; and
    - 2. The fair market value of such property.
- b. **Property used in a trade or business.** The rental property during a taxable year shall be treated as incidental to a trade or business activity if and only if –
  - i. The taxpayer owns an interest in such trade or business activity during the taxable year;
  - ii. The property was predominantly used in such trade or business activity during the taxable year; and
  - iii. The gross rental income from such property for the taxable year is less than two percent of the lesser of –
    - 1. The unadjusted basis of such property; and
    - 2. The fair market value of such property.
- e. The taxpayer customarily makes the property available during defined business hours for nonexclusive use by various customers. This is again similar to Home Depot renting out its tools to walk-in customers.
- f. The provision of the property for use in an activity conducted by a partnership, S corporation, or joint venture in which the taxpayer owns an interest is not a rental activity. In this exception, the equipment is essentially being leased back to the taxpayer in a different venture.

In order for the lease of equipment from the taxpayer to IAS for marketing purposes to be considered active loss or income, the transaction would have to fit into one of the exceptions listed above. The best argument the taxpayer could make is to state the rental is incidental to a nonrental activity of the taxpayer. The nonrental activity would be holding the property for investment as described above. For this exception to apply, the taxpayer must show that the principal purpose for having the equipment is to realize gain from the appreciation of the equipment and then the gross rental income cannot be more than two percent of either the fair market value of the

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equipment or the unadjusted basis of the equipment (what you paid for it) whichever amount is lesser. If the taxpayer paid \$1,000 for the equipment, the most he could collect in rent for that year is \$19.99 to still qualify under this exception.

If the taxpayer does determine that he qualifies for an exception from the rule that all equipment rental income and losses are passive, he must still pass the material participation requirement for a sole proprietorship.

**B. MATERIAL PARTICIPATION FOR A SOLE PROPRIETORSHIP**

Income and losses from a sole proprietorship will be considered passive activity unless the taxpayer materially participates in the business. If losses are determined to be passive, they are generally not deductible in the absence of passive income from another source.

A taxpayer materially participates in an activity if he or she works on a regular, continuous and substantial basis in operations. I.R.C. § 469(h)(1). There are seven tests for material participation and the taxpayer only has to meet any one of the requirements under Treasury Regulation 1.469-5T. The tests are as follows:

- a. The taxpayer works 500 hours or more during the year in the activity.
- b. The taxpayer does substantially all the work in the activity.
- c. The taxpayer works more than 100 hours in the activity during the year and no one else works more than the taxpayer.
- d. The activity is a significant participation activity (SPA), and the sum of SPAs in which the taxpayer works 100 to 500 hours exceeds 500 hours for the year.
- e. The taxpayer materially participated in the activity in any 5 of the prior 10 years.
- f. The activity is a personal service activity and the taxpayer materially participated in that activity in any 3 prior years.
- g. Based on all of the facts and circumstances, the taxpayer participates in the activity on a regular, continuous, and substantial basis during such year. However, this test only applies if the taxpayer works at least 100 hours in the activity, no one else works more hours than the taxpayer in the activity, and no one else receives compensation for managing the activity.

Stated simply, if the taxpayer does most of the work, income or loss will be non-passive. There is no specific number of hours associated with this test. In addition, the term "substantially" is not defined in the regulations. However, the involvement in the activity of an employee or non-owner could cause the taxpayer to fail this test.

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If there are others involved in the activity or business, the taxpayer must be able to prove his participation. This can be established by any reasonable means. Contemporaneous daily time reports, logs, or similar documents are not required if the extent of such participation may be established by other reasonable means. Reasonable means may include but are not limited to the identification of services performed over a period of time and the approximate number of hours spent performing such services during such period, based on appointment books, calendars, or narrative summaries. *Treas. Reg. § 1.469-5T(f)(4)*. In the case of any person who is married for the taxable year, any participation by such person's spouse during the taxable year will be treated as participation by such person in the activity during the taxable year. *Treas. Reg. § 1.469-5T(f)(3)*. Participation of children or employees is not counted towards the number of hours the taxpayer works during the year. If the taxpayer works more than 100 hours but less than 500 hours and there are other employees working in the same activity, the taxpayer must be able to prove that he is working more than anyone else.

Generally any work you do in connection with an activity in which you own an interest will be considered participation. In a multi-level marketing structure, participation would also include any activity to increase the productivity of other individuals engaged in such sales, such as recruiting, training, motivating and counseling such individuals. While the taxpayer may spend time working on various aspects of the activity, certain hours do not count in the tests for material participation:

- Investor-type activities do not count unless the taxpayer is directly involved in day-to-day management or operations. Treasury Regulation § 1.469-5T(f)(2)(ii)(B) provides that the following activities do not count unless the taxpayer is directly involved on a day-to-day basis in management or operations:
  - Studying or reviewing financial statements or reports.
  - Preparing or compiling summaries of analyses for the individual's own use.
  - Monitoring finances or operations in a non-managerial capacity.
  - (This list is not all inclusive. Other activities could include organizing records, preparing taxes, and paying bills.)
- Work not ordinarily done by an owner is not counted if it is claimed in an effort to avoid the passive loss limitations. This would be work performed by an owner that would normally be assigned to an employee. Generally the taxpayer has no reason to include these services in the hourly computations other than in an attempt to avoid disallowance of losses.

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- Travel time generally should not be considered in computing the hourly tests for material participation, particularly if other factors indicate the taxpayer is not participating in the activity on a regular, continuous and substantial basis. Legislative history provides that “services must be integral to operations”. It is somewhat difficult to construe that travel constitutes “services” or “participation” as contemplated by Congress or the Regulations. More importantly, travel is not integral to operations in most cases.

Participation and contributions to the business are based on the facts of the individual taxpayer. There is no clear cut answer as to exactly what activities a trier of fact would find as participation or not. However, broad indicators that the IRS will look at to determine if the taxpayer does not materially participate include:

- The taxpayer was not compensated for services. Most individuals do not work significant hours without expecting wages or commissions.
- The taxpayer’s residence is hundreds of miles from the activity.
- The taxpayer has a W-2 job requiring 40+ hours a week for which he or she receives significant compensation.
- The taxpayer has numerous other investments, rentals, business activities, or hobbies that absorb significant amounts of time.
- There is a paid on-site management/foreman/supervisor and/or employees who provide day-to-day oversight and care of the operations.
- The taxpayer is elderly or has health issues
- The majority of the hours claimed are for work that does not materially impact operations.
- Business operations would continue uninterrupted if the taxpayer did not perform the services claimed.

**II. What are the requirements for depreciation and I.R.C. section 179 deductions for the energy equipment?**

Depreciation is an annual income tax deduction that allows you to recover the cost or other basis of certain property over the time you use the property. It is an allowance for the wear and tear, deterioration, or obsolescence of the property. You can depreciate most types of tangible property (except land), such as buildings, machinery, vehicles, furniture, and equipment. You also can depreciate certain intangible property, such as patents, copyrights, and computer software.

To be depreciable, the property must meet all the following requirements:

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- It must be property you own.
- It must be used in your business or income-producing activity.
- It must have a determinable useful life.
- It must be expected to last more than one year after being placed in service.

**A. PROPERTY YOU OWN**

To claim depreciation, you must be the owner of the property. You are considered as owning property even if it is subject to a debt. You can depreciate leased property only if you retain incidents of ownership in the property. This means you bear the burden of exhaustion of the capital investment in the property. If you lease property to someone, you generally can depreciate its cost even if the lessee has agreed to preserve, replace, renew, and maintain the property. However, if the lease provides that the lessee is to maintain the property and return to you the same property or its equivalent in value at the expiration of the lease in as good condition and value as when leased, you cannot depreciate the cost of the property.

**B. SECTION 179 CONSIDERATIONS**

A qualifying taxpayer can choose to treat the cost of certain property as an expense and deduct it in the year the property is placed in service instead of depreciating it over several years. This property is frequently referred to as section 179 property.

The Small Business Jobs Act (SBJA) of 2010 increased the section 179 limitations on expensing of depreciable business assets. Under SBJA, qualifying businesses can expense up to \$500,000 of section 179 property for tax years beginning in 2010 and 2011. Without SBJA, the expensing limit would have been \$250,000 for 2010 and \$25,000 for 2011.

The \$500,000 amount provided under the new law is reduced, but not below zero, if the cost of all section 179 property placed in service by the taxpayer during the tax year exceeds \$2,000,000.

**C. PROPERTY ACQUIRED FOR BUSINESS USE**

To qualify for the section 179 deduction, your property must have been acquired for use in your trade or business. Property you acquire only for the production of income, such as investment property, *rental property (if renting property is not your trade or business)*, and property that produces royalties, *does not qualify*. Generally, you cannot claim a section 179 deduction based on the cost of property you lease to someone else.

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This rule does not apply to corporations. However, you can claim a section 179 deduction for the cost of the following property:

1. Property you manufacture or produce and lease to others.
2. Property you purchase and lease to others if both the following tests are met:
  - a. The term of the lease (including options to renew) is less than 50% of the property's class life.
  - b. For the first 12 months after the property is transferred to the lessee, the total business deductions you are allowed on the property (other than rents and reimbursed amounts) are more than 15% of the rental income from the property.

Unless the above test is met, the Member will not be able to take a section 179 deduction on the contract to lease the equipment to IAS for marketing purposes. However, once the equipment is placed in service, the Member can then take advantage of section 179 deduction.

#### **D. PROPERTY PLACED IN SERVICE**

You place property in service when it is ready and available for a specific use, whether in a business activity, an income-producing activity, a tax-exempt activity, or a personal activity. Even if you are not using the property, it is in service when it is ready and available for its specific use. The example the IRS lists in its article "Overview of Depreciation" is as such:

Donald Steep bought a machine for his business. The machine was delivered last year. However, it was not installed and operational until this year. It is considered placed in service this year. If the machine had been ready and available for use when it was delivered, it would be considered placed in service last year even if it was not actually used until this year.

#### **III. How can I get a letter from the IRS stating its position on material participation and section 179 deductions?**

The IRS will give a letter ruling to a taxpayer in response to a written inquiry, filed prior to the filing of returns or reports that are required by the tax laws, about its status for tax purposes or the tax effects of its acts or transactions. *Rev. Proc. 2010-1 I.R.B.* A letter ruling interprets the tax laws and applies them to

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the taxpayer's specific set of facts. Once issued, a letter ruling may be revoked or modified for a number of reasons.

The service generally only issues letter rulings to the taxpayer directly involved. For example, a taxpayer may not request a letter ruling relating to the tax consequences of a transaction to a customer or a client. The customer or client must make the request for himself.

The cost of a letter ruling is \$14,000. If the request involves a personal or business tax issue from a person with gross income of less than \$250,000, the fee is reduced to \$625. If the taxpayer has a gross income of more than \$250,000 but less than \$1 million, the fee is then \$2,000.

#### IV. Conclusion

I hope the above adequately answers your questions. This report has been generated merely to help the members of RaPower3's multi level marketing organization to make an informed decision regarding his tax planning options. I recommend that the individual taxpayer consults his own lawyer and tax professional if he wants professional assurances that this information, and his interpretation of it, is appropriate to his particular situation. I remain available to you should you have further inquiry regarding RaPower3.

Sincerely,  
Anderson Law Center, P.C.

Jessica L. Anderson

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**RaPower3 Equipment Purchase Agreement**

This Equipment Purchase Agreement (the "Agreement") is entered into this day

by and between RaPower3 LLC (the "Operator"), a Nevada Limited Liability Company with principal offices at 4035 South 4000 West, Desert, UT 84624, hereinafter referred to as "Seller", and

whose address is

hereinafter referred to as "Purchaser",

**BACKGROUND**

1. Seller is the owner of certain proprietary alternative energy technology, hereinafter "IAS Technology", which technology relates to solar energy collection and which technology is utilized for the design and fabrication of certain components which are identified below and which are hereinafter collectively referred to as the "Alternative Energy System(s)".
2. Seller and Purchaser now desire to enter into an agreement whereby Seller will sell Purchaser the Alternative Energy System specifically described below.

**AGREEMENT**

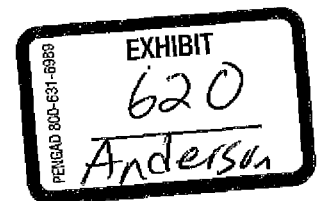
NOW, THEREFORE, the parties hereto agree as follows:

1. Seller hereby sells to Purchaser and Purchaser hereby purchases from Seller the Alternative Energy System(s). The number of Alternative Energy Systems purchased by Purchaser from Seller under this Agreement shall be

Seller shall furnish, deliver, install and startup the Alternative Energy System(s) at a site yet to be determined. When a site is selected, it shall be referred to as the "Installation Site".

Seller shall provide to Purchaser all required documentation relating to the Alternative Energy System and its components as requested by Purchaser for federal, state and local review of the Alternative Energy System for potential tax benefits.

3. Purchaser shall pay to Seller the sum of \$3,000 for each Alternative Energy



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## RaPower3 Equipment Purchase Agreement

System purchased, hereinafter referred to as the "Purchase Amount" for the purchase of the Alternative Energy System. This includes the cost of delivery, installation and startup, as well as the cost of warranty work performed during the warranty period described below.

The Total Purchase Amount shall be paid in accordance with the following schedule:

Option 1:

Initial Down Payment in the amount of \$1,050 (one thousand fifty dollars) for each Alternative Energy System purchased, which shall be paid at the time that this Agreement is entered into.

Option 2:

Initial Down Payment in the amount of \$1200 (One Thousand Two Hundred Dollars) for each Alternative Energy Systems purchased, which shall be paid in monthly installments of \$100 (One Hundred Dollars) per system purchased.

The Installation Date shall be defined as the date the Alternative Energy Equipment has been installed and begins to produce revenue. After the Alternative Energy Equipment has been installed and producing revenue for a five (5) year period, annual payments will begin. The annual payment will be as follows. Thirty Annual Installments in the amount of \$65.00 (Sixty-Five dollars) when the down payment is \$1050.00 and \$60.00 (Sixty dollars) when the down payment is \$1200.00 for each Alternative Energy System purchased, hereinafter referred to as "Annual Installments," shall be paid to Seller, the first Installment being due five years following the Installation Date and the last Installment being due Twenty-Nine years thereafter, the Thirty-Five year period from the Installation Date to a date one year following the due date of the last installment, shall be referred to hereinafter as the "Installment Period" and the schedule of installment payments shall be referred to hereafter as the "Installment Schedule."

4. The Alternative Energy System shall be placed in operation only at and operated only at the Installation Site, and shall be operated and managed for the Installment Period by an independent Operations and Management Company hereinafter referred to as "Operations and Management Company". In the event that Operations and Management Company shall cease to operate and manage the Alternative Energy System for any reason during the Installment Period, a Substitute Operations and Management Company approved by Seller shall be employed to operate and manage the Alternative Energy System. The Substitute Operations and Management Company must be expressly approved by Seller.

5. In the event that Purchaser fails to pay any of the Annual Installments or any

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### RaPower3 Equipment Purchase Agreement

portion thereof, when due, interest shall accrue on the overdue amount at the rate of one and one-half percent (1-1/2%) per month until paid. If Purchaser fails to pay any Annual Installment or any portion thereof when due or within a thirty (30) day grace period thereafter, Seller may immediately, upon written notice to Purchaser, enter the Installation Site and repossess the Alternative Energy System and any and all of the components thereof. In such event, Seller shall be entitled to recover its attorney fees, court costs, arbitration costs, collection costs, repossession fees and expenses incurred in repossessing the Alternative Energy System and any components thereof. In the event that Purchaser voluntarily relinquishes the Alternative Energy System to Seller, and thereby minimizes the expense to Seller in repossessing the Alternative Energy System, Seller agrees not to report Purchaser to any credit agencies for Purchaser's default, and Purchaser shall receive a credit against the balance owed under the Installment Schedule in an amount equal to the value of the Alternative Energy System as established by an independent, qualified appraiser approved by Purchaser and Seller. The credit for the value of the Alternative Energy System shall be given if Purchaser voluntarily relinquishes the Alternative Energy System, whether the Alternative Energy System is re-sold by Seller or not.

6. If Purchaser fails to pay any Annual Installment or any portion thereof when due or within the thirty (30) days grace period thereafter, or if Purchaser becomes subject to any state or federal insolvency, bankruptcy, receivership, trusteeship or similar proceeding, or if Purchaser shall default in any other term of this Agreement, Seller may immediately terminate this Agreement by notice in writing to Purchaser and repossess the Alternative Energy System and all of the components thereof as stated above. In such event, Purchaser shall remain liable for all sums then due and unpaid, less the credit for the value of the repossessed Alternative Energy System as described above, plus a reasonable amount for attorneys' fees and such expenses as may be expended in the repossession of the Alternative Energy System.

8. Seller hereby warrants, for the thirty five (35) year period from the Installation Date to the end of the Installment Period, hereinafter referred to as the "Warranty Period", that the Alternative Energy System shall remain in good operating condition. Seller shall initiate, within five (5) business days following the receipt of written notice that the Alternative Energy System is not operating properly or is not in good operating condition, either directly or through the use of one or more independent maintenance or repair entities, maintenance or repair of the malfunctioning or non-operating components of the Alternative Energy System. Seller shall complete such maintenance or repair work within a reasonable time thereafter. Seller shall be responsible for all material, equipment and labor costs incurred to complete such maintenance and repair work.

9. Seller hereby warrants, for the thirty five (35) year Warranty Period, the

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### RaPower3 Equipment Purchase Agreement

Alternative Energy System and each of the components thereof, from defects in materials and workmanship. Within five (5) business days following the receipt of written notice from Purchaser, Seller shall initiate reasonable efforts to ascertain repair or replacement requirements, to order replacement parts and equipment needed for repair, and to deploy qualified maintenance personnel. The cost of warranty parts, replacement equipment and labor shall be borne by Seller.

10. Seller and Purchaser acknowledge that the Target Production Rate from the Alternative Energy System is 600 peak watts per unit and the Warranty Production Rate is ninety-five percent (95%) of the Target Production Rate per year. Seller hereby warrants that for the initial five year period from the Installation Date to a date five years following the Installation Date, the energy production for the Alternative Energy system, shall be no less than five times the Warranty Production Rate. However, if the average cloud cover for the initial five year period exceeds by more than ten percent (10%) the ten year average cloud cover for the Installation Site as measured at the nearest weather station maintaining cloud cover records for the ten calendar year period immediately preceding the year of the Installation Date, the Warranty Production rate, for the initial five year period, shall be reduced to the ratio of the ten year average cloud cover to the actual average cloud cover for the initial five year period, multiplied times the Warranty Production Rate. This reduced production rate shall be referred to hereafter as the Adjusted Warranty Production Rate.

In the event that the actual energy production rate from the Alternative Energy System during the initial five year period is less than the Warranty Production Rate, or the Adjusted Warranty Production Rate if an adjustment is made as described above, Purchaser shall have the option to terminate this Agreement and relinquish the Alternative Energy System to Seller. Purchaser shall thereafter have no further obligation under this Agreement to make any further payment or to perform any other obligation to Seller arising under this Agreement, except to cooperate with and assist Seller in obtaining possession of the Alternative Energy System. If Purchaser elects to terminate this Agreement as provided above, Purchaser shall not be entitled to a reimbursement of any portion of the Initial Down Payment. The foregoing option to terminate must be exercised within sixty (60) calendar days following the expiration of the initial five year period and must be exercised by Purchaser providing written notice to Seller.

11. Purchaser hereby waives any and all claims against Seller for delays, including but not limited to claims for damages due to delays in preparing plans; delays in applying for or obtaining approvals or permits; delays in the delivery, installation, or start-up; or delays in performing warranty work. This waiver includes any and all direct, indirect or consequential damages.

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**RaPower3 Equipment Purchase Agreement**

12. Neither of the parties shall have liability for consequential damages to the other arising out of this agreement or the transactions, events or occurrences related thereto and each hereby waives any and all such claims for consequential damages against the other. Seller's liability for any breach under this agreement shall be limited to any amounts actually paid by Purchaser and received by Seller under this Agreement.
13. Purchaser agrees to require Operations and Management Company to maintain property damage insurance on the Alternative Energy System.
14. Purchaser agrees to require Operations and Management Company to maintain liability insurance to insure against bodily injury, property damage, product liability or other claims related to the design, manufacture, delivery, installation, start-up, operation or maintenance of the Alternative Energy System.
15. This Agreement shall not be assigned by Purchaser without the express written consent of Seller. Seller may assign its rights and obligations under this Agreement but Seller shall remain liable to Purchaser for the failure of its assignee to perform the obligations of Seller under this Agreement.
16. This Agreement shall be binding upon the successors and assigns of each of the parties.
17. Seller makes no representations or warranties, expressed or implied, including the implied warranty of merchantability and fitness, except as expressly stated in this Agreement.
18. Purchaser shall not repair, modify or adjust the Alternative Energy System or any component thereof and Purchaser agrees to prohibit anyone other than Seller's authorized personnel to repair, modify or adjust the Alternative Energy System or any component thereof.
19. Purchaser shall notify Seller immediately of accidents, disabilities, failures or like information concerning the Alternative Energy System.
20. In the event the Alternative Energy System becomes inoperable for any reason, except as otherwise provided under the warranty during the Warranty Period, Seller shall not be obligated to furnish a substitute Alternative Energy System or any component thereof. In

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### RaPower3 Equipment Purchase Agreement

any event, Seller shall not be liable for any special or consequential damages of any nature resulting from such inoperability.

21. Purchaser agrees that the Alternative Energy System shall be used and operated only at the Installation Site and in accordance with the "Safety and Operating Guidelines" which shall be written and set forth by Seller. Purchaser agrees that the Alternative Energy System shall not be relocated by Purchaser without the written consent of Seller.

22. Any notice under this Agreement shall be deemed sufficient if it is in writing and it is delivered to Purchaser, personally or sent by mail addressed to Purchaser at the address set forth above.

23. Nothing herein conveys to Purchaser any right, title or interest in or to the Alternative Energy System or any component thereof, except as a Purchaser. Seller reserves the right to file or record such documents and instruments as it may deem necessary from time to time to protect its rights, liens, title and interest in the Alternative Energy System. Purchaser agrees to cooperate with Seller and to execute such documents as may be required or requested by Seller to assist Seller in protecting its rights, liens, title and interest in the Alternative Energy System.

24. In the event of the breach of this Agreement by either party, the injured party shall be entitled to recover its costs, attorney fees, arbitration costs and arbitration fees incurred in enforcing the agreement and in pursuing appropriate remedies.

25. Seller and Purchaser acknowledge that they each understand that the Alternative Energy System may qualify for certain tax incentives and benefits under the 2005 Energy Policy Act and other statutes. Purchaser agrees to obtain the evaluation and opinion of its own tax attorney or accountant as to any tax matters relating to this Agreement and to the Alternative Energy System. Seller does not guarantee any tax incentive or benefit to Purchaser. Seller hereby transfers to Purchaser any and all energy tax credits, if any, related to the Alternative Energy System. Seller shall not claim any such energy tax credits. Seller and Purchaser agree that the respective initial values of the components of the Alternative Energy System.

26. In the event of a dispute arising out of this Agreement or the transactions, events or occurrences related thereto, Seller shall have the sole option of electing to have such

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### RaPower3 Equipment Purchase Agreement

disputes resolved by binding arbitration in accordance with the Commercial Arbitration Rules of the American Arbitration Association with all hearings and other proceedings in that arbitration being conducted in Salt Lake City, State of Utah. Seller shall have the right to elect arbitration at any time up to and including the time that either party files an Answer in pending litigation between the parties relating to such disputes.

27. This Agreement shall be construed in accordance with the laws of the State of Utah.

28. This is the entire agreement between the parties. This agreement shall not be modified except by written amendment signed by Purchaser and Seller.

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**RaPower3 Equipment Purchase Agreement**

Signature

IP Digital Signal

**Seller**

By: Greg Shepard - RaPower3

Greg Shepard - Director -

Monday, March 29, 2010

Signature

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