March 20, 2015

RE: Audits of RaPower3 Taxpayers

Dear IRS Agents and Appeals Officers:

The following presentation will be given to help you understand how RaPower3 taxpayers should be allowed all of their tax benefits: solar tax credits and depreciation.

The Solar Company Status: Rapower3 is a private company authorized to sell International Automated Systems (IAUS) solar lenses and other products soon to come this year. IAUS is a public company. Both companies are debt free. A 50,000 square foot manufacturing plant in Utah is completely paid for as is all the equipment therein. Thousands of acres of prime solar land is owned free and clear both in Utah and in Texas. All construction equipment is owned free and clear. All the electric cable has been laid from our solar towers to a small grid. Electrical connections are in place.

Licenses and Permits: We have all electrical licenses and have favorable reports from OSHA. We are licensed to do business in all fifty states. Our Conditional Use Permit for our manufacturing plant was issued last year. A copy of this can be found on our rapower3.com website. Also, there is a copy of a Millard County letter from the County Commissioners stating that our business is in good standing in the county and the community. This was issued because of the false statements that existed on the internet, the IRS and a Salt Lake City newspaper.

Sheryl Decker, the Millard County Commissioner's secretary, told a number of people that our solar project site did not have a conditional use permit. This included the IRS, our competitors and the Deseret News, a prominent newspaper in Salt Lake City. This false information created a lot of problems for us; including IRS audits. Neldon Johnson, the CEO and inventor of the IAUS technology, had several conversations about this as Johnson had the understanding that we did have a conditional use permit, but Decker would not back down.

Finally, we met with all three Millard County Commissioners about this issue. We confronted Daron Smith about the outrageous statements attributed to him in the Deseret News. All he would say was that he was misquoted. Last June, Smith was up for reelection and this became a campaign issue. Smith was soundly defeated.

Next we confronted Jim Withers, also a Millard County Commissioner. Neldon Johnson reminded Withers that they had spoken several years ago about a conditional use permit. Withers said you don't need one if all you are doing is R&D work and are going to use your solar energy heat for irrigation purposes. Withers had also promised Johnson that he would come back to us if and when we needed a permit as we expanded. Withers was embarrassed. He forgot to tell Decker and forgot about the need to tell Johnson that it was time to get an official conditional use permit for the solar project site.

Plaintiff Exhibit
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Several months later we confronted Sheryl Decker. Our attorneys were present as were the Millard County attorneys. Decker admitted that she had lied to the Deseret News and others about our conditional use permit. Consequently, Johnson has filed with the county courts his intention to sue Decker and the county for their egregious conduct.

Jeremy Frey, an IRS auditor from Portland, Oregon, denied a RaPower3 taxpayer his legitimate tax benefits this month (March 2015) partially based on a newspaper article citing "Millard County officials". Therefore, Frey wrongly asserts that "without permits, the plant could never generate revenue."

The IRS: They used Decker's statements plus a barrage of e-mails from our competitors to get a search warrant. It was a raid of epic proportions. Perhaps the biggest in Utah history with some 80 people assigned to the raid.

Next, the IRS initiated about 90 some audits against our Rapower3 team members. Everyone fought. They didn't count on that. So here we are with some 50 cases awaiting court with a federal judge with the rest pending. It appears the IRS has now spent over $20,000,000 trying to stop our company from bringing clean affordable energy to our nation. As our attorneys and IRS senior attorney Mark Howard met with a judge, it was determined that each case will have to be held independently and not as a group.

What it boils down to is that the IRS has ever believed that we actually have breakthrough technologies and that our claims are bogus. A few days ago, attorneys from both sides met with Judge Water to talk about expert witnesses. We have many with PhD's from MIT, Stanford, Harvard and BYU. The IRS has none. The IRS has had nearly three years to get an expert witness and what is incredulous, the IRS has always been welcome to examine our technologies with engineers and scientists. The IRS told Judge Water they had budget constraints in hiring an expert witness. They might have money in 4-6 weeks. It won't make any difference. To say our technology doesn't work would be an impossible task.

All this is a moot point anyway. We expect to be producing electricity on a small grid before the end of March and by the end of May, we should be in full production. This would mean we would be one of the largest solar companies in the nation. This will also mean great publicity and congressmen praising our breakthroughs. Right now we have about a billion dollars in orders and this will expand rapidly from there as we move forward.

We believe the IRS will drop all these cases. They might pursue the depreciation claims, but that's because they don't fully understand the bonus contracts and what that means to the depreciation. They also take a chance on being vilified by the press once again for spending these many millions of taxpayer dollars on trying to stop the only renewable energy company that truly found the answers our nation so desperately needs. The smart move for the IRS is to go away as quietly as possible.

The Bonus Contracts as they relate to Depreciation: RaPower3 team members sign Contracts/Agreements with three different companies. First is with RaPower3 that outlines the specifics of the purchase. Second is with LTB LLC, the Operations and Maintenance Company. RaPower3 team members contract with LTB to maintain their lenses, replace if necessary and provide insurance among other items. Third is with IAUS. RaPower3 does solar lens sales in amounts of a million dollars or less. IAUS does not only do bigger sales with solar energy, but also with other kinds of technology sales. These sales can be in the many millions of dollars. Rapower3 members contract with IAUS to allow their

solar lenses to advertise products to "big hitters' who come in from all over the country and world to meet with IAUS. IAUS believes having these lenses can aid in their overall sales. Therefore, IAUS is willing to give RaPower3 members a small percentage of their gross sales.

When RaPower3 lenses are shipped from Lucite to the IAUS manufacturing plant, they are in a state of readiness to produce heat. The "big hitters" can also see first-hand IAUS' capabilities of mass production. The IAUS Bonus contract with RaPower3 team members was electronically signed simultaneously with the contracts with RaPower3 and LTB at the date of purchase. Therefore, the solar lenses were immediately available for a money making purpose.

RaPower3 Team Members relied on tax attorney opinion letters. The Anderson opinion letter states: *A taxpayer can start claiming depreciation of an asset as soon as his or her property is placed in service. Property is placed 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. This does not mean you have to be using the property, just that it is ready and available for its specific use.*

If the equipment is ready and available for ANY income producing activity, including leasing it out for advertising purposes, the owner may start claiming depreciation of the asset.

If any IRS agent has any tax code or law that contradicts the above, we'd like to see it. We will gladly rethink our depreciation position. The company nor any RaPower3 member has ever set out to concoct a tax avoidance scheme as the IRS has maintained for a long, long time. At this point, the IRS has been unable to find any such contradicting tax code or law.

Bonus Contacts and RaPower3 Team Members: There are three ways to make money from RaPower3: Bonuses, Rental Fees and Tax Benefits and that doesn't count commissions earned from selling to others. The bonuses are usually the most lucrative and the tax benefits are the least lucrative. Therefore, the profit motive for RaPower3 members is with the bonuses and rental fees a lot more than with the tax benefits. Initial Bonus and Rental payments are expected to start this year in 2015.

RaPower3 Members are engaged in a legitimate active non-passive business: When RaPower3 members sign-up, they become a distributor of RaPower3 products as an independent contractor requiring 1099 tax forms. These RaPower3 taxpayers are then officially in business. At the same time, RaPower3 members sign an **Equipment Purchase Agreement**. As part of being in a legitimate business, the RaPower3 member must approve the Operations and Maintenance Company (See Section 4). RaPower3 members require the company to warranty their product so that the lenses remain in good operating condition, repair lenses and be responsible for loss of revenue among other things. (See section 8). RaPower3 members must require the O&M company (LTB) to maintain property damage insurance and liability insurance. (See sections 13 & 14). RaPower3 members must notify seller if anything goes wrong with their lenses. (See section 19).

Also, at the same time, RaPower3 members sign an Operations and Maintenance Agreement. As part of their active role in their business, RaPower3 members have chosen to rent their solar lenses to LTB, the O &M company. LTB is required by the RaPower3 members to perform routine O&M services (See section 2.1). Some additional requirements placed on LTB by RaPower3 team members include: obtaining and maintaining all government approvals, hiring and managing all employees, pay all property

taxes, compliance with applicable law including OSHA, provide a structure for the lenses, pay $150 per year per lens through a rental agreement, procure worker's compensation insurance, have one million dollars in general liability insurance and provide proof that LTB is in good standing under the laws of the state of Nevada.

Commissions: RaPower3 members can earn lucrative commissions as part of their legitimate business endeavors. By sharing the opportunity to purchase solar lenses to bring clean affordable renewable energy to our nation, they earn 10% on each sale. This includes making 10% on the rental fee of others. In addition, they earn what amounts to half of the bonus monies of their clients. All team members are issued 1099s if their annual commissions total more than $600. They, of course, would pay taxes on these earned commissions. It is expected that our RaPower3 members will start earning additional income this year on bonuses and rental fees from their clients. To recruit, teach and train prospective clients is all part of being an active participant. Members also study the information on the rapower3.com website, the business memos and the many e-mails sent their way in order to enhance their business knowledge in the solar and renewable energy industry. There is certainly a profit motive other than the tax benefits and undeniable evidence of being actively engaged in their legitimate business.

Discussion of the Solar Lenses providing heat, producing electricity and the technologies of CSP and CPV: The IRS has steadfastly and adamantly proclaimed that the only way to qualify for the solar tax credits is to produce electricity on the grid. It begs the question as to why the IRS has completely ignored IRS form 3468 and its instructions. The intent is so obvious that it defies any other interpretation than what it so clearly and succinctly states on Line 12b: *Enter the basis, attributable to periods after December 31, 2005, of any property using solar energy placed in service during the tax year. There are two types of property. 1. Equipment that uses solar energy to illuminate the inside of a structure using fiber-optic distributed sunlight. 2.* ***Equipment that uses solar energy to: a. Generate electricity, b. Heat or cool (or provide hot water for use in) a structure, or c.*** ***Provide solar process heat*** (but not to heat a swimming pool). Basis is attributable to periods after December 31, 2005, if the property was acquired after December 31, 2005, or to the extent of basis attributable to construction, reconstruction, or erection by the taxpayer after December 31, 2005.

Perhaps the confusion by the IRS stems that the vast majority of solar energy companies only attempt to produce electricity. However, Frito Lay in California uses solar energy to heat their plant. Another California solar energy company uses heat to produce water for irrigation. These two companies received both the tax credit and depreciation. So, why not us?

There are two main types of solar energy technology: CSP or Concentrated Solar Power and PV or Photovoltaic. There are also emerging solar companies including us that combine the two. It's called CPV or Concentrated Photovoltaic. All of these technologies have qualified for tax credits and depreciation. Why not us?

CSP utilizes solar lenses to create heat. The heat turns water into steam which makes a turbine turn. This produces electricity, usually for commercial ventures. In spite of the federal government giving away many billions of dollars in tax benefits, like the huge Ivanpah project in California, this technology has been a disaster. PV technology is more prevalent and more successful than CSP, but the only way this technology can survive is with the massive tax benefits doled out. It also has severe limitations on its productivity. Over 100 solar companies over the last several years have collected these huge tax benefits

only to quit producing and file for bankruptcy. And, here we stand ready to bring to the world our new technology that actually works and do it in massive amounts, only to be singled out and denied our earned tax benefits. Why is this?

Using Solar Heat to produce irrigation water. The huge tax benefits created in 2006 were put in place to stimulate innovation, not just use existing technologies that don't really work. The IAUS patented turbine, invented by Neldon Johnson, has been hailed as the most efficient engine ever built. You can go to rapower3.com and see a video clip of it working. One of our turbine's unique features is the jet nozzle at the end of the spoke. Water is heated by our solar lenses to well over a thousand degrees and as it goes through our patented heat exchanger it remains in a super-heated state at 2,500 PSI. Then, as it bursts out of the jet nozzle, it does so as steam. All impurities fall to the bottom of the system. As the steam condenses, it turns to pure distilled water that can be used for drinking or irrigation.

Our turbine is the only turbine that can use impure water, brackish water or salt water. There are billions of gallons of brackish water in the great Delta, Utah basin which we chose as a project site. This water cannot be used for drinking or irrigation. It's basically poisonous. We can turn this bad water into pure water and do it in voluminous amounts. States like Texas, who have severe droughts, and countries in the middle-east are willing to pay us more for the pure water produced from the ocean than they are for the electricity produced from solar energy.

Using our technology to produce electricity: Both our CSP and CPV technologies have created startling advances compared to the technologies of other solar energy companies. Our disruptive breakthrough solar technologies are so advanced, all other energy companies including solar, wind and even coal will not be able to compete in the following categories: Installation and manufacturing costs, time required to build a manufacturing plant or a project, cost of operation and the ability to mass produce. We expect to begin producing electricity this month and be in full production by the end of May. So the IRS is going after the only renewable energy company that truly has the answers. Why is that?

The Tax Attorney Opinion Letters (Memorandum): The IRS has refused to give our tax attorney opinion letters any validity or even acknowledge them. Why is that? The IRS intimidated Kirton-McConkie with their memorandum citing all the tax laws and codes pertaining to our situation. As a result, this prestigious Utah law firm tried to rescind their letter. Our attorneys convinced them that they couldn't do that. Therefore, their letter (memorandum) remains on our rapower3.com website much to the dismay of the IRS. Why is that?

Why has it taken RaPower3 so long? It takes a long time to create and invent technology no one else can do. For example, Ratheon tried to invent technology that would regulate different fluxes or variances of incoming and outgoing voltages that is so critical in present wind and solar technologies. After ten years and a hundred million dollars, they gave up. We now have accomplished that with our patented dynamic voltage controller. That's another reason our CPV technology is vastly superior to all other PV solar technologies. This will be the technology we will reveal in April of this year as we expect to put electricity on a small grid.

The writers of the IRS tax code understood that innovative technology might take awhile to bring it into fruition. Here is that tax code that reflects that understanding: ***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.") There are some limitations such as the solar lenses must be in a state of readiness. Ours are. Our solar lenses are capable of producing searing heat the moment they come off the production line at the Lucite plant in Tennessee. Another limitation is there must be a reasonable chance of success so the process of taking the tax benefits doesn't go on for years without results. Our year is this year.

The IRS has, for several years, denied Rapower3 taxpayer benefits based on their view of the placed in service issue. The IRS cites REV-RUL 76-256 as proof of their position. The press will have a field day with this one. This came from a 1976 ruling that concerned a coal-fired plant having to produce electricity on the power grid with daily operations in place. 1976! This is supposed to negate all solar energy tax codes, laws and rulings that were in made in this century. In addition, the IRS didn't read the next several pages of that last century's coal ruling that states tax benefits may be taken if the coal plant is in a "state of readiness."

The Future: We plan on being the largest solar company in the country in the very near future. We will have new products coming out this year. Perhaps most notable will be our CPV technology for homes and business. RaPower3 should expand its member base by thousands of new members. So expect them to also be claiming tax benefits.

We are in negotiations now with signing a huge company with our all-electric trucks. The charge time is an unheard of five minutes with no weight restrictions and extremely low maintenance. As you may know, present technology for small all-electric cars is expensive and they have a five-hour charge time. There's a lot more including significant contributions to our military, but just know that we expect to be a multi-billion dollar company in the next 12 months.

Conclusion: I hope you will do the right and fair thing and allow all the depreciation and tax credit claims made by those RaPower3 members you are auditing. You should also drop all penalties and interest as these taxpayers were just following tax laws and tax codes outlined in the tax attorney opinion letters. There was no scheme. There was a profit motive in a legitimate business with members involved in a very active process.

It is expected that every RaPower3 taxpayer that you deny their rightful tax benefits will challenge all adverse audits and appeal IRS rulings. If you issue a notice of deficiency, then a petition will be filed and the RaPower3 taxpayer will wait their turn in tax court. And, as they wait, we will be producing power on the grid, providing clean water to areas of the country and world who need it, receiving huge amounts of favorable publicity, and be congratulated by politicians. At the same time, the RaPower3 taxpayers will be collecting their rental fees and bonuses as RaPower3 expands its business exponentially.

Comment [GS1]:

Respectfully,

Greg Shepard, Chief Director of Operations, 3-20-2015
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